

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of the Joint Application of)	
Algonquin Water Resources of Missouri, LLC,)	
d/b/a Liberty Water for Authority for Liberty)	<u>Case No. WO-2011-0328</u>
Water to Acquire Certain Assets of Noel Water)	
Co., Inc. and, in Connection Therewith, Certain)	
Other Related Transactions.)	

STAFF RECOMMENDATION

COMES NOW, the Staff (“Staff”) of the Missouri Public Service Commission (“Commission”), by and through counsel, and submits to the Missouri Public Service Commission (“Commission”) its *Staff Recommendation* as follows:

1. On April 6, 2011, Algonquin Water Resources of Missouri, LLC, d/b/a Liberty Water (“Liberty Water”) and Noel Water Company (“Noel Water”) filed with the Missouri Public Service Commission (“Commission”) a Joint Application and, if Necessary, Motion for Waiver, (“*Joint Application*”), seeking authority for Liberty Water to acquire certain assets of Noel Water and, certain other related transactions connected therewith.
2. On May 24, 2011, Staff requested until July 25, 2011 to file its Recommendation.
3. On May 27, 2011, Staff filed a *Request for Local Public Hearing* and a local public hearing took place in Noel, Missouri on June 28, 2011.
4. Staff recommends, as more fully described in Staff’s Memorandum which is attached and incorporated herein as Appendix A, that the Commission approve the *Joint Application*.
5. Staff has verified that both Liberty Water and Noel Water have filed their annual reports and are not delinquent on any Commission assessment.

6. Staff has filed a formal complaint against Noel Water, Case No. WC-2011-0144, but that should not affect this proceeding, in fact, it is possible that this sale will eliminate the necessity to further pursue the formal complaint.

7. The Staff asserts that the transfer of utility assets from Noel Water to Liberty is not detrimental to the public interest.

WHEREFORE, Staff respectfully submits its *Staff Recommendation* and requests the Commission grant Noel Water the authority to sell and transfer all of its utility assets to Liberty Water as requested in the *Joint Application*; Staff also respectfully requests the Commission approve the *Joint Application* in accordance with Appendix A of the attached *Staff Recommendation*.

Respectfully submitted,

/S/ RACHEL M. LEWIS

Rachel M. Lewis

Deputy Counsel

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CERTIFICATE OF SERVICE

I hereby certify that copies of the foregoing have been mailed, hand-delivered, transmitted by facsimile or electronically mailed to all counsel of record this 25th day of July, 2011.

/S/ RACHEL M. LEWIS

MEMORANDUM

TO: Missouri Public Service Commission Official Case File
File No. WO-2011-0328
Algonquin Water Resources of Missouri, LLC d/b/a Liberty Water
Noel Water Company, Inc.

FROM: Keith Majors and Bill Harris, Auditing Department
Steve Loethen, Water & Sewer Department
Nila Hagemeyer and John Robinett, Engineering & Management Services
Department
David Murray, Financial Analysis Department

/s/Jim Merciel 07/25/11
/s/Cary Featherstone 07/25/11
Co-Case Coordinators / Date

/s/Rachel Lewis 07/25/11
Staff Counsel's Office / Date

SUBJECT: Staff Recommendation Regarding the Sale of Regulated Utility Assets

DATE: July 25, 2011

PROCEDURAL BACKGROUND

On April 6, 2011^{*}, Noel Water Company, Inc. (Noel Water) and Algonquin Water Resources of Missouri, LLC d/b/a Liberty Water (Liberty Water or Company) (collectively, the Joint Applicants) filed their *Joint Application and, If Necessary, Motion for Waiver (Joint Application)* requesting authority from the Missouri Public Service Commission (Commission) for Noel Water to sell all of its Missouri water system assets to Liberty Water, including its certificates of convenience and necessity. Additionally, the Joint Applicants requested a waiver of the sixty (60) day notice requirement, in 4 CSR 240-4.020(2) of a contested case.

On April 13, the Commission issued its *Order and Notice* in which it required that notice of the Joint Application be issued and ordered an intervention deadline of May 3. No requests to intervene have been filed in this case.

^{*} Unless noted otherwise, all dates herein refer to the year 2011.

On May 4, the Commission issued its *Order Directing Filing* in which it directed Staff to file a Recommendation, or, in the alternative, a pleading stating when it plans on filing a Recommendation, no later than May 24.

On May 24, Staff filed *Staff's Motion for Extension of Time*, in which it requested that it be granted until July 25 to file a Recommendation in this matter.

On May 27, Staff filed *Staff's Request for Local Public Hearing* in which it requested that the Commission schedule a local public hearing to give Noel Water's customers an opportunity to be informed about, and comment on, the proposed transfer of assets.

On June 6, the Commission issued its *Order Setting Local Public Hearing* in which it ordered a local public hearing to be held on June 28. Noel Water, Liberty Water, the Office of the Public Counsel and Staff were present to answer questions at the local public hearing. No issues were raised that Staff was unaware of prior to the hearing.

BACKGROUND OF THE JOINT APPLICANTS

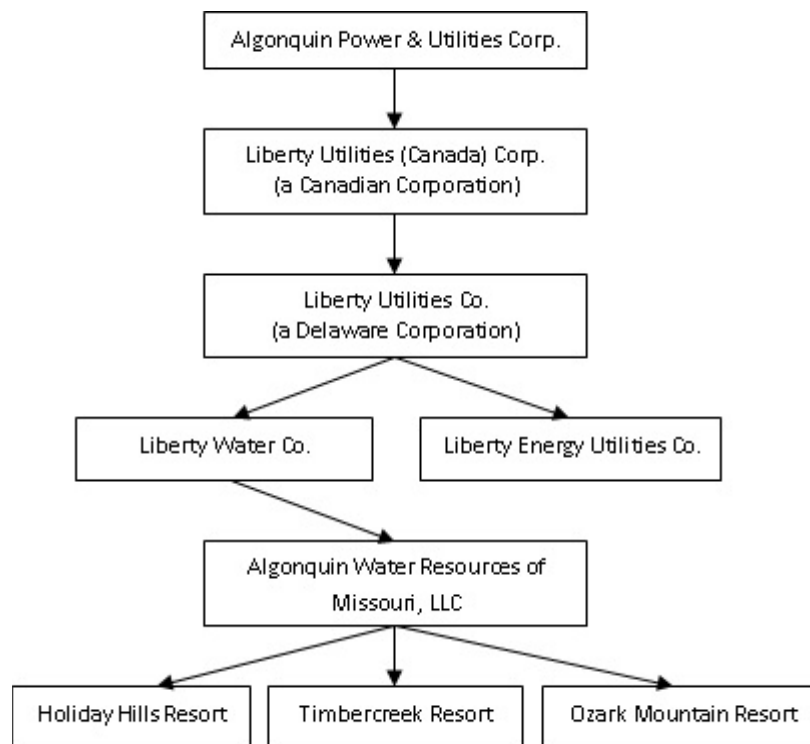
Noel Water

Noel Water is a Missouri corporation with an office and place of business at 110 Foster Street, P.O. Box 465, Noel, Missouri 64854. Noel Water provides regulated water services to approximately 665 customers, according to the Commission's 2010 Annual Report, in and around the city of Noel, MO in McDonald County. Noel Water began as a corporate entity and a regulated utility in approximately 1957, though records indicate the water system dates to 1903, and Commission records reflect a Certificate of Convenience and Necessity was issued to a member of the family, Claude M. Harmon, in Case No. 5,726 in 1928.

This has long been a family owned and run business and family members are conscientious about water utility service continuing in this community. However, at this time the family is no longer willing to continue operating the utility, and thus a sale of the corporation or a transfer of assets that occurs within a reasonable time in the future is important, otherwise reliable service to customers could be jeopardized.

Liberty Water

Algonquin Water Resources of Missouri, LLC d/b/a Liberty Water (Liberty Water) is a Missouri limited liability company with its principal office and place of business at 16623 FM 2493, Suite E, Tyler, Texas 75703. Liberty Water is an operating subsidiary involving several corporations, the hierarchy of this Missouri Utility operations is shown in the following organizational chart:



Liberty Water, as Algonquin Water Resources of Missouri, LLC, acquired the assets of a regulated utility, Silverleaf Resorts, Inc., in Commission Case No. WO-2005-0206. Silverleaf Resorts, Inc. provided utility service in three different service areas in which Liberty Water presently provides service. The three service areas are Holiday Hills Resort in Taney County, Missouri which is a water system, Timber Creek Resort in Jefferson County, Missouri and Ozark Mountain Resort in Stone County, Missouri, both of which are water and sewer systems. Each service area has specific, stand-alone rates. All three of these areas consist largely of condominium developments and many or most of the condominium units are either rental units of common ownership, or are “time-share” ownership. There are also some residential and commercial customers. Liberty Water through Algonquin Water provides water service to approximately 917 water customers, and sewer service to approximately 385 customers, according to the Commission’s 2010 Annual Report. These numbers were based upon calendar year 2009 customer counts and will differ from current levels.

Liberty Water Co. (LWC), through its subsidiaries in four (4) states including Missouri, serves a reported 79,000 customers through 21 water and waste water utilities. Liberty Water Co. has Missouri water and sewer utility operational experience through its acquisition and operation of such property from Silverleaf Resorts, Inc. in the aforementioned acquisition case. Similar to its acquisition of Silverleaf, it is expected that Liberty Water would operate the existing Noel Water system under the corporate structure of Algonquin Water.

Staff notes that prior to April of this year, Algonquin Water Resources of Missouri, LLC, is the only name in which the Company identifies itself with the Commission. However the Company demonstrated its desire to use the name “Liberty Water” for its Missouri service areas and

properties. On May 22, 2009, according to records posted by the Missouri Secretary of State's website, Algonquin Water Resources of Missouri, LLC registered the fictitious name, "Liberty Water," which is the name it intends to use when operating utilities in Missouri. Currently, the management, operations, financing, customer billing, and substantially all other administration is under the name of "Liberty Water". The name "Liberty Water" was also used in the notice sent to Noel Water customers concerning this pending acquisition. However, the Commission's records at present do not reflect the use of that name, as no name change has been filed with the Commission. Similar to the issue of Algonquin Water's official name registered with the Commission, all of the Annual Reports to the Commission reference "dba Resort Utilities". Staff is not aware of any other use of this name in reference to Liberty Water or Algonquin Water. As such, Staff will use the name "Liberty Water" throughout this memorandum to reference the name in which the Company intends on operating for all its properties in Missouri.

As a condition of the acquisition, Staff recommends Liberty Water to either consistently represent itself as Algonquin Water Resources of Missouri, LLC ("Algonquin Water"), or file with the Commission an official name change to "Liberty Water" for recognition of the use of this fictitious name. Regardless of what name is to be used, it should be consistent across all tariffs, billing, Annual Reports to the Commission, and all other activities as it relates to utility operations in Missouri.

STAFF'S INVESTIGATION

Scope of Review

Staff members from the Auditing Department, the Engineering & Management Services Department (EMSD), the Water & Sewer Department, the Financial Analysis Department and the Staff Counsel's Office participated in the Staff's investigation of the *Joint Application*.

Staff's investigation began with a review of the *Joint Application* and its three appendices, including the subject Asset Purchase Agreement (APA). Staff performed a review of Noel Water's books and records, existing operations and customer service as well as prior small company rate increase submissions, for the purpose of determining Noel Water's current rate base, and to establish whether the proposed transaction involves an acquisition adjustment. Staff also considered existing and post-acquisition costs expected to be incurred for administrative and general costs including expected costs for management oversight and corporate services such as accounting, finance and legal costs. Staff also reviewed Liberty Water's plans for on-going operations and customer service. Additionally, Staff reviewed the expected financial impact of the proposed transaction to determine if there may be a resulting adverse impact on ratepayers.

Staff generally reviewed the status of the condition of Noel Water's system, and evaluated Liberty Water's capability of operating Noel Water's system after the acquisition.

In addition to the items noted above, Staff reviewed the status of the Joint Applicants' Annual Report submissions and PSC Assessment payments, and reviewed the Commission's active cases

to determine if the Joint Applicants have any other matters pending before the Commission. The results of this review are discussed more fully below.

Regarding a review of customer comments responding to the notice of the Joint Applicants, which the Company mailed to its customers on April 29, the Staff notes that it did not receive any comments from Noel Water's customers.

Finally, Staff reviewed any customer complaints of both Noel Water and Liberty Water and finds no unresolved complaints.

Purchase Price & Acquisition Adjustment

Staff reviewed the "Execution Version" of the Asset Purchase Agreement (APA) between Noel Water and Liberty Water dated March 4, designated as Appendix D1 of the *Joint Application*. Article 2 of the APA, Sale and Payment of Purchase Price, outlines the terms of the sale and transfer of significantly all assets of Noel Water, including the purchase price of \$924,540 and the adjustments to be made to the purchase price at the time of closing. The APA specifically states that Liberty Water intends the purchase price to reflect 1.2 times Noel Water's rate base.

Based on Staff's review, if the Commission authorizes the proposed sale, it is clear that Liberty Water will be paying more than the net book value (original cost less accumulated depreciation) of the Missouri utility assets that it is seeking authority to purchase from Noel Water.

Staff submitted four sets of data requests (DRs) to Noel Water and Liberty Water. Data Request 4 of the first set of data requests submitted to Liberty Water contained the following response:

Response: Since Liberty is paying a multiple of rate base, by definition there is a premium above rate base being paid. However, based upon prior discussions with and observations of Staff and the Commission, we understand that this premium is not able to be included in rate base for ratemaking purposes. The "premium" will be accounted for in a separate account, such as "Goodwill" or "Purchase Price Premium", easily identifiable on the books/records of the utility, or alternatively at the AWRM [Algonquin Water Resources of Missouri] level, and not allocated to fixed asset accounts for GAAP/Rate Making purposes.

Based on Liberty Water's response above concerning acquisition premiums, Staff understands that Liberty Water is not seeking in this case, nor will seek in future rate cases, the acquisition premium it intends to pay above the net book value of the assets of Noel Water if the Commission approves the proposed transaction. Staff recommends that Liberty Water not be allowed to recover any of the acquisition premiums discussed above, either directly or indirectly, through adjustments to the calculation of its customer rates.

Contributed Plant

The most recent Noel Water rate case, Case No. WR-2009-0395, did not include any contributions-in-aid-of-construction (contributions or CIAC) but did include customer advances for construction (advances). Contrary to normal plant-in-service, CIAC and advances do not earn a return on investment for ratemaking purposes. CIAC and advances represent plant or capital contributed by the ratepayer for utility use. A primary difference between CIAC and advances is that advances are of a temporary nature and are generally intended to be returned to the ratepayer over time through a series of billing credits.

Staff's investigation revealed that two customer advance accounts had been forfeited due to the breach of a clause in the respective contractual agreements establishing the advances. Although forfeited customer advances are not the traditional method of collecting CIAC from customers, the advances are no longer a temporary, but now a permanent, investment by the ratepayer, similar to CIAC, and should be accounted for in the same way. Staff analyzed the aggregate depreciation rates from 1997 to the present to determine a current CIAC amortization on a going forward basis.

Plant in Service and Depreciation Reserves

Staff evaluated the plant-in-service and depreciation reserve beginning from the most recent Noel Water rate case, Case No. WR-2009-0395. Staff included various adjustments to plant-in-service and depreciation reserve proposed and agreed to by Noel Water in its *Notice of Company/Staff Agreement Regarding Disposition of Small Water Company Revenue Increase Request* dated September 23, 2009, which was later adopted by Commission Order, effective October 16, 2009. To determine the current value of Noel Water's rate base, Staff examined invoices for all plant, property, and equipment additions as well as annual reports to determine the additions and retirements through May 31, 2011.

Summary of Staff's Calculated Rate Base and Related Acquisition Premium

The following table represents Staff's recommended rate base as of May 31:

Plant in Service		\$1,371,894
Less: Accumulated Depreciation		609,378
Net Plant In Service		\$762,515
Other Rate Base Items:		
Material and Supplies		\$ 697
Customer Deposits		(6,200)
Customer Advances for Construction		(7,296)
Total CIAC	(4,703)	
CIAC Amortization	1,996	
Net CIAC		(2,707)
Total Additions and Reductions		
to Rate Base		(15,506)
Net Rate Base		\$ 747,009

Depreciation

The Engineering and Management Services Department (EMSD) Staff performed a complete review of the depreciation rates, plant in service, and the accumulated depreciation reserves for Noel Water in case number WR-2009-0395. The depreciation rates ordered in this case are still satisfactory to Staff, and Staff recommends that Liberty Water adopt the current ordered depreciation rates of Noel Water utility assets acquired in this case. Current ordered depreciation rates for Noel Water are included herein as Attachment 1 and are incorporated herein by reference. The Audit Staff used these depreciation rates in calculating the recommended rate base and resulting acquisition premium.

Corporate Allocations

Staff issued DRs to Liberty Water concerning the nature and amount of corporate costs that would be directly or indirectly assigned to Noel Water if the system had been owned by Liberty Water during 2010. APUC, the highest level parent company of Liberty Water, generally has two types of allocations: labor and non-labor costs. Labor costs are allocated based on direct charges documented by timesheet reporting. The indirect assignment of costs exists through four factors with various weights: utility plant, customers, expenses, and labor. Based on responses from Liberty Water, if Noel Water had been a member of its corporate structure, Noel Water would have been assigned 1.44%, or \$126,842 of Liberty Water's corporate costs. For comparison, in the most recent Noel Water rate case, rates included \$255,839 of annualized operating expenses. Some of the corporate costs expected to be allocated to Noel after the acquisition will be duplicative of Noel's existing administrative and general costs such as some current salaries and wages and postage and billing, the expected corporate allocated costs could be nearly half of the current operating expenses of Noel Water.

The Auditing Department Staff believes it is likely that there will be an increase in administrative and general costs with increase in corporate costs since Liberty Water is a significantly larger organization. However, the benefits of being part of a larger organization should outweigh any detriment from these higher corporate costs. While the allocated corporate costs are not in current Noel Water rates, Staff expects that Liberty Water would request rate recovery of these types of costs in a future general rate case. Staff has not performed an in depth analysis of such corporate costs in this case and they would be addressed in any future rate case filing by Liberty Water.

Operations

Liberty Water presently utilizes a contract operator for its Timber Creek area, and a different contract operator for its Holiday Hills and Ozark Mountain service areas. Operations are supervised by a Regional Business Manager located in Tyler, Texas, and an Operations Manager located in Dallas, Texas. Initially, Liberty Water intends to utilize some of the current employees of Noel Water, specifically two operations personnel, one of whom is an operator licensed by the Missouri Department of Natural Resources (DNR), and one who is a staff member in a local office and accepts customers' payments, and takes and responds to, telephone calls and walk-in inquiries. Liberty Water also intends to initially utilize the same contractors, well drillers and vendors for major items presently used by Noel Water. Any work done by employees, contractors or other vendors will be overseen by the Regional Business Manager. Liberty Water intends to give its employees and contractors 24/7 access to both the Regional Business Manager and the Operations Manager in the event such communication is necessary. Liberty Water also intends to require its contract operators to submit environmental reporting requirements and laboratory results to both its Tyler, Texas office and the LWC Environmental Compliance Manager as soon as the information becomes available.

All capital requests made by the employees will be submitted to the Tyler, Texas office for approval and subsequent processing. In the event of an emergency, however, an immediate approval process will be in place for issues that threaten regulatory compliance or the capability of Liberty Water to provide safe and adequate service. It is Liberty Water's intent to have the Regional Business Manager or the Operations Manager make site visits to the Noel system at least once a quarter, or more often as necessary, after the close of the sale.

Further, Liberty Water intends to prepare customer bills and handle accounts from Tyler, Texas, with customer calls for inquiries and emergencies directed by an "800 telephone number" to a call center that is also in Tyler, Texas. The Tyler, Texas call center is only operated during normal business hours. Liberty Water also presently utilizes a call center located in Avondale, Arizona that operates 24/7 for its existing service areas, and that would be available for after hours calls, overflow telephone traffic and as a backup of other issues that affect the Tyler, Texas office.

Liberty Water must ensure that the acquisition of the Noel Water assets will have no adverse effect on the level of utility service provided to the customers. EMSD is recommending that Liberty Water report to the EMSD Staff various performance statistics regarding the corporation call centers located in Tyler, Texas and Avondale, Arizona, as both locations may field calls

from customers in the Noel service area. The data should be reported on a monthly basis to the EMSD Staff within thirty (30) days after the end of each month and to the extent existing technology permits, the calls should be segregated by individual Missouri company. Such information should include at a minimum, but not be limited to:

- Total number of calls received and handled by each of the Call Centers, segregated by calls from Missouri customers.
- Staffing levels for the customer service function and their location.
- Measurements regarding how expediently phones are answered and responses are made to customer calls, and provide explanations of how data is used for calculations.
- Number and percent of estimated meter readings, including numbers specific to Missouri customers.
- Results from the Company's annual customer opinion surveys.
- Any major technological advances applied to the call center operations.

Staff believes that if Liberty Water were to close the local office or to cease using local utility employees as opposed to contract operations, it could result in a significant impact to its customers. Therefore, Staff recommends that prior to making any major change with regard to maintaining a local business, including eliminating or transferring local employee positions, that Liberty Water be required to notify the Manager of the EMSD, and the Office of the Public Counsel (OPC) at least forty-five (45) days in advance of any such anticipated office closure. Liberty Water will also provide such Commission and OPC offices with a draft copy of a customer notification letter of such plans for closure, or of plans to eliminate or transfer any local employee positions, and work with the Staff and OPC with regard to reasonable modifications of its plans and schedules to such changes and notifications.

Liberty Water Company (LWC) is in the process of installing an interactive voice response (IVR) unit to its call centers that serve Missouri customers as well as those from other states. Once the implementation of these systems has been completed, Liberty Water and EMSD Staff will meet to determine the appropriate indicators to be provided in the reporting.

Financing Issues

Liberty Water attached balance sheet and income statement information to its Application (Appendix G1 and Appendix G2) for its current Missouri water utility assets and the assets proposed to be acquired, pursuant to 4 CSR 240-3.605 (1)(E). Although these financial statements provide financial data on the combined properties, they are not insightful for purposes of assessing the financial impact of the proposed acquisition on the financial condition of the entity which will ultimately issue capital on behalf of Liberty Water and any of its Missouri utility assets. According to Liberty Water's responses to staff data requests, Liberty Water will finance the acquisition of the Noel properties with internal cash. Based on the final amended financial statements attached to the Application, Liberty Water does not have enough cash on hand to finance the Noel acquisition. Consequently, it appears that Liberty Water intends to receive cash from its parent company, LWC, which may in turn receive this cash from LUC,

which may in turn receive this cash from APUC. Relative to the size of APUC, this is a very small transaction and will have minimal impact on APUC's financial condition.

Liberty Water has also indicated in responses to Staff data requests that to the extent Noel Water needs capital to finance its operations, it most likely would rely on at least LWC for such financing. On December 22, 2010, LWC issued \$50 million of 10-year unsecured debt million at a coupon of 5.6%. Staff is not aware of any ratings assigned to this debt. Noel Water's ability to receive financing through direct debt issuances by LWC or any other upstream parent company should allow for ongoing access to capital at reasonable costs.

According to Liberty Water's responses to Staff's data requests, none of the companies that hold APUC's regulated utility assets are rated by any rating agencies. However, APUC's nonregulated subsidiary, Algonquin Power Company (APCO) is a power generation and development company. S&P's latest credit rating, February 14, 2011, on APCO is "BBB-" with a stable outlook. This reflects the company's "satisfactory" business risk profile and its "significant" financial risk profile.

Based on Staff's review of APUC's current financial condition and recent debt issuances, it does not appear that APUC's higher risk, non-regulated operations have yet impaired the ability of APUC's regulated subsidiaries to issue debt at reasonable costs. However, the Commission has no authority over the non-regulated operations of APUC. Consequently, as the Commission is aware from experience with the failure of Aquila, Inc.'s non-regulated operations, absent legal and structural separation, the risk of non-regulated operation failures impacts the ability of the regulated operations' ability to raise capital at reasonable costs. Although Staff has this concern, Staff recognizes that on a stand-alone basis Noel does not currently issue its own debt. Consequently, at least in the near term, Noel Water's access to reasonably priced debt capital should improve. Although Staff is not proposing any conditions in this case to ensure that APUC's regulated utilities are protected from possible impairment from APUC's non-regulated operations, Staff may propose conditions in future applications in which APUC is proposing to acquire Missouri regulated utility assets in order to ensure continued access to reasonably priced capital.

OTHER MATTERS

The Staff filed a formal complaint against Noel Water, Case No. WC-2011-0144, on November 19, 2010, which is pending before the Commission. Noel Water and Staff have been working to resolve its issues since mediation occurred on February 22, 2011. A status report is due to the Commission no later than August 1, 2011 in the complaint case. The complaint case has been continued due to the filing of this case because the issues that caused Staff to file a complaint may be resolved through this sale to Liberty Water. The complaint alleges a failure to effectively communicate when the customers did not receive adequate notice of an interruption in service, and concern over the reasons for alleged extended inaction. Staff's investigation of those allegations has led to discussions with Liberty Water concerning an Emergency Plan and recommends that Liberty Water maintain an Emergency Plan similar to that described in

Attachment 2 to this Memorandum. The Staff believes that the formal complaint against Noel Water should not have any adverse impact upon this transfer of assets case as requested by the *Joint Application*, nor will a decision in this pending transfer of assets case impact the formal complaint case. In fact, the pending transfer may alleviate the need to pursue the complaint.

Liberty Water and Noel Water are current on filing their annual reports to the Commission through the calendar year 2010. This information is as posted on the Commission's Electronic Filing and Information System (EFIS). However, Staff notes that Algonquin Water Resources of Missouri, LLC (the name used on all filed Annual Reports to the Commission) has filed its Annual Report to the Commission late for the last six (6) years, four (4) of which no extension was filed with the Commission.

Liberty Water and Noel Water are current on their annual assessments through the fiscal year 2012. This information is as posted by the Administration Division on the Commission's intranet site.

Liberty Water is a joint applicant in a separate proceeding pending before the Commission to acquire water and sewer utility assets of KMB Utility Corporation, Case No. WO-2011-0350, consolidated with SO-2011-0351. Neither of these cases will impact the other, however Staff is making recommendations that are common to both cases.

Neither Liberty Water nor Noel Water has compliance issues with Missouri Department of Natural Resources.

STAFF'S FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

Staff evaluated the *Joint Application* to determine if the proposed transaction was not detrimental to the public interest. This standard has been used by the Commission in recent acquisition cases. Staff believes that the transfer of utility assets from Noel Water to Liberty Water is not detrimental to the public interest, and thus recommends approval of the requested transfer of assets.

Liberty Water stated in the *Joint Application* that it intends to adopt existing rates and rules of Noel Water. Therefore, Staff recommends that Liberty Water file an adoption notice for Noel Water's tariff, and since the adoption notice likely will be filed as thirty (30)-day tariff sheets after closing of the transfer of assets, Staff also recommends that Liberty Water be granted authority to exercise the rates and rules in the Noel Water tariff on an interim basis until the adoption notice takes effect. In addition, Liberty Water's existing tariffs applicable to its existing service areas presently apply to "All Missouri Service Areas" but those tariffs should not apply to the Noel Water service area. Staff further recommends that Liberty Water file appropriate paperwork for a name change, pursuant to Commission Rule 4 CSR 240-2.060(5). This filing should include Liberty Water's adoption notices for existing tariffs, limiting those tariffs to only the presently existing service areas, and as a means for the Commission to recognize the use of the fictitious name "Liberty Water."

Staff recommends that the Commission prescribe, and Liberty Water adopt, the most recent depreciation rates approved by the Commission for the Noel Water system in Case No. WR-2009-0395 until such time as new depreciation rates may be set in a future rate case proceeding.

Staff recommends that Liberty Water maintain an Emergency Plan similar to Attachment 2 to this Memorandum that includes notification to the fire departments, local media, and Staff of the Commission's Water and Sewer Department, and the Office of the Public Counsel when any such emergency occurs.

Staff recommends that Liberty be required to adopt the individual plant in service, depreciation reserve and CIAC balances utilized by the Auditing Staff for purposes of determining the appropriate rate base in this proceeding as a starting point for plant in service, depreciation reserve and contributions in aid of construction (CIAC) for the Noel Water system recorded in the books and records of Liberty Water. Further, Staff recommends that Liberty Water be required to maintain and retain proper plant in service, depreciation reserve and CIAC records on a going forward basis for these assets. Staff will meet with the Company to explain in detail how to maintain these types of records, if necessary.

In any future rate increase request, Staff recommends that Liberty Water be required to file for all of its regulated water and sewer service areas in Missouri concurrently, to ensure that costs are correctly assigned and that appropriate rates are established for all customers in the state. Staff puts Liberty Water on notice that the filing of any future rate case may require Staff to seek additional time to account for the additional service areas Liberty Water seeks to acquire in Missouri, now and in the future, before the next rate case is filed.

SUMMARY

The Staff Recommends the Commission issue an order that:

1. Approves the Joint Applicants' request to transfer Noel Water's utility assets to Liberty Water;
2. Requires Liberty Water to notify the Commission within five (5) business days after the assets have been transferred;
3. After receipt of such notice on closing in No. 2, above, cancels the Certificate of Convenience and Necessity for Noel Water, and grants a Certificate of Convenience and Necessity to Liberty Water for water service in the current Noel Water service area;
4. Requires the Joint Applicants, if closing on the assets has not occurred within thirty (30) days after the effective date of an Order from the Commission approving this transfer of assets, to file a status report with the Commission thirty (30) days after the effective date of the Order, and at the end of each subsequent thirty (30) day period until closing and

the transfer of assets is complete; and, alternatively, if the transfer is not expected to be completed requires the Applicants to file a pleading with the Commission stating such;

5. Requires Liberty Water to, within five (5) business days after closing, file tariff adoption notice sheets, adopting the water tariff currently in effect for Noel Water, with thirty (30)-day notice, and authorize Liberty Water to use the rates and rules of Noel Water's tariff on an interim basis until the effective date of such tariff adoption notice;
6. Requires Liberty Water, any time before five (5) days after closing, to file tariff adoption notice sheets, with thirty (30) - day notice, for its existing water tariff and sewer tariff to update its operating name, and limiting the applicability of those tariffs to the Timber Creek, Holiday Hills, and Ozark Mountain service areas;
7. Requires Liberty Water to use its company name (Algonquin Water Resources of Missouri, LLC) or file appropriate documentation with the Commission which would allow it to use its chosen fictitious name ("Liberty Water") and to take all steps necessary to ensure that the name is consistently used in all communications with its Missouri customers including billing, and filings with the Missouri Public Service Commission, including certificates, tariffs and annual reports;
8. Orders no recovery of acquisition adjustment or acquisition premium in this case, or any future rate cases;
9. Makes no finding that would preclude the Commission from making any determination on any matter in any future rate proceeding, unless otherwise specified in the order;
10. Requires Noel Water to transfer all plant records, operations records, and expense records to Liberty Water upon closing of the assets, and require Liberty Water to adopt the individual plant in service, depreciation reserve and CIAC balances utilized by the Audit Staff valued at May 31, 2011 for purposes of determining the appropriate rate base in this proceeding as a starting point for plant in service, depreciation reserve and contributions in aid of construction (CIAC) for the Noel Water system recorded in the books and records of Liberty Water, and that Liberty Water be required to maintain and retain proper plant in service, depreciation reserve and CIAC records on a going forward basis. Staff will meet with Liberty Water to explain in detail how to maintain these types of records, if necessary;
11. Requires Liberty Water to maintain its books and records in Missouri or, in absence of such records being maintained in Missouri, Liberty Water will provide access to its books and records in Missouri. In accordance with the Commission rules, Liberty Water understands that if Liberty Water's including the newly acquired Noel Water system books and records are not provided for review in Missouri, then Liberty Water will be responsible for any and all travel costs to review said records. Liberty Water will comply with all current and future Commission rules and procedures, including use of the

appropriate USOA Chart of Accounts, timeliness of Annual Reports to the Commission, and payment and timeliness of annual PSC Assessments;

12. Requires Liberty Water to use the schedule of depreciation rates set out in Attachment 1 to this Memorandum that were prescribed by the Commission and used by Noel Water, from the date of the transfer forward, until changed by any future order of the Commission;
13. Requires Liberty Water, in any future rate increase request, to file concurrently for all its Missouri regulated water and sewer service areas, as discussed above;
14. Requires Liberty Water to begin reporting call center information to the Manager of the Engineering and Management Services Department, as described herein;
15. Requires Liberty Water to notify the Manager of the Engineering and Management Services Department and the Office of the Public Counsel at least forty-five (45) days prior to the anticipated closure of the local office and provide both agencies a copy of the anticipated customer notification;
16. Requires Liberty Water to notify the Manager of the Engineering and Management Services Department and the Office of the Public Counsel of the transfer, elimination or separation of any employees that are located in Missouri concerning the Noel Water system, if such action occurs within twelve (12) months of the notice of closing of utility assets as required in No. 2, above; and
17. Requires Liberty Water to maintain an Emergency Plan, similar to that described in Attachment 2 to this Memorandum which includes notification to the fire departments, local media, Staff of the Water and Sewer Department, and the Office of the Public Counsel when any such emergency occurs.

Attachment: 1. Depreciation Accrual Rates – Water Utility Plant
 2. Description of Emergency Plan

WO-2011-0328**SCHEDULE of DEPRECIATION RATES****WATER Class B****(This Schedule was Filed in Case No. WR-2009-0395)**

ACCOUNT NUMBER	ACCOUNT DESCRIPTION	DEPRECIATION RATE	AVERAGE SERVICE LIFE (YEARS)	NET SALVAGE
314	Wells & Springs	2.0%	50	
321	Structures & Improvements	2.5%	40	
325.1	Submersible Pumping Equipment	10.0%	10	
325.2	High Service or Booster Pumping Equip.	6.7%	15	
332	Water Treatment Equipment	2.9%	35	
342	Distribution Reservoirs & Standpipes	2.5%	40	
343	Transmission & Distribution Mains	2.0%	50	
345	Services (discontinued account)	0.0%		
346	Meters	3.3%	30	
347	Meter Installations	2.5%	40	
348	Hydrants	2.0%	50	
390	Structures & Improvements	2.5%	40	
391	Office Furniture & Equipment	5.0%	20	
391.1	Office Computer Equipment	14.3%	7	
392	Transportation Equipment	12.5%	7	13%
394	Tools, Shop, Garage Equipment	5.0%	20	
396	Power Operated Equipment	0.0%	fully depreciated	

EMERGENCY OPERATIONS PLAN

**Noel Water Company, Inc.
110 FOSTER STREET
PO BOX 465
NOEL, MISSOURI 64854

OFFICE (417) 475-3191**

Drafted July 2011

The text/template of this document, unless otherwise noted, follows guidelines presented in a recent publication of the Missouri Rural Water Association:

MRWA: Emergency Operations Handbook & Planning Guide.

SECTION 1 GENERAL INFORMATION

A) Act to protect life:

B) Notify employees of implementation of emergency operating plan:

- ☐ Act to ensure safety of employees' families per prepared plan
- ☐ Maintain, to a practical extent, records and logs of actions taken
- ☐ Ask all supervisors to do the same
- ☐ Ensure that radio communications are limited to vital information only
- ☐ Attempt to coordinate efforts with other regulatory agencies
- ☐ Provide recording on voicemail or answering machine to inform public of situation

C) Preserve water in storage:

- ☐ Consider what can be saved, what can be sacrificed
- ☐ If damage is apparent, lower water in dams to prevent structural failure
- ☐ If applicable, assess damage to sewer system which could contaminate water supply
- ☐ Secure well houses against unauthorized entry and possible contamination

D) Isolate areas that will take longest to restore service and arrange for emergency water distribution in those areas:

- ☐ Establish collections points and ration water
- ☐ Locate sources of water containers (plastic bottles, jerry-cans, etc.)
- ☐ Spot containers at locations to serve immediate needs
- ☐ Locate trucks with water-carrying capabilities
- ☐ Start reserve pumping facilities
- ☐ If needed, provide information to public on emergency disinfection of drinking water

E) Set priorities on repair work:

- ☐ Plan to restore service by area
- ☐ Prepare and keep current a plan to restore service
- ☐ Get input from appropriate agencies on essential uses
- ☐ Take into account condition of existing facilities
- ☐ Take into account the public's need for fire protection
- ☐ Determine if other water sources are available
- ☐ When work exceeds capabilities, notify appropriate agency

SECTION 2 EMERGENCY COORDINATOR AND KEY PERSONNEL

SYSTEM PERSONNEL

NAME	TITLE	HOME PHONE #	OFFICE PHONE	AUTHORITY
Dan Harmon	President	417 475 3811	417 475 3191	Full
Ann Harmon	Vice-President	479 200 9621	417 475 3191	Full
Ernest Hartley Jr	Field Manager	417 536 8902	417 475 3191	Purchase
Thura White	Office Manager	417 475 4968	417 475 3191	Purchase
Tammy White	Office Clerk	417 475 7524	417 475 3191	Purchase

LOCAL UTILITIES

TYPE	CONTACT	OFFICE #	HOME #
Ozark Telephone	Main Office	417 776 2212	
City of Noel	City Hall	417 475 3696	
	Street Department	417 475 6231	
	Wastewater Treatment Alarm	417 475 6348	
Empire Electric	Emergency	800 206 2300	
Empire Electric	Steve Fulmer (Cell)	417-437-8651	
Empire Electric Local	Mike Strickland (Cell)	417-850-8675	417-475-3500
Missouri Gas Energy	Customer service	800 582 1234	
	Gas Leaks	800 582 0000	
	Administrative Office	816 756 5261	
Fire Department	Emergency	417 475 3100	
Fire Chief	Brandon Barret (Cell)	417-438-5397	
Police Department	Marshall's Office	417 475 3777	
	Non-Emergency	417 475 6237	
Police Chief	Jacob Boles (Cell)	417-438-8187	
Street Department	Keith Harris (Cell)	417-455-6489	
Civil Defense	McDonald County	417 223 7575	
County Sheriff	McDonald County	417 223 4318	
System Engineer	Allgeier Martin & Associates	417 624 5703	

SECTION 3 EMERGENCY COMMUNICATIONS AND CONTACTS

McDonald County Sherriff	417 223 4318
State Highway Patrol	417 895 6868 (Springfield)
County Civil Defense	417 223 7575
Ambulance Service	911
Fire Department	417 475 3100 (Emergency)
Noel Police Department	417 475 3777
National Guard	417-845-6166
Ham Radio Clubs/Operators	

Missouri Public Service Commission (PSC)		
Water and Sewer Department - Jim Busch	573-751-7529 (Phone)	573-751-1847 (Fax)
Missouri Office of the Public Counsel	573-751-4857 (Phone)	573-751-5562 (Fax)

Sources of Radio Communications Networks – during an Emergency

Noel PHA Radio	417-475-3195
Tyson Foods Radio	417-475-3181

Additional Resources (Media) to Release Emergency Information to the Public

KBTN	99.7 FM	Neosho Radio Station	417-451-1420
KURM	100.3 FM	Southwest City Radio Station	417-
KSYN	92.5 FM	Joplin Radio Station	417-578-9292
KUOA	1290 AM	Siloam Springs Radio	479-524-6572
KODE	Channel 12 or 43	Local Television ABC	417-623-7260
KOAM	Channel 7	Local Television CBS	417-624-0233
KSNF	Channel 16 or 46	Local Television NBC	417-781-2345
McDonald County Press		Hwy 71 & EE	417-223-4675
Joplin Globe		117 East 4th	800-444-8514
Neosho Daily News		1006 W Harmony & Neosho	417-451-1520
Noel Community Web Page		Bruce Arnold Consulting	www.4Noel.com

SECTION 4 EMERGENCY EQUIPMENT & Alternative H₂O Sources

LIST OF POSSIBLE EMERGENCY MATERIALS AND EQUIPMENT

Equipment	Number	Contact Name	Normal Location
Tank Trucks	417-475-3181	Tyson Foods	Noel Processing Plant
Tank Trucks	417-375-3100	City of Noel	Noel Fire Department
Pump Pulling Equipment	417-775-2205	Tiff City Pump	Tiff City, MO
	417-775-2500	Tiff City Pump	Tiff City, MO
	417-439-8531	David (Cell)	Tiff City, MO
	417-437-8515	Jim McBee (Cell)	Tiff City, MO
Pump Pulling Equipment	417-881-2843	Layne-Western Co	Springfield MO
Chemicals	888-647-5850	DPC Enterprises	Houston TX
Laboratory Service	479-631-0401	ChemStar Lab	Arkansas
Suppliers			
Joplin Supply Co	800-426-9411		Joplin MO
Hughes Supply Co	800-374-3727		Tontitown AR
Water Products Co	800-435-9099		Owasso OK
Winwater	800-833-0384		Springfield MO
Backhoe Excavation	417-475-3886 (Home)	Jeff Todd	Noel, Missouri
Backhoe Excavation	417-592-7860 (Cell)	Jeff Todd	Noel, Missouri
Backhoe Excavation	417-475-6401	Paul Hight	Noel, Missouri
Standby Power Sources			
Generators			
Generators			
Generators			

DESCRIPTION AND LOCATION OF SYSTEM MAPS

Appearance of maps or container(s) where maps are kept: NWC Office

Location 1 Water System Map – Current through 4-1-2007

Location 2 Work Order Drawing – Current through 10-1-2005

Draft based on MRWA Guidelines www.moruralwater.org

Attachment 2

Appendix A

Location 3 Valve Record – showing location and actuation current through 4-1-2007

ALTERNATIVE WATER SOURCES

A. Other municipal or commercial supplies

Source	Contact Person	Phone
Old NWC Well #2	Monitoring Well on Harmony Street	
Butler Creek	Public Domain	
Stored Supplies of Bottled Water	NWCo Inventory	

B. Private supplies (Note: Test for Safety before Distribution)

Source	Contact Person	Phone
Emergency Bottled Water???		
Noel Schools	Secretary	417-475-3202
Church of the Nativity Catholic Church		417-475-3144
Methodist Church Day Care		417-475-3776
Baptist Church		417-475-3264
St Nicholas Episcopal Church		417-475-3852
Civil Defense		417-223-7575
Noel Public Housing Authority	Lenora Thompson, ED	417-475-3195

LOG OF ACTIONS TAKEN

[illegible]

In the Matter of the Joint Application of)
Algonquin Water Resources of Missouri, LLC,) Case No. WO-2011-0328
d/b/a Liberty Water for Authority for Liberty)
Water to Acquire Certain Assets of Noel Water)
Co., Inc. and, in Connection Therewith, Certain)
Other Related Transactions)

STATE OF MISSOURI)
)
COUNTY OF COLE) SS.


Keith Majors

Subscribed and sworn to before me this 22 day of July, 2011.

Robert Clark
Notary Public



ROBERT CLARK
My Commission Expires
October 25, 2014
Jackson County
Commission #10076459

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of the Joint Application of)
Algonquin Water Resources of Missouri, LLC,)
d/b/a Liberty Water for Authority for Liberty)
Water to Acquire Certain Assets of Noel Water)
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Case No. WO-2011-0328

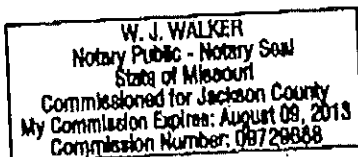
AFFIDAVIT OF V. WILLIAM HARRIS

STATE OF MISSOURI)
)
COUNTY OF COLE) ss.

V. William Harris, of lawful age, on his oath states: that he has participated in the preparation of the foregoing Staff Recommendation in memorandum form, to be presented in the above case; that the information in the Staff Recommendation was developed by him; that he has knowledge of the matters set forth in such Staff Recommendation; and that such matters are true and correct to the best of his knowledge and belief.


V. William Harris

Subscribed and sworn to before me this 25 day of July, 2011.




Notary Public

**BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI**

In the Matter of the Joint Application of)
Algonquin Water Resources of Missouri, LLC,)
d/b/a Liberty Water for Authority for Liberty)
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Co., Inc. and, in Connection Therewith, Certain)
Other Related Transactions.)

Case No. WO-2011-0328

AFFIDAVIT OF STEVEN G. LOETHEN

STATE OF MISSOURI)
) ss
COUNTY OF COLE)

Steven G. Loethen, of lawful age, on his oath states: (1) that he is a Utility Operations Technical Specialist in the Water and Sewer Department of the Missouri Public Service Commission; (2) that he participated in the preparation of the foregoing *Staff Recommendation Regarding the Sale of Regulated Utility Assets*, in memorandum form, to be presented in the above case; (3) that certain information in the *Staff Recommendation Regarding the Sale of Regulated Utility Assets* was provided by him; (4) that he has knowledge of certain matters set forth in such *Staff Recommendation Regarding the Sale of Regulated Utility Assets*; and (5) that such certain matters set forth in the foregoing *Staff Recommendation Regarding the Sale of Regulated Utility Assets* are true and correct to the best of his knowledge, information and belief.

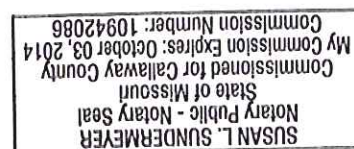


Steven G. Loethen

Subscribed and sworn to before me this 25th day of July 2011.



Notary Public

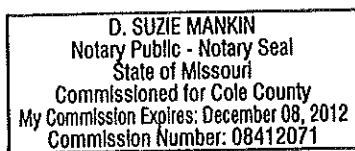



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d/b/a Liberty Water for Authority for Liberty)	
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Co., Inc. and, in Connection Therewith, Certain)	
Other Related Transactions)	

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Nila S. Hagemeyer
Nila S. Hagemeyer

Subscribed and sworn to before me this 25th day of July, 2011.




Notary Public

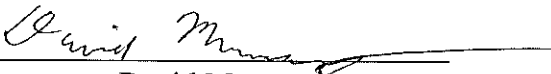
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d/b/a Liberty Water for Authority for Liberty)	
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Co., Inc. and, in Connection Therewith, Certain)	
Other Related Transactions)	

AFFIDAVIT OF DAVID MURRAY

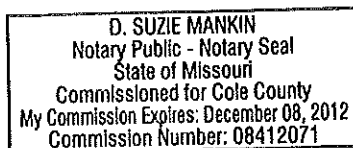
STATE OF MISSOURI)	
)	ss.
COUNTY OF COLE)	

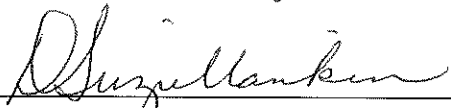
David Murray, of lawful age, on his oath states: that he has participated in the preparation of the foregoing Staff Recommendation in memorandum form, to be presented in the above case; that certain information in the Staff Recommendation was developed by him; that he has knowledge of these certain matters set forth in such Staff Recommendation; and that such matters are true and correct to the best of his knowledge and belief.



David Murray

Subscribed and sworn to before me this 25th day of July, 2011.





Notary Public

**BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI**

In the Matter of the Joint Application of)	
Algonquin Water Resources of Missouri, LLC,)	
d/b/a Liberty Water for Authority for Liberty)	Case No. WO-2011-0328
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Co., Inc. and, in Connection Therewith, Certain)	
Other Related Transactions.)	

AFFIDAVIT OF JAMES A. MERCIEL, JR., P.E.

STATE OF MISSOURI)
) ss
COUNTY OF COLE)

James A. Merciel, Jr., P.E., of lawful age, on his oath states: (1) that he is the Assistant Manager – Engineering in the Water and Sewer Department of the Missouri Public Service Commission; (2) that he participated in the preparation of the foregoing *Staff Recommendation Regarding the Sale of Regulated Utility Assets*, in memorandum form, to be presented in the above case; (3) that certain information in the *Staff Recommendation Regarding the Sale of Regulated Utility Assets* was provided by him; (4) that he has knowledge of certain matters set forth in such *Staff Recommendation Regarding the Sale of Regulated Utility Assets*; and (5) that such certain matters set forth in the foregoing *Staff Recommendation Regarding the Sale of Regulated Utility Assets* are true and correct to the best of his knowledge, information and belief.



James A. Merciel, Jr., P.E.

Subscribed and sworn to before me this 25th day of July 2011.



Notary Public

SUSAN L. SUNDERMEYER Notary Public - Notary Seal State of Missouri Commissioned for Callaway County My Commission Expires: October 03, 2014 Commission Number: 10942086
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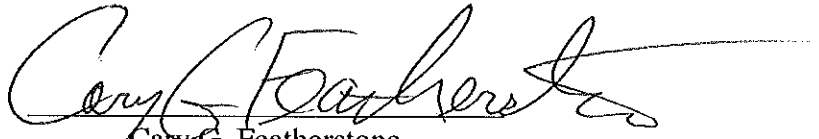
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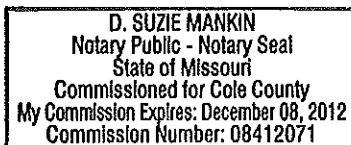
AFFIDAVIT OF CARY G. FEATHERSTONE

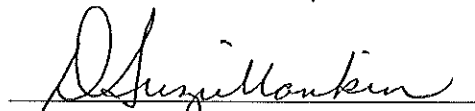
STATE OF MISSOURI)	
)	ss.
COUNTY OF COLE)	

Cary G. Featherstone, of lawful age, on his oath states: that he has participated in the preparation of the foregoing Staff Recommendation in memorandum form, to be presented in the above case; that the information in the Staff Recommendation was developed by him; that he has knowledge of the matters set forth in such Staff Recommendation; and that such matters are true and correct to the best of his knowledge and belief.


Cary G. Featherstone

Subscribed and sworn to before me this 25th day of July, 2011.




Notary Public