

MEMORANDUM

TO: Missouri Public Service Commission
Official Case File, Case No. WA-2019-0036

FROM: Curt B. Gateley – Water and Sewer Department
David A. Spratt – Water and Sewer Department
Kimberly K. Bolin – Auditing Department
Angela Niemeier – Auditing Department
Dana R. Parish – Customer Experience Department
Scott J. Glasgow – Customer Experience Department
David T. Buttig, PE – Engineering Analysis Department

/s/ Curt B. Gateley 6/10/19
Case Coordinator / Date

/s/ Ron Irving 6/10/19
Staff Counsel Office/ Date

SUBJECT: Recommendation of Approval of Application

DATE: June 10, 2019

CASE BACKGROUND

On March 13, 2019, Liberty Utilities (Missouri Water) LLC, d/b/a Liberty Utilities (“Liberty Utilities”) filed its *Application for Authority to Transfer Utility Assets and Certificated Area of Franklin County* (“Application”) with the Missouri Public Service Commission (“Commission”). Liberty Utilities seeks approval to acquire the franchise and operating assets of Franklin County Water Company, Inc. (“Franklin County”), a regulated water utility, and its Certificate of Convenience and Necessity (“CCN”).

BACKGROUND OF FRANKLIN COUNTY WATER AND LIBERTY UTILITIES

Franklin County obtained a CCN from the Commission on September 27, 1976, in Case No. 18,128. Franklin County provides water service to approximately 189 single-family residential customers, according to its most recent annual report,¹ in the Lake St. Clair subdivision located to the south of the town of St. Clair, in Franklin County.

Liberty Utilities is an existing regulated water and sewer utility currently providing water service to more than 3,300 customers and sewer service to more than 400 customers in several service areas throughout Missouri. In recent years, Liberty Utilities has acquired several small existing water and sewer systems. Liberty Utilities is a subsidiary of Algonquin Power & Utilities

¹ Filed February 21, 2019.

Corporation (“APUC”) and is affiliated with other companies that undertake some of the tasks associated with utility service, such as customer billing, and technical resources.

STAFF’S INVESTIGATION

Water System

The Commission’s Staff (“Staff”) from the Water and Sewer Department inspected the condition of the water system, including performance and compliance with drinking water regulations, on May 22, 2019. The source of water is a single well drilled 900 feet deep with a submersible pump which produces 180 gallons per minute. Water is pumped from the well house to a standpipe located to the west at a higher elevation from the well house with a total volume of 45,000 gallons, and a usable volume of approximately 15,000 gallons due to the minimum water level needed to maintain system pressure by gravity. The water is not currently disinfected with chlorine. Each customer is served through a utility-owned water meter. The water system is of adequate capacity for the existing service area. Based upon previous system inspections and recent communication with the Missouri Department of Natural Resources (“DNR”), Staff is not aware of any operational or compliance issues, and has received no recent complaints from customers about service. The contract operator for this water system is the same operator Liberty Utilities employs for the other water systems it owns in the area.

Rate Base

Staff reviewed information provided by Liberty Utilities in response to Staff’s data requests, Liberty Utilities’ Application with included sale agreement documents, Liberty Utilities’ work papers, as well as the effective tariffs and annual reports of Franklin County.

Staff conducted a review of plant in service, depreciation reserve, Contributions in Aid of Construction (“CIAC”), CIAC amortization, and other rate base items during its investigation in order to determine Franklin County’s rate base. Staff’s starting point for determining rate base in this case was an analysis of the actual rate base used in Franklin County’s most recent rate case, Case No, WR-2007-0103. Staff then used Franklin County’s annual reports submitted to the Commission to update plant in service, depreciation reserve, CIAC, and CIAC amortization to March 31, 2019. The net book value of assets proposed to be purchased from Franklin County by Liberty Utilities as of December 31, 2018, as determined by Staff, is approximately \$8,545.²

² Rate base as determined by Staff for this case is for information only, and reflects only Staff’s determination based on its review of this case. To Staff’s knowledge, no rate base amount has been reviewed by other interested parties, including Franklin County, Liberty, or the Office of the Public Counsel. Rate base determination is subject to change based on positions of other parties, or by additional information not available during Staff’s review of this case.

The following is a breakdown of the rate base components:

Plant in Service	\$231,796
Accumulated Depreciation	\$(235,527)
CIAC	\$(158,779)
Net Plant minus CIAC	\$(162,510)
CIAC Amortization	\$171,054
Net Rate Base	\$8,545

The purchase price for Franklin County is ** _____ **. Staff recommends the net book value as of March 31, 2019, be used to determine the rate base in this case instead of the purchase price.

Depreciation

Staff's Engineering Analysis Department performed a review of the depreciation rates for water utility assets, plant-in-service, and the accumulated depreciation reserves for Franklin County. Staff's Auditing Department used these depreciation rates in calculating the recommended rate base discussed above.

Staff therefore recommends that Liberty Utilities maintain existing depreciation rates for the plant accounts that were previously ordered by the Commission for Franklin County.

The proposed depreciation rates, which were previously approved for Franklin County, are included with this memorandum as Attachment 1. Staff intends to review the depreciation schedules again when Liberty Utilities files for its first rate case.

Rate and Tariff Matters

In its Application, Liberty Utilities proposes to apply its existing rates and tariff rules for the service area that includes Cedar Hill Estates, Crestview Acres, High Ridge Manor, Hillshine Community, Lakewood Hills, Town of Scottsdale, and Warren Woods Subdivision to the new Franklin County customers. For the average residential Franklin County customer this would result in a rate increase of over 350%. However, Liberty Utilities provides no cost of service justification to increase Franklin County customers' rates. The Application shows that the current rates cover more than 99% of Franklin County's operating expenses. Liberty Utilities proposes no improvements to the physical plant, and proposes no changes or improvements in operation of the system. The only benefit Liberty Utilities states for customers is a theoretical access to financial resources, but shows no need for such resources at this time. Therefore Staff recommends current rates be maintained for Franklin County customers until the cost of service is examined in a future rate case.

Staff recommends that Liberty Utilities be authorized to submit, prior to closing on the Franklin County assets, tariff sheets within its existing P.S.C. MO No. 14 tariff showing the Franklin County (Lake St. Clair) service area map and written description, rates for water service identical to Franklin County's existing rates.

Technical, Managerial, and Financial Capacity

In studying most situations involving transfers of assets and CCNs involving existing regulated water and/or sewer systems, Staff utilizes the concepts of technical, managerial, and financial capacity, or "TMF," originally developed by the United States Environmental Protection Agency. Staff has reviewed and stated its position regarding TMF regarding Liberty Utilities in previous CCN and transfer of assets cases before the Commission. Staff again reviewed Liberty Utilities' TMF capabilities in this context of this application, and takes the position that Liberty Utilities continues to demonstrate adequate TMF capability.

Technical Capacity

As noted above, Liberty Utilities is an existing regulated water and sewer utility currently providing water service to more than 3,300 customers and sewer service to more than 400 customers in several service areas throughout Missouri. Liberty Utilities has acquired several small existing water and sewer systems, and, as a subsidiary of APUC, is affiliated with other companies that undertake some of the tasks associated with utility service, such as customer billing, and technical resources. Further, it will utilize the same contract operator for this water system as it employs for the other water systems it owns in the area. As such, it is Staff's position that Liberty Utilities has the requisite technical capacities to acquire and operate the Franklin County system.

Managerial Capacity

Liberty Utilities intends to incorporate Franklin County into its current billing and customer service system. Liberty Utilities' current customer service representatives will be available take and process customer inquiries pertaining to billing and/or service issues, make necessary bill adjustments and enter into payment plans within company guidelines, interact with Staff in working with customer complaints, and manage new customer accounts and the closing of customer accounts. In the operation of its current system, Liberty Utilities has demonstrated the requisite managerial abilities to operate the Franklin County system.

Financial Capacity

Liberty Utilities has the financial capacity to acquire and operate the Franklin County system through access to capital through its upstream affiliates. Its ultimate parent company, APUC, is a Canadian corporation that owns several electric, gas, and water utilities throughout the United

States through its Liberty Utilities Company subsidiary. It is Staff's opinion, based upon its current operations and past acquisitions, that Liberty Utilities has demonstrated that it has the requisite financial capacity to acquire and operate the Franklin County system.

Publicity and Customer Notice

Staff is not aware of any public notice to customers of the pending asset transfer. Staff recommends Liberty Utilities provide such notice to customers. This action will ensure customers are informed and prepared for the transition.

Customer Experience Department

Liberty Utilities uses a customer information system called Customer Watch. Franklin County customer information will need to be entered into this billing system with the correct ordered rate. Liberty Utilities will obtain customer information from Franklin County via an excel spreadsheet.

Customer Service Representatives will be available Monday through Friday from 7:00 a.m. to 7:00 p.m. at 1-800-206-2300. In case of emergencies, the same number will be available 24/7. In addition, customers will be able to contact Liberty Utilities 24/7 at customer.service@libertyutilities.com, or via Facebook from 8:00 a.m. to 5:00 p.m., Monday through Friday.

Payment options for customers will be by phone, mail, or online through a 3rd party processor for a fee (\$2.25 for residential / \$13.00 for commercial customers). Customers will be able to pay with cash, check, or credit card.

In Data Request No. 0010, Staff asked for the copies of the customer notification after acquisition. Liberty Utilities stated that once the Company receives approval from the Commission, a welcome letter will be sent to the Franklin County customers and information will be posted to the Company website. Staff recommends that Liberty provide to the Customer Experience Department (CXD) Staff an example of its actual communication with the Franklin County customers regarding its acquisition and operations of the Franklin County water system, and how customers may reach Liberty Utilities. Communication should also include an informational brochure detailing the rights and responsibilities of Liberty and its customers as required by Commission Rule 4 CSR 240-13.040(3).

Staff recommends that Franklin County customers be included in the reporting to the CXD Staff as previously ordered by the Commission's Order Approving Application in Case No. WO-2011-0350. Such reporting includes, but is not limited to: calls offered, call center staffing, average speed of answer, abandoned call rate, number of estimated bills, number of consecutive estimated bills, and calls answered by IVR (Integrative Voice Response Unit).

Staff recommends Liberty provide to the CXD Staff a sample of ten (10) billing statements from each of the first three months' of bills issued to Franklin County customers within thirty (30) days of such billing.

OTHER ISSUES

Liberty Utilities is current on its water and sewer PSC assessment payments, is current on its annual reports, and is in good standing with the Secretary of State's office. Franklin County is current on its water and sewer PSC assessment payments, is current on its annual reports, and is in good standing with the Secretary of State's office. Neither Liberty Utilities nor Franklin County have cases pending before the Commission which would impact this Application.

STAFF'S RECOMMENDATIONS AND CONCLUSIONS

Staff's position, based on its review as described herein, is that the transfer of utility assets is not detrimental to the public interest; however, Liberty Utilities' proposal for a rate increase for Franklin County customers as part of this acquisition is not reasonable, and should not be granted. Staff does conclude it is reasonable to have Franklin County customers subject to the same rules and service charges as Liberty Utilities' other customers, and therefore incorporating Franklin County customers into Liberty Utilities' existing P.S.C. MO No. 14 tariff is appropriate. Staff recommends Liberty Utilities be authorized and ordered to file tariff sheets including a service area map, service area written description, and Franklin County's existing water rates to be included in Liberty Utilities' current P.S.C. MO No. 14 tariff, prior to closing on the Franklin County assets. Additionally, Staff recommends the Commission order Liberty Utilities to provide status reports, as necessary, describing the status of closing on the Franklin County assets, as well as notice of the ultimate closing.

Staff therefore recommends approval of the transfer of assets of Franklin County, transfer of the affected CCN, subject to the conditions and actions as outlined herein.

STAFF'S RECOMMENDATIONS

Staff recommends that the Commission:

1. Authorize Franklin County to sell and transfer utility assets to Liberty Utilities, and transfer the CCN currently held by Franklin County to Liberty Utilities upon closing on any of the respective systems;
2. Retain the existing Franklin County rates of \$5.70 customer charge and \$2.61 commodity charge;
3. Upon closing on the Franklin County water system, authorize Franklin County to cease providing service, and authorize Liberty Utilities to begin providing service;

4. Require Liberty Utilities to submit tariff sheets prior to closing on Franklin County assets, to include existing Franklin County water rates, a service area map, and service area written description, to be included in its EFIS water tariff P.S.C. MO No. 14, all applicable specifically to water service in its Franklin County service area;
5. Require Liberty Utilities to create and keep financial books and records for plant-in-service, revenues, and operating expenses (including invoices) in accordance with the NARUC Uniform System of Accounts;
6. Require Liberty Utilities to, going forward, keep and make available for audit and review all invoices and documents pertaining to the capital costs of constructing and installing the water and sewer utility assets;
7. Approve depreciation rates for water and sewer utility plant accounts as described herein, and depicted in Attachment 1 to this Memorandum;
8. Make no finding that would preclude the Commission from considering the ratemaking treatment to be afforded any matters in any later proceeding;
9. Require Liberty Utilities to provide to the Customer Experience Department (“CXD”) Staff an example of its actual communication with the Franklin County customers regarding its acquisition and operations of the Franklin County water system assets, and how customers may reach Liberty Utilities regarding water matters, within ten (10) days after closing on the assets;
10. Require Liberty Utilities to include the Franklin County customers in its established monthly reporting to the CXD. Such reporting has been previously ordered by the Commission’s Order Approving Application in WO-2011-0350 and is provided by Liberty Utilities. Such reporting includes, but is not limited to such metrics as: 1) Calls Offered, 2) Call Center staffing, 3) Average Speed of Answer, 4) Abandoned Call Rate, 5) Number of Estimated Bills, 6) Number of Consecutive Estimated Bills, and 7) calls answered by IVR (Integrative/Interactive Voice Response Unit);
11. Require Liberty Utilities to distribute to the Franklin County customers prior to the first billing from Liberty Utilities an informational brochure detailing the rights and responsibilities of the utility and its customers regarding its water service, consistent with the requirements of Commission Rule 4 CSR 240-13.040 (3) (A-K); and,
12. Require Liberty Utilities to provide to the CXD Staff a sample of ten (10) billing statements from each of the first three months’ of bills issued to Franklin County customers within thirty (30) days of such billing.

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

In the Matter of the Application of Liberty Utilities)
(Missouri Water) LLC and Franklin County)
Water, Inc. for Liberty to Acquire Certain Water)
Assets of Franklin County and for a Certificate of)
Convenience and Necessity)

Case No. WA-2019-0036

AFFIDAVIT OF KIMBERLY K. BOLIN

State of Missouri)
) ss.
County of Cole)

COMES NOW Kimberly K. Bolin, and on hers oath declares that he is of sound mind and lawful age; that she contributed to the attached *Staff Recommendation* in Memorandum form; and that the same is true and correct according to her best knowledge and belief.

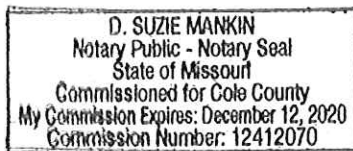
Further the Affiant sayeth not.



Kimberly K. Bolin

JURAT

Subscribed and sworn before me, a duly constituted and authorized Notary Public, in and for the County of Cole, State of Missouri, at my office in Jefferson City, on this 10th day of June, 2019.





NOTARY PUBLIC

**BEFORE THE PUBLIC SERVICE COMMISSION
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AFFIDAVIT OF ANGELA NIEMEIER

State of Missouri)
) ss.
County of Cole)

COMES NOW Angela Niemeier, and on hers oath declares that he is of sound mind and lawful age; that she contributed to the attached *Staff Recommendation* in Memorandum form; and that the same is true and correct according to her best knowledge and belief.

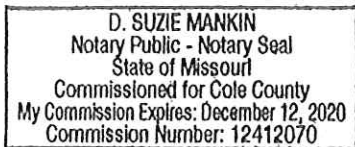
Further the Affiant sayeth not.



Angela Niemeier

JURAT

Subscribed and sworn before me, a duly constituted and authorized Notary Public, in and for the County of Cole, State of Missouri, at my office in Jefferson City, on this 10th day of June, 2019.





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AFFIDAVIT OF DANA R. PARISH

State of Missouri)
) ss.
 County of Cole)

COMES NOW Dana R. Parish, and on hers oath declares that he is of sound mind and lawful age; that she contributed to the attached *Staff Recommendation* in Memorandum form; and that the same is true and correct according to her best knowledge and belief.

Further the Affiant sayeth not.



 Dana R. Parish

JURAT

Subscribed and sworn before me, a duly constituted and authorized Notary Public, in and for the County of Cole, State of Missouri, at my office in Jefferson City, on this 10th day of June, 2019.

D. SUZIE MANKIN Notary Public - Notary Seal State of Missouri Commissioned for Cole County My Commission Expires: December 12, 2020 Commission Number: 12412070
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 NOTARY PUBLIC

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AFFIDAVIT OF SCOTT J. GLASGOW

State of Missouri)
) ss.
County of Cole)

COMES NOW Scott J. Glasgow, and on his oath declares that he is of sound mind and lawful age; that he contributed to the attached *Staff Recommendation* in Memorandum form; and that the same is true and correct according to his best knowledge and belief.

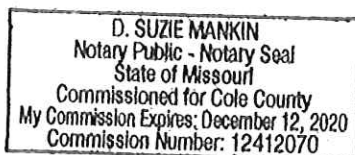
Further the Affiant sayeth not.



Scott J. Glasgow

JURAT

Subscribed and sworn before me, a duly constituted and authorized Notary Public, in and for the County of Cole, State of Missouri, at my office in Jefferson City, on this 10th day of June, 2019.





NOTARY PUBLIC

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AFFIDAVIT OF DAVID T. BUTTIG, PE

State of Missouri)
) ss.
County of Cole)

COMES NOW David T. Buttig, PE and on his oath declares that he is of sound mind and lawful age; that he contributed to the attached *Staff Recommendation* in Memorandum form; and that the same is true and correct according to his best knowledge and belief.

Further the Affiant sayeth not.



David T. Buttig, PE

JURAT

Subscribed and sworn before me, a duly constituted and authorized Notary Public, in and for the County of Cole, State of Missouri, at my office in Jefferson City, on this 10th day of June, 2019.

D. SUZIE MANKIN
Notary Public - Notary Seal
State of Missouri
Commissioned for Cole County
My Commission Expires: December 12, 2020
Commission Number: 12412070



NOTARY PUBLIC

**FRANKLIN COUNTY WATER COMPANY
DEPRECIATION RATES
(WATER)
WR-2007-0103**

ACCOUNT NUMBER	ACCOUNT DESCRIPTION	DEPRECIATION RATE	AVERAGE SERVICE LIFE (YEARS)
311	Structures & Improvements	2.5%	40
314	Wells & Springs	2.0%	50
325	Electric Pumping Equipment	10.0%	10
331	Structures & Improvements	2.5%	40
332	Water Treatment Equipment	2.9%	34
342	Distribution Reservoirs & Standpipes	2.5%	40
343	Transmission & Distribution Mains	2.0%	50
345	Services	2.5%	40
346	Meters	10.0%	10
347	Meter Pits & Installations	2.5%	40
348	Hydrants	2.0%	50
391	Office Furniture & Equipment	5.0%	20
391.1	Office Electronic & Computer Equipment	6.7%	15
393	Other General Equipment	10.0%	10