

**STATE OF MISSOURI
PUBLIC SERVICE COMMISSION**

At a session of the Public Service
Commission held at its office
in Jefferson City on the 13th
day of April, 2017.

In the Matter of the Application of Lake Region)
Water & Sewer Co. and Camden County Public) **File No. WM-2017-0186**
Water Supply District #4 for an Order)
Authorizing the Sale, Transfer, and Assignment of)
Water and Sewer Assets to Camden County Public)
Water Supply District #4 and in Connection)
Therewith Certain Other Related Transactions.)

In the Matter of the Application of Lake Region)
Water & Sewer Co. and Camden County Public) **File No. SM-2017-0187**
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Water and Sewer Assets to Camden County Public)
Water Supply District #4 and in Connection)
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**ORDER AUTHORIZING SALE, TRANSFER, AND ASSIGNMENT OF
WATER AND SEWER ASSETS**

Issue Date: April 13, 2017

Effective Date: April 27, 2017

Operating in the Lake of the Ozarks area, Lake Region Water & Sewer Company (“Lake Region”) was originally granted a Certificate of Convenience and Necessity (CCN) to provide water and sewer service in the 1970s. Lake Region is a “water corporation” and “sewer corporation,” under Section 386.020, RSMo 2000. Lake Region is therefore a public utility subject to the Commission’s jurisdiction. After various name changes, sales, and the granting of an additional CCN, Lake Region now serves approximately 677 water customers in the Shawnee Bend area and 909 sewer customers in the Shawnee Bend and Horseshoe Bend area.

On December 28, 2016, Lake Region filed a Joint Application with the Camden County Public Water Supply District Number 4 (“District”) (Jointly, “Joint Applicants”) seeking authority to sale, transfer, and assign Lake Region’s water and sewer assets to the District. The District is a political subdivision organized under the provisions of Chapter 247, RSMo 2000. Since it is a public water supply district, the Commission does not regulate the District.

Under the terms of the Purchase Agreement, the District will pay Lake Region \$6,084,000 to acquire Lake Region’s assets. The District intends to fund the acquisition through a tax-exempt long-term bond. The Commission issued notice of the transfer application, set a deadline for the filing of applications to intervene, and directed the Commission’s Staff to file a recommendation. No applications to intervene were submitted.

On February 24, 2017, Staff submitted its recommendation that the Commission not approve the transfer. Staff also recommended conditions on the transfer, should it be approved by the Commission.

Since no party requested a hearing, and no hearing is required by statute, an evidentiary hearing was not scheduled in this matter. The Commission will make a determination on the Joint Application based on the filings. Section 393.190.1, RSMo (Cum.Supp. 2013) requires the Commission’s approval for any transfer or encumbrance of a regulated utility’s assets. The Commission must authorize the transfer of a regulated utility’s assets, unless the transfer is shown to be detrimental to the public interest.¹

¹ *Environmental Utilities, LLC v. Public Service Commission of Missouri*, 219 S.W.3d 256,265 (Mo. App. W.D. 2007).

Staff contends that under the terms of the Purchase Agreement, the District is paying an acquisition premium of approximately \$3.7 million. According to Staff, were the purchaser of Lake Region's assets a Commission-regulated entity, they would not be allowed to recover the acquisition premium cost in a customer rate increase. However, since the Commission does not regulate the District, Staff fears that the District may choose to recover the acquisition premium costs through a customer rate increase. For the following reasons, the Commission does not share Staff's concern.

The Commission does not regulate the District, nor does it have jurisdiction over the District's board of directors or the future rates set by that board. Nevertheless, Staff's concerns about the future rates for the District's customers may be allayed since the District is a political subdivision that has no motive for seeking profits.² The District is answerable to voters,³ and is obligated by statute to set reasonable rates.⁴

Furthermore, the purchase price agreed to by Joint Applicants is reasonable. As Joint Applicants point out in their Response to Staff's Recommendation, the District retained an independent consultant, Boone Partners, LLC, to complete an Engagement Report on the reasonableness of the Asset Purchase Agreement. Boone Partners, LLC's analysis supports a value range between \$2.6 million and \$8.6 million for the transaction. Boone Partners, LLC's report concluded that both the free cash flow and the earnings before interest, tax depreciation, and amortization would exceed the associated debt service of the transaction.⁵

² See *Love 1979 Partners v. Public Service Com'n of Missouri*, 715 S.W.2d 482 (Mo. 1986).

³ Section 247.180, RSMo (Cum. Supp. 2013).

⁴ Section 247.110.1, RSMo 2000.

⁵ It should also be noted that Section 1.3 of the Purchase Agreement states that aside from customer account balances from the final billing, all other Lake Region liabilities, debts, and obligations of every character or description will be Lake Region's sole obligation. This includes all 2016 and prior years real property and personal property taxes on assets. Assuming the \$6.4million acquisition price also intends to

When evaluating the proposed transaction, the Commission considers if it is detrimental to the public interest. The Commission finds the proposed transaction is not detrimental to the public interest. In its Memorandum, Staff points out that Lake Region and the District have a common background and operations. Lake Region is currently operated and managed by the District. Since the District currently provides the maintenance, repair and day-to-day operations and management of Lake Region's facilities, the customers will not experience a reduced level of service or reliability.

Staff's Memorandum stated that should the Commission approve the transfer, conditions should be set, including requiring Lake Region to notify the Commission of closing on the assets within five days, and authorizing Lake Region to cease providing water and sewer service immediately after closing. Staff's recommendations shall be adopted by the Commission.

The Joint Application states that the transfer and assignment of Lake Region's assets will have an impact on the tax revenues of the Missouri political subdivisions in which structures, facilities, or equipment is located. Lake Region's assets are located within Camden County, Missouri and Miller County, Missouri. Joint Applicants estimate the property tax abatement caused by the transfer of the assets to be \$3,240,098 annually. The Commission will direct notice be provided to the appropriate political subdivisions.

compensate Lake Region for its outstanding debt, the acquisition premium would be significantly less than \$3.7 million. Appendix 1 of Application. EFIS Item No. 1.

Joint Applicants submitted a Motion to Expedite, stating that interest rates are trending upward and that immediate approval of the application is necessary for the bonds to finance the transaction to be obtained at their lowest possible rates. No objections to the motion were received. Finding the request to be reasonable and in the public interest, the Commission will allow this order to go into effect in less than thirty days.

THE COMMISSION ORDERS THAT:

1. The Joint Application for Approval of Transfer of Assets is approved. Lake Region is authorized to sell, transfer, and assign the identified water and sewer assets, together with any real estate, as described in the Purchase Agreement, attached to the Joint Application.

2. Lake Region is authorized to perform in accordance with the terms of the executed Purchase Agreement, and may enter into, execute and perform in accordance with all terms of all other documents which may be reasonably necessary and incidental to the performance of the transactions that are the subject of the Joint Application and the Purchase Agreement.

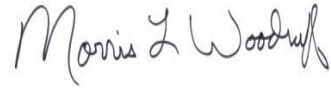
3. Lake Region shall notify the Commission of closing of the assets within five days after such closing.

4. Lake Region shall cease providing water and sewer service immediately after closing on the assets.

5. The Commission's Data Center shall provide a copy of this order to the County Clerks of Miller County, Missouri and Camden County, Missouri.

6. This order shall become effective on April 27, 2017.

BY THE COMMISSION



Morris L. Woodruff
Secretary



Hall, Chm., Stoll, Kenney, Rupp, and
Coleman, CC., concur.

Burton, Senior Regulatory Law Judge.

STATE OF MISSOURI

OFFICE OF THE PUBLIC SERVICE COMMISSION

I have compared the preceding copy with the original on file in this office and I do hereby certify the same to be a true copy therefrom and the whole thereof.

WITNESS my hand and seal of the Public Service Commission,
at Jefferson City, Missouri, this 13th day of April 2017.




Morris L. Woodruff
Secretary

MISSOURI PUBLIC SERVICE COMMISSION

April 13, 2017

File/Case No. WM-2017-0186 and SM-2017-0187

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Enclosed find a certified copy of an Order or Notice issued in the above-referenced matter(s).

Sincerely,


Morris L. Woodruff
Secretary

Recipients listed above with a valid e-mail address will receive electronic service. Recipients without a valid e-mail address will receive paper service.