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Exhibit No.:

Issues: Public Interest Witness: Glen Justis

Sponsoring Party: Lake Perry Lot Owners Association

Type of Exhibit: Rebuttal Testimony

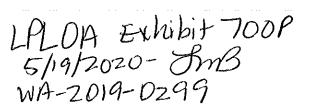
Case Nos.: WA-2019-0299

Date Testimony Prepared: April 28, 2020

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

In the Matter of the Application of Confluence	)	
Rivers Utility Operating Company, Inc.	)	
For Authority to Acquire Certain Water and	) Case No. WA-2019-02	299
Sewer Assets and for a Certificate of Convenience	Case No. SA-2019-030	00
And Necessity	)	

REBUTTAL TESTIMONY OF
GLEN JUSTIS
ON BEHALF OF THE
LAKE PERRY LOT OWNERS ASSOCIATION
APRIL 28, 2020



## Rebuttal Testimony of GLEN JUSTIS on Behalf of the Lake Perry Lot Owners Association

1	Q.	What is your name?
2	A.	My full legal name is Paul Glenden Justis, Jr. I am commonly known by the name Gler
3		Justis.
4	Q.	On behalf of what party in this case are you testifying?
5	A.	I am testifying on behalf of Lake Perry Lot Owner's Association (LPLOA).
6	Q.	What is your education, experience, and expertise?
7	A.	My education, experience, and expertise are as stated in my Rebuttal Testimony previously
8		filed in this case.
9	Q:	Do you have concerns regarding the stipulated total Net Book Value (NBV) for Port
10		Perry Service Company of \$ ?
11	A:	Yes. This situation worsens my concern that the transaction is detrimental to the public
12		interest. My concern relates to the merger premium Confluence will be paying to the
13		current owners of PPSC. While it is common for utility company acquisitions to involve
14		modest premiums, the premium in this case is extremely high. It places the current
15		customers of Port Perry at risk of unnecessarily high rates and/or service degradation.
16	O٠	What is the magnitude of the acquisition premium?

- 1 A: My understanding is that Confluence holds an option of purchasing Port Perry's assets for
- 2 \$ . Assuming the transaction is consummated at this price, the premium is \$
- 3 \$ = \$ . On a percentage basis, this equates to a % acquisition premium.

## 4 Q: Why is this a problem?

- 5 A: It is a problem in the context of what it implies for Confluence's investors and the actions 6 that Confluence might take to keep its investors whole. For illustration, let us assume a debt-to-equity ratio and a % return on equity. Nominally, investors will be 7 contributing % \* \$ = \$ of equity capital. To achieve the 8 return on equity, Confluence must produce a minimum of = \$ 9 of 10 annual profit. Assuming the Commission abides by its ruling that Confluence will be prohibited from recovering any of the acquisition premium, Confluence will have to take 11 12 actions to achieve this return on the existing NBV of \$ . The necessary return on %. This is a much higher percentage return on 13 existing NBV is \$ / \$ assets than what is typical for water utilities. One way or another, Confluence will have to 14 produce excessive profits to make the excessive purchase price work. The Commission 15 would be well-advised to require Confluence to clarify its future operating and capital 16 investments plans for Lake Perry, and how it intends to make this math work, prior to 17 18 approving the sale of the assets.
- Q: What actions might Confluence take to improve the profitability of the deal for the
   benefit of its investors?
- A: In my professional view, based on experience working with public utilities as well as commonly-accepted financial principles, I see five main scenarios, as follows:

16	A:	Yes, it does.
15	Q:	Does this conclude your testimony?
14		6. A combination of the above.
13		and other service areas, unfairly driving up rates for other customers.
12		5. Confluence attempts to socialize the acquisition premium across both Lake Perry
11		(inaccurately high) claimed cost of capital.
10		then attempts to obtain a return on these investments in later rate cases at a distorted
9		using alternative forms of financing that are obscured from the Commission, and
8		4. Confluence pursues unnecessary and/or gold-plated capital projects at Lake Perry
7		investors for the excessive acquisition premium.
6		3. Confluence engages in self-dealing to create hidden gains to compensate its
5		jeopardizing service quality and system maintenance.
4		2. Confluence drives down operating expenses to unsustainable levels, thereby
3		approximately % debt to achieve a % return on invested equity.
2		Using the above example, Confluence would need a leverage level of
1		1. Confluence uses excessive leverage (debt) to drive up the return on invested equity.

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

In the Matter of the Application of Confluence Rivers Utility Operating Company, Inc. For Authority to Acquire Certain Water and Sewer Assets and for a Certificate of Convenience And Necessity	) ) Case No. WA-2019-0299 ) Case No. SA=2019-0300 )
AFFIDAVIT OF PAUL GI	LENDEN JUSTIS, JR.
STATE OF MISSOURI ) ) ss. COUNTY OF ST. LOUIS )	
COMES NOW Paul Glenden Justis, Jr. and and lawful age; that he contributed to the foregoing and correct according to the best of his knowledge at	<u>-</u> ·
Further the Affiant sayeth not.	
	ul Glenden Justis, Jr. Henden Justis, Jr.