

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

In the Matter of the Application of U.S.)	
Water Company to Sell its Water System)	WM-2011-0030
Located in Lafayette County to the City of)	
Lexington, Missouri.)	

STAFF RECOMMENDATION

COMES NOW the Staff of the Missouri Public Service Commission (“Staff”), by and through its attorney, and submits to the Missouri Public Service Commission (“Commission”) its *Staff Recommendation* as follows:

1. On August 3, 2010, U.S. Water Company (“Company”) filed an *Application* with the Commission seeking approval to sell and transfer its water system assets located in Lafayette County to the City of Lexington, Missouri.

2. On August 6, 2010, the Commission filed its *Order Directing Notice and Filing*. The deadline for intervention was set for September 7, 2010. Staff was ordered to file its recommendation concerning the application no later than September 14, 2010.

3. Staff has reviewed and investigated the Company’s *Application* and incorporates herein as Attachment A the attached Memorandum prepared by James A. Merciel, Jr., P.E.

4. Staff recommends that the Commission approve U.S. Water Company’s *Application* for the sale of the Company’s assets to the City of Lexington.

5. Staff recommends the Commission order that the parties are required to submit notice to the Commission regarding evidence of transfer of assets to the City of Lexington within five (5) business days after the transfer is made.

6. Further, Staff recommends that after notice of asset transfer has been received, the Commission may cancel both the Company's Certificate of Convenience and Necessity, and its associated water tariff (JW-2002-0259).

WHEREFORE, Staff respectfully requests that the Commission grant U.S. Water Company the authority to sell and transfer all of its water utility assets to the City of Lexington as requested in the *Application*; Staff also respectfully requests the Commission grants all other recommendations in Exhibit A.

Respectfully submitted,

/s/ Rachel M. Lewis

Rachel M. Lewis
Deputy General Counsel
Missouri Bar No. 56073

Attorney for the
Staff of the Missouri
Public Service Commission
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Certificate of Service

I hereby certify that copies of the foregoing have been mailed or hand-delivered, transmitted by facsimile or e-mailed to all counsel of record on this 13th day of September, 2010.

/s/ Rachel M. Lewis

STAFF'S INVESTIGATION

The Company's current approved rates for residential water service became effective on October 1, 2000. The rates are \$10.35 for the first 700 gallons, plus \$0.3493 per 100 gallons thereafter. A monthly water bill for a residential customer using 5,000 gallons is \$27.82. Over the years, the Company has undertaken major repairs, modifications and rehabilitation projects that have been necessary due to the age of the water system. Also due primarily to the age and old design of the water system, the Company has experienced challenges in meeting modern drinking water standards, reliability, and workplace safety standards. Except for a current DNR violation related to filter backwash discharge, which is disclosed in the Agreement for transfer of assets, there are no current drinking water violations or plant performance shortcomings. However, it appears that everyone, including the City, realizes that there will be an ongoing need for upgrades, replacements and reconstruction of treatment plant components, storage facilities, and distribution pipelines to address system reliability and performance. For this reason, it will likely be necessary for the City to adjust rates for water service as it spends capital funds on such projects.

The City, as a municipal government entity, has statutory authority to operate as a water utility, and as such will not be subject to regulation by the Public Service Commission. The City operates a municipal sewer system.

USW provided evidence in its application that citizens voted in favor of funding for the city to acquire the water system, and that there has been publicity about it. The annual local tax revenue impact, according to information provided to the Staff by the Company, will be approximately \$19,695 including real estate and personal property tax related to property and items used for utility service.

STAFF'S FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS

The Staff believes, based on its knowledge of the water system and on information filed in the Company's *Application* that the City of Lexington will be capable of operating the water system, and is holding itself out to undertake improvements and upgrades that will be needed in the future. Thus, approval of this transfer of assets as requested is not detrimental to the public interest.

The Staff recommends that the Commission approve the transfer as proposed, that USW notify the Commission of closing of the transfer of assets within five (5) business days after the activity occurs, upon which time the Commission may cancel the Certificate of Convenience and Necessity held by USW, and cancel the Schedule of Rates, Rules and Regulations (tariff) on file for USW.

USW has filed annual reports, as shown on the Commission's EFIS records for the calendar years 2002 through 2009, and is current on annual assessment amounts from fiscal year 2006 through the first quarter of fiscal year 2011, as posted by the Commission's Administration Division on its intranet site.

Approval of this transfer of assets will have no impact upon any other matter pending before the Commission.

SUMMARY

The Staff recommends the Commission issue an order that:

1. Approves USW's request to sell and to transfer its water utility assets to Lexington;
2. Requires USW to notify the Commission within five (5) business days after the assets have been transferred to Lexington; and,
3. After receipt of such notice, cancels the Certificate of Convenience and Necessity and tariff on file for USW.

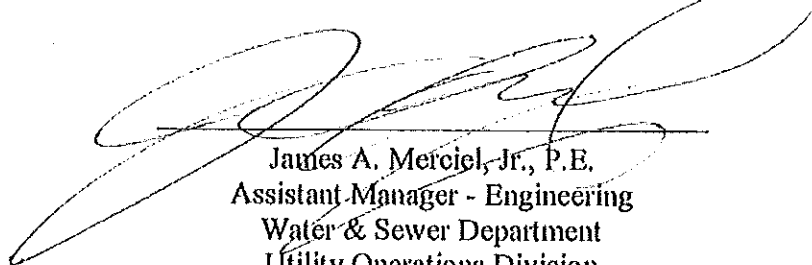
BEFORE THE PUBLIC SERVICE COMMISSION OF THE STATE OF MISSOURI

AFFIDAVIT OF JAMES A. MERCIEL, JR.

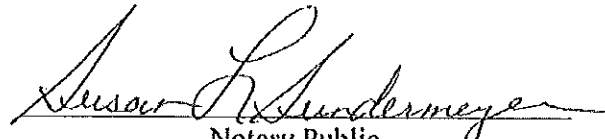
STATE OF MISSOURI)
) ss
COUNTY OF COLE)

Case No. WM-2011-0030

James A. Merciel, Jr., of lawful age, on his oath states: (1) that he is the Assistant Manager – Engineering in the Water and Sewer Department of the Missouri Public Service Commission; (2) that he participated in the preparation of the following *Memorandum*; (3) that he has knowledge of the matters set forth in the following *Memorandum*; and (4) that the matters set forth in the following *Memorandum*; are true and correct to the best of his knowledge, information and belief.


James A. Merciel, Jr., P.E.
Assistant Manager - Engineering
Water & Sewer Department
Utility Operations Division

Subscribed and sworn to before me this 13th day of September 2010.


Notary Public



SUSAN L. SUNDERMEYER
My Commission Expires
September 21, 2010
Callaway County
Commission #06942086