

**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)
File No. WA-2019-0299

CONFLUENCE RIVERS’ INITIAL BRIEF
AS TO NET BOOK VALUE

COMES NOW Confluence Rivers Utility Operating Company, Inc. (“Confluence Rivers” or “Company”), and for its *Initial Brief As To Net Book Value*, states as follows to the Missouri Public Service Commission (“Commission”):

SUMMARY

There is no dispute among the parties as to the net book value of the Port Perry Service Company assets that should be used for purposes of this case and as the starting amounts for the calculation of rate base (with regard to the Port Perry assets) in Confluence River’s next rate case.

There is no detriment to the public interest associated with the net book value. First, the net book value will not change as the result of the proposed transfer of ownership. Second, Confluence Rivers has not requested an acquisition premium in this case and has waived any opportunity it might have to seek acquisition premium recovery in subsequent rate proceedings related to the Port Perry assets. Thus, any amount above net book value paid by Confluence Rivers will not result in a detriment to the public interest because Confluence Rivers will not recover that amount in customer rates as an acquisition premium.

Confluence Rivers has the technical, managerial, and financial resources to own and

operate the systems to be acquired and to otherwise provide safe and adequate service on a going forward basis. The Commission should find that Confluence Rivers' acquisition of the Port Perry water and wastewater assets and certificates of convenience and necessity is not detrimental to the public interest and approve the transaction.

1. What is the net book value of the Port Perry Service Company's ("Port Perry") water and wastewater assets?

The net book value of the Port Perry assets as of December 31, 2019, for purposes of this case, is a total of \$77,936 (\$20,070 for water assets, and \$57,866 for wastewater assets). (Ex. 600, Cox Reb., pp. 2-3).

This is the same net book value Staff proposes in its testimony, the same net book value Confluence Rivers endorses in its testimony, and the same net book value agreed to by Staff, OPC and Confluence Rivers in the Stipulation and Agreement as to Net Book Value filed on April 9, 2020. (Ex. 800, Bolin NBV Dir., p. 4; Ex. 600, Cox NBV Reb., pp. 2-3). Lake Perry Lot Owners' Association ("Association") witness Mr. DeWilde also agrees with these amounts. (Ex. 701, DeWilde NBV Reb., pp. 2-3)

2. Given the answer to the first question, should the Commission find that Confluence Rivers Utility Operating Company, Inc.'s ("Confluence Rivers") acquisition of the Port Perry Service Company's ("Port Perry") water and wastewater assets and certificates of convenience and necessity is not detrimental to the public interest, and approve the transaction?

Given the \$77,936 net book value identified above, as well as the evidence previously reviewed by the Commission, the Commission should find the proposed transaction to not be detrimental to the public interest. There is no detriment associated with the \$77,936 net book value.

In reviewing this issue, it may be helpful to provide context for the net book value

identified by the parties in response to Issue 1. In its direct testimony in the base case, Staff estimated that net book value as of March 31, 2019, was a total of \$58,133 for water and wastewater assets combined (\$491 for water rate base and \$57,642 for wastewater rate base). (Ex. 100, Dietrich Dir., Sched. ND-d2, p. 7; Ex. 102, Bolin Sur., p. 3) The process of obtaining invoices associated with many years of operation from a prior operator and classifying the invoices that can be found, sometimes many years after they were created,¹ can be a challenge. (Ex. 600, Cox NBV Reb., p. 4) Confluence Rivers had argued at that time that it was unnecessary for the Commission to determine the net book value in this case. However, no party provided a rate base number different from Staff's estimate.

After the record was reopened, the parties took a closer look at those invoices that could be obtained and based on this review Staff updated its estimate of the net book value. Staff's updated net book value as of March 31, 2019, was \$81,462 (\$21,753 for water rate base and \$59,709 for wastewater rate base). (Ex. 800, Bolin NBV Dir., p. 4). Thus, the parties all agree there is about \$20,000 more in net book value agreed to today than the amounts presented to the Commission in the base case. As a result, the difference between Confluence Rivers' purchase price and the net book value assumed today is actually smaller than what was assumed at the time of the base case.

The identified net book value is neither a detriment unto itself, nor supports any finding of detriment related to the proposed transaction. First, net book value does not change as the result of a transfer of ownership. Thus, the number itself cannot be a detriment associated with the proposed transaction. (Ex. 800, Bolin NBV Dir., p. 3; Tr. 405 (Bolin)). Second, Confluence

¹ That is especially true in this case where no rate base for ratemaking purposes has been established by the Commission for the Port Perry since 2002. (Tr. 163, Bolin; Tr. 71, Cox).

Rivers has stated it is not seeking an acquisition premium in this case and has formally waived any opportunity to recover any acquisition premium in subsequent rate proceedings related to the Port Perry assets. (Ex. 600, Cox NBV Reb., p. 4, Sch. JC-2; Ex. 800, Bolin NBV Dir., pp. 5-6). This waiver was memorialized in a March 4, 2020 pleading. (*Id.*)

Staff witness Bolin is not familiar with any situation where a utility that waived the ability to seek recovery of an acquisition premium was later allowed to recover a premium and is, in fact, not familiar with any situation where the Commission has granted a water or sewer utility recovery of acquisition premium in rates. (Tr. 406 (Bolin)). If there is no recovery of acquisition premium in rates, the size of the difference between the purchase price and net book value does not matter. (*Id.*). Thus, any premium paid by Confluence Rivers will not result in a detriment to the public interest because Confluence Rivers will not recover that premium in customer rates. (Ex. 800, Bolin NBV Dir., pp. 5-6).

Lastly, Confluence Rivers will be able to provide safe and reliable water and sewer service to the Lake Perry community without recovery of any acquisition premium resulting from this transaction. The Central States Water Resources (“CSWR”) family of companies currently provide water or wastewater service to over 35,000 connections serving more than 100,000 people across four states. (Ex. 600, Cox NBV Reb., p. 5; Ex. 602; Tr. 395 (Cox)). CSWR and its utility operating affiliates have approximately \$63 million of total capital investments in their 172 water and sewer systems. (*Id.*; Tr. 396 (Cox)). That investment includes approximately \$4.6 million associated with Confluence Rivers’ existing 9 water and 9 sewer systems. (Exh. 1, Cox Dir., p. 4; Ex. 602). Confluence Rivers currently serves approximately 630 sewer customers and 540 water customers. (Ex. 602).

As the Commission has recognized in previous cases, Confluence Rivers has the technical, managerial, and financial resources necessary to own and operate water and sewer systems like the Port Perry systems the Company proposes to acquire and to otherwise provide safe and adequate service on a going forward basis. Confluence Rivers will be able to provide safe and reliable water and sewerage service to the Port Perry community without recovery of any acquisition premium as a result of this transaction. Consequently, any amount paid by Confluence Rivers in excess of the net book value of the Port Perry assets will not result in a detriment to the public interest because Confluence Rivers will not recover that amount in customer rates. (Ex. 600, Cox NBV Reb., p. 5).

CONCLUSION

For the reasons stated herein, and in Confluence Rivers previously filed Initial Brief and Reply Brief, the Commission should find that Confluence Rivers' acquisition of the Port Perry water and wastewater assets and certificates of convenience and necessity is not detrimental to the public interest and approve the transaction.

WHEREFORE, Confluence Rivers respectfully submits its *Initial Brief As To Net Book Value* for consideration of the Commission.

Respectfully submitted,



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CERTIFICATE OF SERVICE

The undersigned certifies that a true and correct copy of the foregoing document was sent by electronic mail, on June 2, 2020, to the following:

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