

WHEREFORE, Staff respectfully submits this *Staff Recommendation* for the Commission's information and consideration and hereby requests the Commission approve the *Joint Application* as stated in Appendix A.

Respectfully submitted,

/s/ Kevin A. Thompson
KEVIN A. THOMPSON
Missouri Bar Number 36288
Chief Staff Counsel

Missouri Public Service Commission
P.O. Box 360
Jefferson City, MO 65102
573-751-6514 (Voice)
573-526-6969 (Fax)
kevin.thompson@psc.mo.gov

Attorney for Staff

CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing was served, either electronically or by First Class United States Mail, postage prepaid, on this **1st day of February, 2013**, to the parties of record as set out on the official Service List maintained by the Data Center of the Missouri Public Service Commission for this case, a copy of which is attached hereto and incorporated herein by reference.

s/ Kevin A. Thompson

MEMORANDUM

TO: Missouri Public Service Commission Official Case File
File No. WM-2013-0329
Bilyeu Water Company, LLC and Bilyeu Ridge Water Company, LLC
Joint Application for Authority to Sell and Transfer Utility Assets

FROM: Jim Merciel – Water & Sewer Unit
Karen Lyons-Auditing Unit
Art Rice – Engineering and Management Services Unit

/s/ Jim Busch
Water and Sewer Unit

2/1/2013
Date

/s/ Kevin Thompson
Staff Counsel's Office

2/1/2013
Date

SUBJECT: Staff Recommendation Regarding Approval of Sale of Utility Assets

DATE: February 1, 2013

PROCEDURAL BACKGROUND

On December 7, 2012, Bilyeu Water Company, LLC (Bilyeu or Company) and Bilyeu Ridge Water Company, LLC (BRW) (jointly referred to hereafter as the Applicants) filed a *Joint Application* in which they seek approval of the Missouri Public Service Commission (Commission) to sell and transfer water utility assets owned and operated by Bilyeu to BRW. The Applicants submitted an Asset Purchase Agreement between Bilyeu and Ozark International, Inc. (Exhibit G in the Joint Application). In Exhibit H to the *Joint Application*, Ozark International, Inc. assigned the Asset Purchase Agreement to BRW by an Assignment and Acceptance of Asset Purchase Agreement.

On December 11, 2012, the Commission issued its Order Directing Notice and Setting Date for Submission of Intervention Requests, in which the Commission set December 31, 2012 as the date by which parties should apply to intervene in this case. No parties have sought to intervene.

On January 2, 2013, the Commission issued its Order Directing Filing, in which it directed Staff to file a recommendation or a status report stating when a recommendation would be filed, by February 1, 2013. This Memorandum complies with the Commission's order.

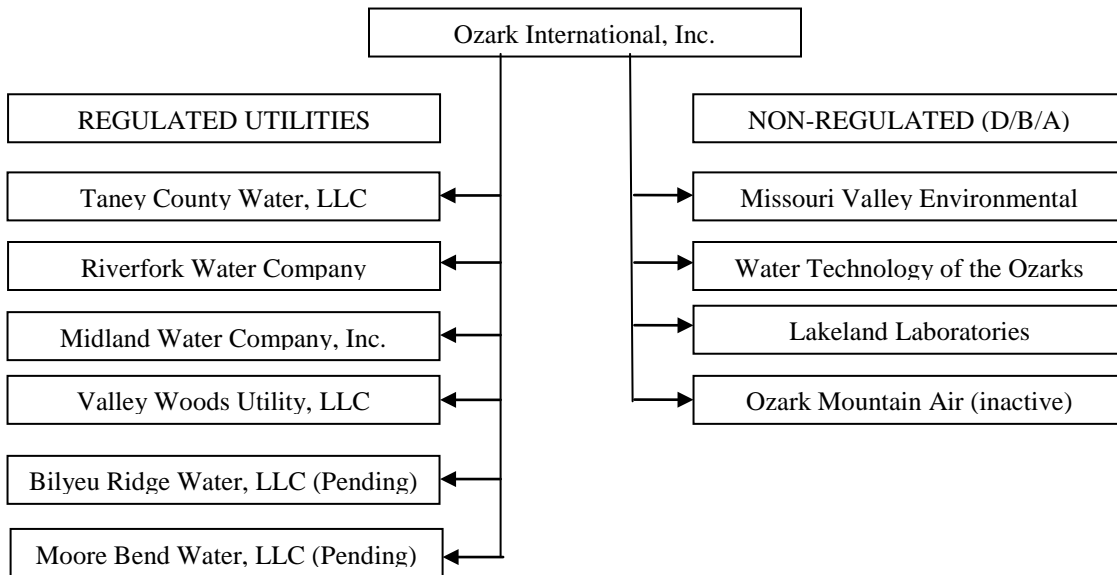
BACKGROUND OF BILYEU AND BRW

Bilyeu is a regulated water utility. It obtained a Certificate of Convenience and Necessity (Certificate) to provide water service from the Commission in 2007 in Case No. WA-2007-0270.

APPENDIX A

The utility assets are located within an area known as Bilyeu Ridge Hills subdivision in Christian County, near Highlandville, Missouri. This subdivision was initially developed in 1992 but did not receive its certificate until 2007. Bilyeu serves approximately fifty-seven (57) water customers utilizing a single well, a series of small storage tanks, high-service pumps that send the water to the distribution system and maintain system pressure, and meters for each customer.

BRW is a newly created entity that is presently not providing any utility service. BRW seeks to acquire utility assets and if this *Joint Application* is approved by the Commission, BRW will need a Certificate of Convenience and Necessity for authority to operate as a water utility. BRW is wholly owned by Ozark International, Inc (Ozark). Ozark also wholly owns four other Commission-regulated water utilities: Riverfork Water Company (Riverfork), Midland Water Company, Inc. (Midland), Taney County Water, LLC (Taney County), and Valley Woods Utility, LLC (Valley Woods). Ozark also owns another entity, Moore Bend Water Utility, LLC, which is an entity currently seeking to acquire the assets of a regulated water utility in another pending case before the Commission, Case No. WM-2012-0335. In addition, Ozark uses other fictitious names to conduct business that is not regulated and involves laboratory work and contract utility operations. Revenue handled by Ozark includes revenue associated with the regulated utilities and revenue associated with its non-regulated entities. Ozark's ownership is described in the table below:



STAFF'S INVESTIGATION AND RATE BASE OVERVIEW

Staff has reviewed the *Joint Application* and supporting documents and has reviewed financial information for Bilyeu and BRW. During its investigation, Staff reviewed the annual reports that were filed with the Commission from 2007 to 2011. Staff also reviewed invoices provided by Bilyeu ranging in date from 1993 through December 2012. In addition, Staff made a site visit and toured the facilities, participated in discussions with Company personnel, reviewed

documents supplied by Bilyeu and reviewed Staff workpapers from the certificate case, Case No. WA-2007-0270, to determine an appropriate level of plant-in-service, accumulated depreciation reserve, and contributions in aid of construction (CIAC). The rate base valuation in this case was determined as of December 31, 2012.

Plant-in-Service and Depreciation Reserves

Staff evaluated the plant-in-service and depreciation reserve beginning when the plant was placed in service in 1992. During the period of 1992 through 1996, Bilyeu developed three (3) phases of its subdivision. The plant for these phases included the well, well house, water lines, four (4) pressure tanks, two (2) storage tanks, a submersible pump, two (2) booster pumps and meters. In 1998, Bilyeu incurred costs for a line extension that currently serves six (6) customers. In addition to the line extension and the original costs of the water system, Bilyeu replaced the submersible pump head in 1997, added two (2) additional pressure tanks in 2006, replaced the submersible pump in 2007, and replaced both booster pumps, one in 2005 and the other in 2008.

Other Changes affecting the Utility Rate Base

During Bilyeu's certificate case in 2007, Staff determined the Company incurred costs associated with the certificate case, and Staff recommended a five (5) year amortization for these costs with rate base treatment for the unamortized balance. On June 5, 2005, the Commission approved Staff's recommendation in its Order Granting Certificate of Public Convenience and Necessity. The amortization period for these costs ended in 2012. Consequently, the costs are not included in Staff's rate base calculation in this case. In addition, Bilyeu currently has costs booked in Uniform System of Accounts (USOA) account 372-Office Furniture and Equipment. Based on discussion with Company personnel, it was determined these costs will not be transferred, as part of the agreement, to BRW.

Additional Matters

The well house and storage tanks are situated on land located on Lots 16 and 17 of the subdivision. During discussions with BRW and Bilyeu personnel, Staff found the land is not owned by the utility's current owners. According to the Hogan Land Title Company, a 25X25 tract is currently owned by the owners of lot 16 and a 50X50 tract on lot 17 is owned by a relative of Bilyeu's current owner. Staff understands that the current owners of the land have agreed to sign over the rights of the land to the current owner of BRW upon Commission approval of the transfer of assets. Staff encourages this transfer and would like to be kept informed on the progress of this transfer. Staff further reserves the right to follow-up on said transfer as part of this case or after the Commission has issued an order in this matter.

Depreciation

The Engineering and Management Services Unit (EMSU) Staff performed a complete review of the Company's depreciation rates, plant-in-service, and the accumulated depreciation reserves for Bilyeu. Staff was unable to locate an ordered Depreciation Rate Schedule for Bilyeu. As a result, the depreciation rates used by Staff to compute accumulated depreciation reserves and CIAC amortization reserves are derived from work papers that Staff found in documentation used to figure customer rates in Case No. WA-2007-0270. A Depreciation Rate Schedule for BRW is included as Attachment A to this Memorandum. The depreciation rates shown in this attachment are the rates Staff used in calculating the recommended rate base in this case, as discussed above.

The depreciation rates shown in Attachment A have not been revised to reflect current accrued depreciation reserves for Bilyeu. One of the plant accounts, account 346 (Customer Meters), remains at a 10% depreciation rate which has become excessive for this account. Account 346 is approximately 78% over accrued, and contains the cost of some plant items that are normally recorded in account 347 (Meter Installations - meter pits). Staff proposes to adopt the rates that were used for calculation of the current Bilyeu rates, since this current sale case is not accompanied with any proposed change in customer rates.

Contributions in Aid of Construction

Contributions in Aid of Construction (CIAC) represent plant or capital contributed by the ratepayer or developer for utility use. Staff analyzed the aggregate depreciation rates to update CIAC and CIAC Depreciation Reserves for the period of 1992 through 2012. Through discussions with Company personnel, Staff determined that the plant placed in service during the period of 1992 through 1996 was fully contributed through the sale of the subdivision lots. In addition, costs associated with water connections are also contributed plant and as such, Staff reflected these costs in its CIAC calculation.

Summary of Staff's Calculated Rate Base and Related Acquisition Premium

In light of the above explanations, Staff was able to calculate a rate base balance as of December 31, 2012, for the water system involved in the *Joint Application*. Staff calculated the Water Rate Base as follows: Water Plant-In-Service balance of \$127,712; Accumulated Depreciated Reserve balance of \$63,247, resulting in a Net Plant-in-Service balance of \$64,465; CIAC balance of \$110,633; CIAC Depreciation offset balance of \$65,323, resulting in a net CIAC of \$45,309. As a result, the Staff's calculation of rate base for the water treatment plant is \$19,156, as of December 31, 2012.

The following table identifies Staff's Rate Base valuations:

Bilyeu Water Company Case No. WM-2013-0329		
	Water Rate Base	
Plant in Service	\$127,712	
Less: Accumulated Depreciation	63,247	
Net Plant (Add to Rate Base)		\$64,465
CIAC	\$110,633	
Less: CIAC Depreciation Offset	65,323	
Net CIAC (Subtract from Net Plant)		\$45,309
Bilyeu Rate Base		\$19,156

In the *Joint Application*, the Applicants requested that the full purchase price of the assets be recognized as the rate base of said assets. Based upon Staff's review of the assets, Staff cannot agree to this request because the purchase price of \$30,000 is higher than Staff's rate base valuation of the water system of \$19,156, which is based upon a net original cost valuation approach. Staff routinely advocates against acquisition adjustments, premiums or discounts, being included as part of rate base in small water and sewer cases.

STAFF'S FINDINGS AND CONCLUSIONS

In this case, Staff recommends the sale of water utility assets be approved on the conditions that no acquisition adjustment be reflected in rates, and that the rate base valuation for future rate cases should not include the full purchase price of \$30,000, the treatment discussed above, and BRW's acceptance of all other recommendations enumerated in this Memorandum.

In the *Joint Application*, BRW proposes to adopt the rates that are currently in effect for Bilyeu. Staff recommends that BRW adopt the Schedule of Rates, Rules and Regulations (Tariffs) that are currently on file and approved for Bilyeu for water service by filing a tariff adoption notice, as well as revised index sheets to reflect the existence of the adoption notice, similar to the draft tariff sheets for the water tariff attached to this Memorandum as Attachment B and incorporated herein by reference.

BRW also needs to keep its books and records in accordance with the National Association of Regulatory Utility Commission (NARUC) Uniform System of Accounts (USOA), version 1973 and revised in 1976 for water including, but not limited to, recording in the Company's ledger adjustments for new capital items placed into service, recording the cost of removal and gross salvage of plant items removed from service, and implementing a work order system to track material cost, labor cost, overhead cost, and record cost of removal and gross salvage for all new, replaced or retired plant. BRW also should keep adequate operations records that are compatible with those of Ozark's other operations, such that proper allocations may be made between BRW and Ozark's other operations. Staff will meet with BRW and its representatives to assist with these items, if necessary. Staff concludes that BRW has adequate technical, managerial, and financial capacity to operate the water system presently certificated for Bilyeu, based on its familiarity with the owner of BRW and his existing utility businesses.

OTHER MATTERS

Besides this pending case involving BRW, Ozark has one other case pending before the Commission. Moore Bend Water Utility, LLC (MBW), an entity owned by Ozark, filed a joint application with Moore Bend Water Company, Inc., a regulated water utility, seeking approval to transfer assets in Case No. WM-2012-0314. The case involving MBW will have no impact upon this pending case involving BRW. Likewise, this case involving MBU will have no impact on the case involving BRW.

Staff has reviewed Bilyeu's history of filing of annual reports for the calendar years 2007 through 2011, as posted on the Commission's Electronic Filing and Information System (EFIS), and finds no deficiencies. Bilyeu is current on annual assessments for water operations for fiscal years 2006 through all of Fiscal Year 2013, as posted on the Commission's Intranet site by its Administration Division.

Staff recommends that BRW immediately resume the water meter testing/changeout program, as required by Commission Rule 4 CSR 240-10.030(38). In addition to this activity being required by Commission Rule, in Bilyeu's Certificate case Staff treated water meters as rate base, and included depreciation expense for water meters in rates that the Commission approved, which provides return of investment for this activity on a continual basis. Also, since there is an over-accrual of depreciation in Account 346 as a result of some of the meters being in service longer than the expected life, and as a result of Bilyeu booking certain other plant items in this account, as discussed above in the Depreciation section of this Memorandum, Staff deems it to be extremely important for BRW to continue with this activity immediately after acquisition of the assets.

There are no current violations or issues with the Missouri Department of Natural Resources that need immediate correction, nor other deficiencies with respect to the water system.

STAFF'S RECOMMENDATIONS

1. Staff recommends the Commission approve the sale and transfer of water utility assets. Staff specifically recommends the Commission issue an order that includes the following:
2. Approves the sale and transfer of water utility assets from Bilyeu to BRW;
3. Requires Bilyeu to transfer all books and records of Bilyeu including, but not limited to, purchase orders, invoices, contracts and agreements relating to the Bilyeu operations, drawings and blue prints of the water system, plant records, operations records, and expense records and all customer billing records to BRW upon closing of the assets.
4. Requires BRW to adopt the individual plant-in-service, and depreciation reserve utilized by the Audit Staff valued as of December 31, 2012, for purposes of determining the appropriate rate base in this proceeding as a starting point for plant-in-service, and

depreciation reserve for BRW, to be recorded in the books and records of BRW, and requires BRW to maintain and retain proper plant in service, depreciation reserve, cost of removal, and salvage records on a going forward basis;

5. Requires Ozark to utilize time reporting sheets to ensure utility costs are allocated to all its regulated utilities similar to those discussed with Ozark in the Taney County and Valley Woods acquisitions made in 2012;
6. BRW shall assume full responsibility for payment of the Commission assessment and filing the annual report with the Commission;
7. Orders no recovery of acquisition adjustment or acquisition premium in this case or any future rate case;
8. Requires BRW to notify Staff within five (5) days of the completion of the transfer of the properties upon which the well house and storage tanks are located on land designated as Lots 16 and 17 of the subdivision. This notification is based on the agreement already in place between BRW and the current owners of the land to transfer upon Commission approval of this Application. If the transfer does not occur within thirty (30) days of the effective date of the Commission Order, then BRW will submit progress reports each thirty (30) days explaining the delay and the proposed remedy. This will be required until the transfer is complete
9. Requires BRW to use the schedule of depreciation rates set out in Attachment A to this Memorandum from the date of the transfer forward, until changed by any future order of the Commission;
10. Requires BRW to maintain utility plant records and all customer account records as acquired from Bilyeu, and to keep all books and records, including plant property records, in accordance with the Uniform System of Accounts (USOA) as described in this Memorandum;
11. Requires BRW to file an adoption notice tariff sheet, and revised title page and index sheets, similar to Attachment B, as a 30-day tariff filing, within five (5) days after closing of the assets, and authorizes BRW, upon closing, to provide water service under the existing tariffs of Bilyeu on an interim basis until the effective date of such adoption notice tariff sheets;
12. Requires BRW to continue with meter testing or changeouts immediately after closing of the assets;
13. On the effective date of the tariff sheets from Recommendation No. 11, above, cancels the Certificate granted to Bilyeu for the provision of water service, and grants a Certificate to BRW for the provision of water service for the described service areas; and,

14. Makes no finding that would preclude the Commission from considering the ratemaking treatment to be afforded any matters, including future expenditures by BRW, in any later proceeding.

Attachments: A: Schedule of Depreciation Rates
B: Draft Tariff Sheets

BILYEU RIDGE WATER COMPANY, LLC
SCHEDULE of DEPRECIATION RATES -Attachment A
(WATER Class C&D)
WM-2013-0329

NARUC				
USOA			AVERAGE	
ACCOUNT		DEPRECIATION RATE	SERVICE LIFE (YEARS)	NET SALVAGE
NUMBER	ACCOUNT DESCRIPTION			
	Source of Supply			
311	Structures & Improvements	2.5%	40	
314	Wells & Springs	2.0%	50	
	Pumping Plant			
321	Structures & Improvements	2.5%	40	
325.1	Submersible Pumping Equipment	10.0%	10	
325.2	Booster Pumps & Pressure Tanks	6.7%	15	
	Transmission and Distribution			
342	Distribution Reservoirs & Standpipes	2.5%	40	
343	Transmission & Distribution Mains	2.0%	50	
346.1	Customer Meters, and yokes	10.0%	10	78% Over Accrued
348	Hydrants	2.0%	50	
	General Plant CLASS D			
372	Office Furniture & Equipment	5.0%	20	

The above recommended depreciation rates are based on Staff's review of the Company's operation and records.

Name of Utility: Bilyeu Ridge Water Utility, LLC
Service Area: Unincorporated area in Christian County

Rules Governing Rendering of
Water Service

Adoption Notice

Water system assets were transferred from Bilyeu Water Company, LLC to Bilyeu Ridge Water Company, LLC, with approval granted in Case No. WM-2013-0329. Accordingly, Bilyeu Ridge Water Company, LLC hereby adopts, ratifies, and makes its own in every respect, as if it had originally filed, all tariffs, schedules, rules, notices or other instruments filed by Bilyeu Water Company, LLC and currently on file with and approved by the Public Service Commission, State of Missouri.

* Indicates new rate or text

+ Indicates change

DATE OF ISSUE _____ DATE EFFECTIVE _____
Month Day Year Month Day Year

ISSUED BY Hollis H. “Bert” Brower Manager 786 Croley Blvd., Nixa, MO 65714
name of officer title address

Name of Utility: Bilyeu Ridge Water Utility, LLC
Service Area: Unincorporated area in Christian County

Rules Governing Rendering of
Water Service

Tariff Title Page

BILYEU RIGDGE WATER COMPANY, LLC

**Schedule of Rates, Rules, Regulations
and Conditions of Service Governing the
Provision and Taking of Water Service**

* Indicates new rate or text
+ Indicates change

DATE OF ISSUE _____ DATE EFFECTIVE _____
Month Day Year Month Day Year

ISSUED BY Hollis H. "Bert" Brower Manager 786 Croley Blvd., Nixa, MO 65714
name of officer title address

Name of Utility: Bilyeu Ridge Water Utility, LLC
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5.....	Schedule of Rates																																														
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ISSUED BY Hollis H. "Bert" Brower Manager 786 Croley Blvd., Nixa, MO 65714
name of officer title address

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

Joint Application of Bilyeu Water Co, LLC and)
Bilyeu Ridge Water Company, LLC for) File No. WM-2013-0329
Authority to Sell Assets to Bilyeu Ridge Water)
Company, LLC)

AFFIDAVIT OF JAMES A. MERCIEL, JR., P.E.

STATE OF MISSOURI)
) ss
COUNTY OF COLE)

James A. Merciel, Jr., P.E., of lawful age, on his oath states: (1) that he is the Assistant Manager – Engineering in the Water and Sewer Unit of the Missouri Public Service Commission; (2) that he participated in the preparation of the foregoing *Staff Recommendation*, in memorandum form; (3) that certain information in the *Staff Recommendation* was provided by him; (4) that he has knowledge of matters set forth in the *Staff Recommendation*; and (5) that such matters set forth in the *Staff Recommendation* are true and correct to the best of his knowledge, information and belief.

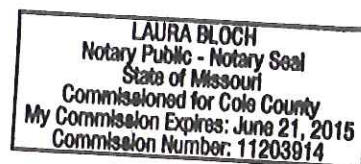


James A. Merciel, Jr., P.E.

Subscribed and sworn to before me this 1st day of February 2013.



Notary Public



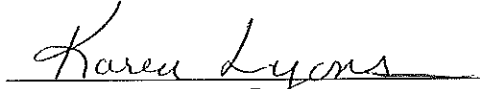
BEFORE THE PUBLIC SERVICE COMMISSION
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Joint Application of Bilyeu Water Co, LLC)
and Bilyeu Ridge Water Company, LLC for) File No. WM-2013-0329
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Water Company, LLC)

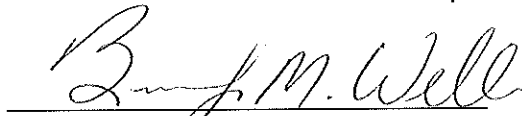
AFFIDAVIT OF KAREN LYONS

STATE OF MISSOURI)
)
COUNTY OF Jackson) ss.

Karen Lyons, of lawful age, on her oath states: that she has participated in the preparation of the foregoing Staff Recommendation in memorandum form, to be presented in the above case; that the information in the Staff Recommendation was developed by her; that she has knowledge of the matters set forth in such Staff Recommendation; and that such matters are true and correct to the best of her knowledge and belief.


Karen Lyons

Subscribed and sworn to before me this 31st day of January 2013.


Notary Public



BEVERLY M. WEBB
My Commission Expires
April 14, 2016
Clay County
Commission #12464070

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

Joint Application of Bilyeu Water Co, LLC)
and Bilyeu Ridge Water Company, LLC for) File No. WM-2013-0329
Authority to Sell Assets to Bilyeu Ridge)
Water Company, LLC)

AFFIDAVIT OF ARTHUR W. RICE, PE

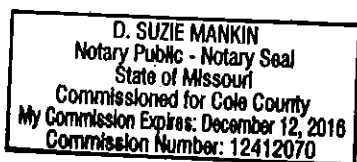
STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

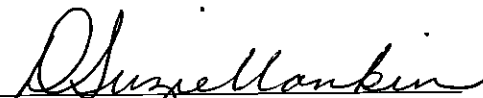
Arthur W. Rice, PE, of lawful age, on his oath states: that he has participated in the preparation of the foregoing Staff Recommendation in memorandum form and Attachment A, to be presented in the above case; that the information in the Staff Recommendation and Attachment A was developed by him; that he has knowledge of the matters set forth in such Staff Recommendation and Attachment A; and that such matters are true and correct to the best of his knowledge and belief.



Arthur W. Rice, PE

Subscribed and sworn to before me this 15th day of February 2013.





Notary Public