

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

In the Matter of the Joint Application of Moore Bend )  
Water Company, Inc. and Moore Bend Water Utility, ) File No.WM-2012-0335  
LLC for Authority of Moore Bend Water Company )  
Inc. to Sell Certain Assets to Moore Bend Water )  
Utility, LLC. )

**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 April 11, 2012, Moore Bend Water Company, Inc. (“Moore Bend” or “Company”) and Moore Bend Water Utility, LLC (“MBU”), filed the above-captioned Joint Application with the Commission.

2. On April 23, 2012, the Commission issued its Order directing Staff to file a status update by May 4, 2012, informing the Commission of a date by which Staff would file a recommendation.

3. On May 4, 2012, Staff notified the Commission it would be able to file a Staff Recommendation or a further Status Report by July 9, 2012. Staff is filing its Staff Recommendation at this time.

4. Staff has reviewed and investigated the *joint Application* and incorporates herein as Appendix A the attached Memorandum prepared by members of Staff.

5. *Staff recommends that the Commission approve the Joint Application* for the sale of the Company’s assets to MBU, subject to the recommendations in the attached Appendix A.

**WHEREFORE**, Staff respectfully submits its recommendation to the Commission and requests that the Commission grant Moore Bend Water Company, Inc., the authority to sell and transfer all of its water utility assets to the Moore Bend Utility, LLC, as requested in the *Joint Application*; Staff also respectfully requests the Commission grants all other recommendations included in Appendix A to this filing and any other relief it deems just.

Respectfully submitted,

/s/ Meghan E. McClowry  
Meghan E. McClowry  
Legal Counsel  
Missouri Bar No. 63070

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

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**CERTIFICATE OF SERVICE**

I hereby certify that copies of the foregoing have been mailed, emailed, sent by facsimile or hand-delivered to all counsel of record this 9th day of July, 2012.

/s/ Meghan E. McClowry

## MEMORANDUM

TO: Missouri Public Service Commission Official Case File  
File No. WM-2012-0335  
Moore Bend Water Company, Inc. and Moore Bend Utility, LLC  
Joint Application for Authority to Sell Certain Assets

FROM: David Spratt – Water & Sewer Unit  
Mark Oligschlaeger – Auditing Unit  
Keith Foster – Auditing Unit  
John Robinett – Engineering and Management Services Unit

/s/ Jim Busch  
Water and Sewer Unit

July 9, 2012  
Date

/s/ Rachel Lewis  
Staff Counsel's Office

July 9, 2012  
Date

SUBJECT: Staff Recommendation Regarding Sale of Assets and Granting of Certificate of Convenience and Necessity

DATE: July 9, 2012

### PROCEDURAL BACKGROUND

On April 11, 2012, Moore Bend Water Company, Inc. (Moore Bend or Company) and Moore Bend Utility, LLC (MBU) (jointly referred to hereafter as the Applicants) filed a *Joint Application* in which they seek approval of the Public Service Commission (Commission) to sell and transfer water utility assets owned and operated by Moore Bend to MBU. MBU submitted its Asset Purchase Agreement (Agreement, Exhibit F to the *Joint Application*) with Ozark International, Inc. on May 1, 2012. Ozark International, Inc. assigned the Agreement to MBU by an Assignment and Acceptance of Asset Purchase Agreement With (sic), (Exhibit G of the *Joint Application*). On April 23, 2012, the Commission issued its *Order Directing Staff to File a Status Update* no later than May 4, 2012. On May 4, 2012, Staff filed a Status Report to comply with the Commission order and informed the Commission that Staff could file a status report or recommendation by July 9, 2012.

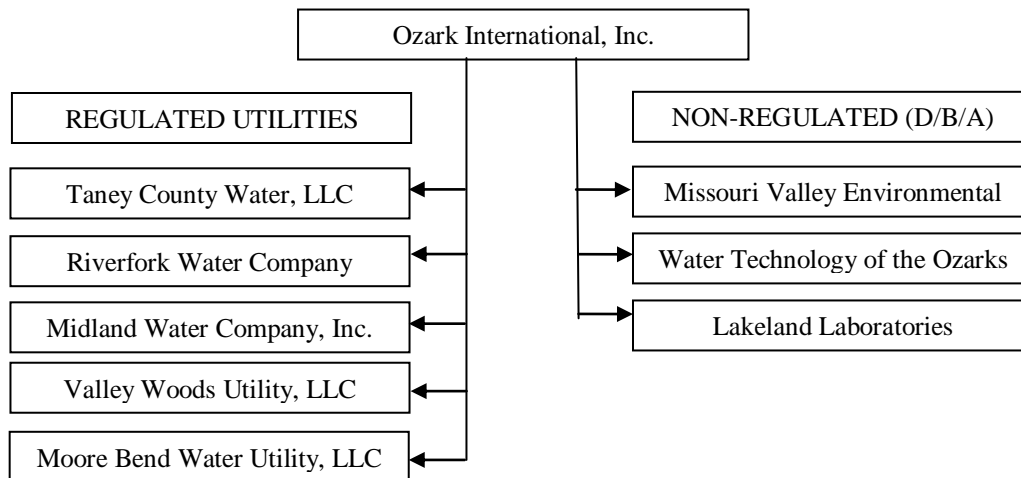
### BACKGROUND OF MOORE BEND AND MBU

Moore Bend is a regulated water utility. It obtained a Certificate of Convenience and Necessity (Certificate) to provide water service from the Commission in 1971 in Case No. 17,123. The utility assets are located within an area known as Moore Bend Subdivision, near Cedar creek,

**APPENDIX A**

Missouri. Moore Bend serves approximately ninety (90) water customers.

MBU is a newly created entity that is presently not providing any utility service. MBU seeks to acquire utility assets and if the *Joint Application* is approved, MBU will need a Certificate for authority to operate as a water utility. MBU 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), and Taney County Water, LLC (Taney County). Ozark also owns another entity, Valley Woods Utility, LLC, which is currently seeking to acquire the assets of a regulated water utility in another pending case before the Commission, Case No. WM-2012-0288. In addition, Ozark is using three registered fictitious names to conduct its business. The three fictitious names are: Missouri Valley Environmental (Missouri Valley), Water Technology of the Ozarks (Water Technology) and Lakeland Laboratories (Lakeland Lab). Ozark has previously done business as Ozark Mountain Air (Mountain Air), a currently inactive fictitious name. There are other business entities in which the owners of Ozark are involved. The table below shows the relationship of the various Ozark entities. Revenue handled by Ozark includes revenue associated with the regulated utilities and revenue associated with its non-regulated entities.



### **STAFF'S INVESTIGATION AND RATE BASE OVERVIEW**

Staff has reviewed the *Joint Application* and supporting documents and has reviewed financial information for Moore Bend and MBU. During its investigation, Staff reviewed the annual reports that were filed with the Commission from 2006 through 2011. Staff also reviewed invoices provided by Moore Bend ranging in date from January 2009 through January 2012, and Staff workpapers and accounting schedules from the Exhibit Modeling System (EMS) from Case No. WR-2007-0181, which is Moore Bend's most recent water rate case. In addition, Staff reviewed documents supplied by Moore Bend supporting changes to its plant-in-service and

accumulated depreciation reserve that has occurred since its last rate case, as described more fully below. The rate base valuation in this case was determined as of March 31, 2012.

### **Plant-in-Service and Depreciation Reserves**

Staff evaluated the plant-in-service and depreciation reserve beginning from the above-mentioned rate case. Staff included various adjustments to plant-in-service and depreciation reserve proposed and agreed to by Moore Bend in its *Notice of Company/Staff Agreement Regarding Disposition of Small Water Company Revenue Increase Request* in Case No. WR-2007-0181 dated November 28, 2006, which was later adopted by Commission Order, effective December 7, 2006. To determine the current value of Moore Bend's plant-in-service, Staff examined various documents such as invoices and bank statements and had discussions with Company personnel to determine if any changes had been made to the water system since the Company's last rate case.

The Company replaced well pumps in 2009, 2010, and 2011 that were struck by lightning. In addition, the Company did a main replacement in 2006 and chemical pump replacements in 2007. As a result of these changes, Staff revised the water plant-in-service and accumulated depreciation reserve to reflect these costs.

### **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 Moore Bend in the Company's last rate case filing. The depreciation rates ordered in those cases are still satisfactory to Staff, and Staff recommends that MBU adopt the current ordered depreciation rates of Moore Bend for the water utility assets acquired in this case. The depreciation accrual rates are included as Attachment A and incorporated herein by reference. The Audit Staff used these depreciation rates in calculating the recommended rate base discussed above.

### **Contributions in Aid of Construction**

Contributions in Aid of Construction (CIAC) represents plant or capital contributed by the ratepayer for utility use. The most recent Moore Bend rate case for water, Case No. WR-2007-0181 does not show any CIAC. CIAC was not included in Staff's calculation, although it is part of Staff's review.

### **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 March 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 \$40,399; Accumulated Depreciated Reserve balance of \$29,673, resulting in a Net Plant-in-Service balance of \$10,726. As a result, the Staff's calculation of rate base for the water treatment plant as of March 31, 2012 is \$10,726.

The following table identifies Staff's Rate Base valuations:

<b>Moore Bend Water Company Case No. WM-2012-0335</b>		
	<b>Water Rate Base</b>	
Plant in Service	\$40,399	
Less: Accumulated Depreciation	\$29,673	
<b>Net Plant (Add to Rate Base)</b>		\$10,726
<b>Moore Bend Rate Base</b>		<b>\$10,726</b>

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 \$20,000 is higher than Staff's rate base valuation of the water system of \$10,726, which is based upon a net original cost valuation approach.

### **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 \$20,000, the treatment discussed above, and MBU's acceptance of all other recommendations enumerated in this Memorandum.

In the *Joint Application*, MBU proposes to adopt the rates that are currently in effect for Moore Bend. Staff recommends that MBU adopt the Schedule of Rates, Rules and Regulations (Tariffs) that are currently on file and approved for Moore Bend for water service. In addition, MBU should be required to file tariff adoption notices for each tariff, as well as revised index sheets to reflect the existence of the adoption notices, similar to the draft tariff sheets for the water tariffs attached to this memorandum as Attachment A and incorporated herein by reference.

MBU 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. MBU also should keep adequate operations records that are compatible with those of Ozark's other operations, such that proper allocations may be made between MBU and Ozark's other operations. Staff will meet with MBU and its representatives to assist with these items, if necessary.

Staff concludes that MBU has adequate technical, managerial, and financial capacity to operate the water system presently certificated for Moore Bend based on its familiarity with the owner of MBU and his existing utility businesses.

### **OTHER MATTERS**

Besides this pending case involving MBU, Ozark has one other case pending before the Commission. Valley Woods Utility, LLC, (VWU) an entity owned by Ozark, filed a joint application with Valley Woods Water Company, Inc., a regulated water utility, seeking approval to transfer assets in Case No. WM-2012-0288. The Commission's *Order Approving Transfer Of Assets And Granting Certificate Of Convenience And Necessity* in that case became effective May 18, 2012, but VWU has not yet filed the necessary documentation with regard to closing of the assets nor an adoption notice for its tariff sheets. The case involving VWU will have no impact upon this pending case involving MBU. Likewise, this case involving MBU will have no impact on the case involving VWU.

Staff has reviewed Moore Bend's history of filing of annual reports for the calendar years 2002 through 2011, as posted on the Commission's Electronic Filing and Information System (EFIS), and finds no deficiencies in this regard. Moore Bend is current on annual assessments for water operations for fiscal years 2006 through Fiscal Year 2012, as posted on the Commission's Intranet site by its Administration Division.

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**

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:

1. Approves the sale and transfer of water utility assets from Moore Bend to MBU;
2. Requires Moore Bend to transfer all books and records of the Company including, but not limited to, purchase orders, invoices, contracts and agreements relating to the Moore Bend operations, drawings and blue prints of the water system, plant records, operations records, and expense records and all customer billing records to MBU upon closing of the assets, and requires MBU to adopt the individual plant-in-service, and depreciation reserve utilized by the Audit Staff valued as of March 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 Moore Bend, to be recorded in the books and records of MBU,

and requires MBU to maintain and retain proper plant in service, depreciation reserve, cost of removal, and salvage records on a going forward basis;

3. Orders no recovery of acquisition adjustment or acquisition premium in this case;
4. Requires MBU to file adoption notice tariff sheets, and revised index sheets, as 30-day tariff filings, within five (5) days after closing of the assets, and authorizes MBU, upon closing, to provide water service under the existing tariffs of Moore Bend on an interim basis until the effective date of such adoption notice tariff sheets;
5. On the effective date of the tariff sheets from Recommendation No. 4, above, cancels the Certificate granted to Moore Bend for the provision of water service, and grants a Certificate to MBU for the provision of water service for the described service areas;
6. Requires MBU to use the schedule of depreciation rates set out in Attachment A to this Memorandum that were prescribed by the Commission and used by Moore Bend, from the date of the transfer forward, until changed by any future order of the Commission;
7. Requires MBU to maintain utility plant records and all customer account records as acquired from MBU, 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; and
8. Makes no finding that would preclude the Commission from considering the ratemaking treatment to be afforded any matters, including future expenditures by MBU, in any later proceeding.

Attachments:      A – Depreciation Accrual Rates – Water Utility Plant  
                            B – Draft Revised Water Tariff Pages - Adoption Notice and Index



**MOORE BEND WATER UTILITY, LLC**  
**DEPRECIATION RATES**  
**(WATER)**  
**WM-2012-0335**

<u>ACCOUNT NUMBER</u>	<u>ACCOUNT DESCRIPTION</u>	<u>DEPRECIATION RATE</u>	<u>AVERAGE SERVICE LIFE (YEARS)</u>
314	Wells & Springs	2.0%	50
321	Structures & Improvements	2.5%	40
325	Electric Pumping Equipment	10.0%	10
332	Water Treatment Equipment	2.9%	35
342	Distribution Reservoirs & Standpipes	2.5%	40
343	Transmission & Distribution Mains	2.0%	50
346	Meters	10.0%	10
347	Meter Installations	2.5%	40

Name of Utility: Moore Bend Utility, LLC

Service Area: Missouri Service Area

Rules Governing Rendering of Water Service	
<u>ADOPTION NOTICE</u>	
<p>Water system assets were transferred from Moore Bend Water Company, Inc. to Moore Bend Utility, LLC, with approval granted in Case No. WM-2012-0335. Accordingly, Moore Bend Utility, 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 Moore Bend Water Company, Inc. and currently on file with and approved by the Public Service Commission, State of Missouri.</p>	
<p>* Indicates new rate or text + Indicates change</p>	

DATE OF ISSUE \_\_\_\_\_  
Month Day Year

DATE EFFECTIVE \_\_\_\_\_  
Month Day Year

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

Name of Utility: Moore Bend Utility, LLC

Service Area: Missouri Service Area

Rules Governing Rendering of Water Service			
	Adoption Notice	A	*
	Index	1	
	Map of Service Area	2	
	Legal Description of Service Area	3	
	Schedule of Rates	4	
	Schedule of Service Charges	4.1	*
Rule No.			
1.	General Rules and Regulations	5	
2.	Definitions	6 - 7	
3.	Liability of the Company	8	
4.	Applications for Service	9	
5.	Inside Piping and Water Services	10 - 10.1	
6.	Improper or Excessive Use	11	
7.	Discontinuance of Service by Company	12	
8.	Discontinuance of Water Services at Customer's Request	13	
9.	Interruptions in Service	14	
10.	Bills for Service	15 - 16	
11.	Meters and Meter Installations	17 - 18	
12.	Meter Tests and Test Fees	19	
13.	Bill Adjustments Based on Meter Tests	20	
14.	Extension of Water Mains	21 - 24	+
* Indicates new rate or text + Indicates change			

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BEFORE THE PUBLIC SERVICE COMMISSION

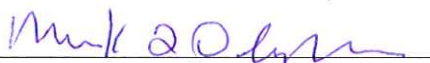
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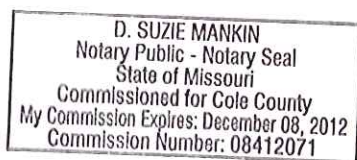
AFFIDAVIT OF MARK L. OLIGSCHLAEGER


STATE OF MISSOURI )  
 ) ss.  
COUNTY OF COLE )

Mark L. Oligschlaeger, of lawful age, on his oath states: that he 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 him; that he has knowledge of the matters set forth in such Staff Recommendation; and that such matters are true and correct to the best of his knowledge and belief.

  
Mark L. Oligschlaeger

Subscribed and sworn to before me this 9<sup>th</sup> day of July, 2012.



  
Notary Public

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of the Joint Application of )  
Moore Bend Water Company, Inc. and ) File No. WM-2012-0335  
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AFFIDAVIT OF KEITH D. FOSTER

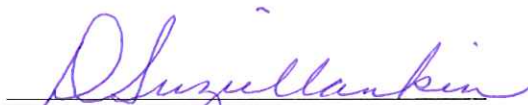
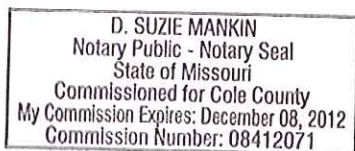
STATE OF MISSOURI )  
 ) ss.  
COUNTY OF COLE )

Keith D. Foster, of lawful age, on his oath states: that he 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 him; that he has knowledge of the matters set forth in such Staff Recommendation; and that such matters are true and correct to the best of his knowledge and belief.



Keith D. Foster

Subscribed and sworn to before me this 9<sup>th</sup> day of July, 2012.



Notary Public

