

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

In the Matter of the Application of)
Osage Utility Operating Company,)
Inc. to Acquire Certain Water)
and Sewer Assets and for a Certificate)
Of Convenience and Necessity)
Case No. WA-2019-0185

STATEMENT OF POSITION

COMES NOW Osage Utility Operating Company, Inc. (“OUOC” or “Company”), and, as its *Statement of Position*, concerning the issues contained in the *List of Issues*, *Order of Witnesses*, *Order of Cross-Examination* and *Order of Opening Statements* filed on September 9, 2019, as modified by the *Order Bifurcating Hearing, Excusing Parties, and Directing Filing of Revised Staff Recommendation* issued September 11, 2019, respectfully states as follows to the Missouri Public Service Commission (“Commission”):

OUOC QUALIFICATIONS

OUOC is an affiliate of Central States Water Resources, Inc. (“CSWR”). The following CSWR affiliates are public utilities authorized to provide water and sewer service in Missouri subject to the regulation of the Commission: Hillcrest Utility Operating Company, Inc., Elm Hills Utility Operating Company, Inc., Raccoon Creek Utility Operating Company, Inc., Indian Hills utility Operating Company, Inc., and Confluence Rivers Utility Operating Company, Inc.

CSWR has purchased 22 wastewater treatment plants with associated sewer pumping stations, gravity force mains, and gravity conveyance lines. In Missouri,

CSWR-affiliated companies have designed, permitted, and completed construction, with MDNR approval, of approximately \$5.1 million of sanitary sewer investments since March of 2015.

On the drinking water side of the business, CSWR-affiliated companies have purchased 13 drinking water systems in Missouri and Arkansas. In Missouri, CSWR-affiliated companies have designed, permitted, and completed construction, with MDNR approval, of approximately \$4.1 million of investments in drinking water systems since March 2015.

CSWR has customer service systems at each Missouri utility it currently operates that provide benefits to the customers and comply with the Commission's Chapter 13 rules. This includes 24-hour emergency service phone lines for potential service issues, on-call emergency service contractor personnel, implementation of a computerized maintenance management system for wastewater and drinking water utility assets, real time remote monitoring to ensure service stability, customer dissemination of MDNR drinking water testing information, on-line bill-pay options, up-to-date website bulletins about current service status, and service initiation or discontinuance procedures.

CSWR has experience in the design and operation of water and sewer systems. OUOC intends to utilize a contract operator for plant operations, utilizing the services of appropriately qualified and licensed utility system operators (for water and for sewer).

OUOC has been able to attract investment capital to construct and maintain facilities necessary to provide safe and reliable water and wastewater service and is willing and able to invest the capital necessary to bring the water and wastewater

systems at issue in this case up to standard and maintain compliance with applicable MDNR regulations.

In each of their previous applications, the Commission has determined CSWR-affiliated companies have the technical, managerial, and financial capability to own and operate water and wastewater systems in Missouri. OUOC, another CSWR-affiliated company, similarly has the technical, managerial, and financial capability to own and operate the systems and provide safe and adequate service for the customers.

Cox Direct, p. 1-10;
Cox Surrebuttal, p. 8-9.

I. Public Interest

a. Would the sale of Osage Water Company's certificates of convenience and necessity and its water and sewer assets to Osage Utility Operating Company be detrimental to the public interest?

OUOC Position: OUOC's acquisition of the Osage Water Company assets will not be detrimental to the public interest.

Osage Water Company has been in receivership, followed by a federal bankruptcy proceeding for approximately fourteen (14) years. When Osage Water Company was placed into receivership on October 21, 2005, the Receiver was directed to liquidate Osage Water Company's assets as quickly as practicable on terms that protect the interests of Osage Water Company's customers. The Receiver was unable to liquidate the assets.

Subsequently, in August of 2017, the Circuit Court authorized the Receiver to file an action in Federal Bankruptcy Court. On August 26, 2018, the Trustee filed a motion with the Court seeking an order authorizing her to sell substantially all Osage Water

Company's assets pursuant to the bid procedures attached to the sale motion. On October 24, 2018, an auction was conducted and OUOC was the successful bidder for the assets of Osage Water Company. On November 14, 2018, the Bankruptcy Court issued an Order approving the Sale of Osage Water Company's assets, wherein the Court approved CSWR as a successful bidder for the assets set forth in the executed asset purchase agreement by and among CSWR and the Trustee.

OUOC's acquisition of the identified assets is not only "not detrimental" to the public interest/status quo, it is a benefit to the systems, customers and public interest as compared to the status quo. As described above, OUOC brings proven experience in the rehabilitation, operation, management, and investment in small water and sewer facilities to systems that have been essentially "treading water" for over 14 years.

OUOC seeks to provide service after closing of the proposed transaction under the same water and sewer tariffs currently applicable to the Osage Water Company service area and charge the same rates currently applicable to the Osage Water Company service area. Neither the rates nor the tariff provisions may be changed without approval of the Commission.

OUOC's acquisition of the Osage Water Company utility assets and Certificates of Convenience and Necessity should be approved by the Commission subject to the conditions proposed by the Staff of the Commission.

Cox Direct, p. 1-20, 22-24, 26-28;

Cox Surrebuttal, p. 8-9, 10-13;

Thomas Direct, p. 1-23, 27-28;

Thomas Surrebuttal, p. 1-25.

II. Acquisition Premium

a. Should the Commission approve an acquisition premium for the acquisition of the Osage Water Company and Reflections Systems under 20 CSR 4240-10.085?

OUOC Position: OUOC requests a debt acquisition adjustment equal to the difference between the total purchase price and the net original cost for the Osage Water Company.¹

Osage Water Company is a nonviable utility within the meaning of Commission Rule 4 CSR 240-10.085(1)(C). Osage Water Company has filed bankruptcy and the Trustee is liquidating the utility's assets. As such, Osage Water Company is not expected to furnish and maintain safe and adequate service and facilities in the future. The purchase agreement is the result of arm's length transaction between the parties, under supervision of the United States Bankruptcy Court and the terms are fair and reasonable given the systems' current conditions.

OUOC is a viable utility and will not be materially impaired by the acquisition of these systems. OUOC and CSWR have the resources to rehabilitate and maintain the systems it proposes to acquire, as well as the managerial, technical, and financial capabilities to safely and adequately operate the systems going forward.

The acquisition of all the Osage Water Company utility systems, all requiring some level of investment in improvements, is unlikely to occur without the probability of obtaining an acquisition adjustment. If the Commission decides not to award the incentive requested, OUOC will need to reevaluate its risk in taking on numerous failing

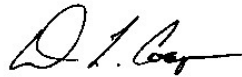
¹ OUOC had previously requested a rate of return premium associated with these acquisitions. However, it dropped that request with its filing of surrebuttal testimony. Cox Surrebuttal, p. 8.

systems to determine how it will move forward.

Cox Direct, p. 24-26;
Cox Surrebuttal, p. 2-8.

WHEREFORE, OUOC respectfully submits this *Statement of Position* for the Commission's consideration.

Respectfully submitted,



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**ATTORNEYS FOR OSAGE
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CERTIFICATE OF SERVICE

I certify that a true and correct copy of the foregoing was served electronically on all parties of record herein on this 12th day of September, 2019.