

**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) **File No. WA-2019-0299**
Acquire Certain Water and Sewer Assets and for a)
Certificate of Convenience and Necessity)

**STAFF REPORT REGARDING THE NET BOOK VALUE
OF THE SUBJECT UTILITY ASSETS BEING PURCHASED**

COMES NOW the Staff of the Missouri Public Service Commission, through counsel, and submits its *Report Regarding the Net Book Value of the Subject Utility Assets Being Purchased*.

1. On February 13, 2020, following a discussion at its Agenda Meeting held that same day, the Commission issued its *Order Setting Procedural Conference* stating that it had determined it wanted information regarding the net book value of the subject utility assets being purchased, and re-opening the evidentiary record to do so.

2. The parties met at a procedural conference on March 2, 2020. On March 17, 2020, Staff, the Office of Public Counsel, and the Lake Perry Lot Owners Association filed a proposed procedural schedule setting March 24, 2020, as the filing date for a Staff Report regarding the net book value of the subject utility assets being purchased. Confluence River Utilities Operating Company, Inc. did not join in this pleading.

3. On March 24, 2020, the Commission issued its *Order Setting Procedural Schedule*, setting a filing date for Staff's Report of the same day, March 24, 2020.

WHEREFORE, Staff submits this *Staff Report Regarding the Net Book Value of the Subject Utility Assets Being Purchased* for the Commission's information and consideration.

Respectfully submitted,

/s/ Karen E. Bretz

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CERTIFICATE OF SERVICE

I hereby certify that copies of the foregoing have been electronically mailed to all parties and/or counsel of record on this 24th day of March, 2020.

/s/ Karen E. Bretz

MEMORANDUM

TO: Missouri Public Service Commission
Official Case File No. WA-2019-0299

FROM: Kimberly Bolin – Auditing Department

/s/ Kimberly Bolin 3/24/2020
Case Manager Date

/s/ Karen Bretz 3/24/2020
Staff Counsel Date

SUBJECT: Staff's Rate Base Valuation

DATE: March 24, 2020

EXECUTIVE SUMMARY

On March 29, 2019, Confluence Rivers Utility Operating Company, Inc. (Confluence) filed an Application and Motion for Waiver (Application) with the Missouri Public Service Commission (Commission) creating two dockets, Case Nos. WA-2019-0299 and SA-2019-0300. In the Application, Confluence seeks to acquire water and sewer utility assets presently owned and operated by Port Perry Service Company (Port Perry). Along with the acquisition of assets, Confluence requests to acquire the Certificates of Convenience and Necessity (CCNs) presently held by PPSC to provide water and sewer service.

On April 15, 2019, the Commission consolidated the two dockets, designated Case No. WA-2019-0299 as the lead case, and granted intervention to the Lake Perry Lot Owners' Association (the Association). An evidentiary hearing was held in this matter on October 7-8, 2019.

On February 13, 2020, the Commission issued its Order Setting Procedural Conference requesting information regarding the net book value of the subject utility assets being purchased, and reopening the evidentiary record.

On March 24, 2020, the Commission issued its Order Setting Procedural Schedule, setting a filing date of March 24, 2020 for this report concerning its further investigation into the net book value of the Port Perry assets.

RATE BASE VALUATION

To determine rate base for Port Perry Service Company the Auditing Department reviewed information provided by Confluence Rivers Utility Operating Company in response to Staff's data requests and Port Perry annual report information. Staff's beginning balance for its updated rate base determination was based on year ending information contained in Port Perry's 2010 annual report, matching its original analysis in this case. In its original analysis Staff used the 2010 annual report since it was the first annual report after Port Perry's last rate increase request. Staff did not use any annual reports after the year 2010 going forward as Confluence was able to produce invoices for work performed from 2011 forward.

Staff notes that it erred in its Official Case File Memorandum by stating that Staff's starting point for determining rate base was an analysis of the actual rate base used in Port Perry's most recent rate case. The last rate increase Port Perry requested was Case No. SR-2009-0298/WR-2009-0299. Port Perry withdrew this request before Staff made a rate base determination.

Staff updated its calculation of Port Perry's rate base by reviewing Company invoices provided in response to Staff Data Request No. 18. Staff reviewed each invoice from Port Perry and determined if the invoice was for a capital improvement or for an expense. Staff also reviewed each invoice to determine if the invoice was for a new customer tap on, and credited the contributions in aid of construction (CIAC) by the same amount. CIAC represents ratepayer funded capital. Per Port Perry's tariffs, Port Perry is to collect from a new customer connecting to the water and sewer system a CIAC (connection) charge. This amount offsets rate base since the ratepayer has funded the capital addition, not the utility, and thus the utility should not earn a return on the addition. Over time, as the plant associated with the CIAC depreciates, the amount of CIAC that offsets rate base is reduced through an amortization.

In Staff's Official Case File Memorandum filed on May 31, 2019, in this case, Staff determined the rate base book value as of March 31, 2019, to be approximately \$58,133 (\$491 for water rate base and \$57,642 for sewer rate base). After reviewing invoices provided to Staff in March 2020, and updating the accumulated depreciation reserve and the CIAC amortization balance, Staff's updated rate base book value as of March 31, 2019, is \$82,755 (\$22,811 for water rate base and \$59,944 for sewer rate base). Staff also updated rate base book value as of December 31, 2019, which is \$79,262 (\$21,169 for water rate base and \$58,093 for sewer rate base). Attached as Schedule KKB-1 is a table which shows plant, accumulated depreciation reserve, CIAC and CIAC amortization for each year beginning December 31, 2010.

Based on information provided by Confluence in this proceeding, Confluence will not be seeking to recoup any acquisition premium from ratepayers as a result of this proposed transaction. It is Staff's position that Confluence has the financial capability to purchase the Port Perry system for the agreed purchase price, and the fact that Confluence will not recoup any premium paid will not result in a detriment to the public interest. Should the Commission approve Confluence's acquisition of the Port Perry system, Staff will necessarily conduct an analysis of Port Perry's rate base as part of Confluence's next rate case.

“Under penalty of perjury, I declare that the foregoing is true and correct to the best of my knowledge and belief.”

Kimberly Bolin
Signature of Declarant

Rate Base for Port Perry Service Company
Case No. WA-2019-0299

12/31/2010 12/31/2011 12/31/2012 12/31/2013 12/31/2014 12/31/2015 12/31/2016 12/31/2017 12/31/2018 3/31/2019 12/31/2019

Water																								
Plant in Service	\$	248,095	\$	249,675	\$	252,309	\$	255,689	\$	264,642	\$	267,070	\$	270,525	\$	270,525	\$	270,525	\$	270,525	\$	270,525		
Accumulated Depreciation Reserve	\$	194,824	\$	199,428	\$	203,253	\$	207,139	\$	200,266	\$	205,584	\$	207,436	\$	212,848	\$	218,260	\$	219,613	\$	223,604		
CIAC	\$	143,639	\$	144,835	\$	146,103	\$	148,846	\$	152,150	\$	153,149	\$	156,604	\$	156,604	\$	156,604	\$	156,604	\$	156,604		
Amortization of CIAC	\$	103,548	\$	106,435	\$	109,342	\$	112,299	\$	115,291	\$	118,341	\$	121,454	\$	124,587	\$	127,720	\$	128,503	\$	130,852		
Net Plant in Service	\$	13,180	\$	11,847	\$	12,295	\$	12,003	\$	27,517	\$	26,678	\$	27,939	\$	25,660	\$	23,381	\$	22,811	\$	21,169		
Sewer																								
Plant in Service	\$	267,346	\$	268,299	\$	271,048	\$	272,077	\$	276,137	\$	276,982	\$	278,719	\$	278,719	\$	278,719	\$	278,719	\$	278,719	\$	278,719
Accumulated Depreciation Reserve	\$	104,807	\$	110,170	\$	115,611	\$	121,125	\$	126,749	\$	132,483	\$	138,242	\$	144,018	\$	149,795	\$	151,239	\$	155,571		
CIAC	\$	152,316	\$	153,269	\$	154,122	\$	155,151	\$	157,720	\$	158,565	\$	159,562	\$	159,562	\$	159,562	\$	159,562	\$	159,562		
Amortization of CIAC	\$	65,492	\$	68,556	\$	71,650	\$	74,794	\$	78,007	\$	81,289	\$	84,586	\$	87,893	\$	91,200	\$	92,026	\$	94,507		
Net Plant in Service	\$	75,715	\$	73,416	\$	72,965	\$	70,595	\$	69,675	\$	67,223	\$	65,501	\$	63,032	\$	60,562	\$	59,944	\$	58,093		
Total Rate Base	\$	88,895	\$	85,263	\$	85,260	\$	82,598	\$	97,192	\$	93,901	\$	93,440	\$	88,692	\$	83,943	\$	82,755	\$	79,262		