

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

In the Matter of the Application of Highway H Utilities,)
Inc., for Authority to Sell Certain Water Systems Assets)
To the City of Waynesville, Missouri, and in Connection)
Therewith, Certain Other Related Transactions.)
Case No. WO-2012-0211

STAFF RECOMMENDATION

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

1. On January 11, 2012, Highway H Utilities, Inc., (“Highway H”) filed an *Application and Motion for Waiver* (“Application”) with the Commission, seeking approval to sell a portion of its water system assets to the City of Waynesville, Missouri (“the City” or “Waynesville”). Highway H currently operates a water system for a subdivision known as Hunter’s Pointe and located in Pulaski County, Missouri. Highway H and the City have entered into an agreement (“Sales Agreement”), providing for the sale of all assets, property and real estate connected with the Hunter’s Pointe Water System.

2. On January 30, 2012, Staff requested a local public hearing and an extension of time to file its recommendation until after such local public hearing was held.

3. On February 10, 2012, the Commission issued an *Order Setting Local Public Hearing and Granting Extension of Time*, providing Staff on or until April 2, 2012, to file *Staff’s Recommendation*. This filing complies with that order.

4. On March 5, 2012, a local public hearing took place in Waynesville, Missouri.

5. Staff has verified that Highway H has filed their Annual Report and is current on any payments for its Commission assessment.

6. The sale of water utility assets is governed generally by Section 393.190 RSMo 2011, 4 CSR 240-2.060(1), 4 CSR 240-3.605, and 4 CSR 240-310. Relevant case law provides that the Commission may approve an asset transfer if it is “not detrimental to the public interest.” *State ex rel. Fee Fee Trunk Sewer Inc. v. Litz*, 596 S.W.2d 466, 468 (Mo. App. E.D. 1980).

7. Staff asserts that the transfer of water utility assets from Highway H to the City of Waynesville is not detrimental to the public interest.

8. Staff recommends, as more fully described in Staff’s Memorandum attached and incorporated herein by reference as Appendix A, that the Commission approve the Application.

9. In that Memorandum, Staff recommends that the Commission issue an Order that:

- a) Grants Highway H Utilities, Inc. the authority to sell, and the City of Waynesville to acquire, the water assets identified herein of Highway H Utilities, Inc., as requested in the Application;
- b) Requires Highway H Utilities, Inc. to submit notice to the Commission regarding evidence of the transfer of assets to the City of Waynesville within three (3) business days after the transfer to the City of Waynesville;
- c) Requires Highway H Utilities, Inc. to file all necessary revisions to its tariff on file, including but not limited to, 1st Revised Sheet No. 3 and Original Sheet No. 2A, to exclude entirely from its tariff the area being served by the water assets identified herein within five (5) business days after the assets have been transferred to the City of Waynesville;

- d) Requires Highway H Utilities, Inc. to file all necessary revisions to its tariff on file, including but not limited to, 1st Revised Sheet No. 3 and Original Sheet No. 2A, to exclude entirely from its tariff the area being served by the water assets identified herein within five (5) business days after the assets have been transferred to the City of Waynesville;
- e) Requires Highway H Utilities, Inc., if closing on the assets has not occurred within thirty (30) days after the effective date of an order from the Commission approving this transfer of assets, to file a status report with the Commission thirty (30) days after the effective date of the order, and at the end of each subsequent thirty (30) day period until closing and the transfer of assets is complete; and, alternatively if the transfer will not be completed, requires Highway H Utilities, Inc. to file a pleading with the Commission stating such.

WHEREFORE, the Staff respectfully submits this *Staff Recommendation* and further requests that the Commission enter an Order that grants Highway H Utilities the authority to sell and transfer its water utility assets known as Hunter's Pointe Water System to the City of Waynesville, as requested in the Application and in accordance with Appendix A of the attached Memorandum.

Respectfully submitted,

/S/ TANYA K. ALM

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CERTIFICATE OF SERVICE

I hereby certify that copies of the foregoing have been mailed, hand-delivered, transmitted by facsimile, or electronically mailed to all counsel of record this 2nd day of April, 2012.

/S/ TANYA K. ALM

Missouri Public Service Commission

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County of Pulaski, Missouri

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Waynesville, MO 65583

Highway H Utilities, Inc.

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MEMORANDUM

Case No. WO-2012-0211– Application of Highway H Utilities, Inc. for Authority to Sell Certain Water System Assets to the City of Waynesville, Missouri

TO: Missouri Public Service Commission Official Case File

FROM: Jerry Scheible, P.E., Utility Regulatory Engineer- Water & Sewer Unit

/s/ Jerry Scheible

April 2, 2012

Water and Sewer Unit

/s/ Tanya Alm

April 2, 2012

Staff Counsel's Office

SUBJECT: Staff Recommendation Regarding the Application of Highway H Utilities, Inc. for Authority to Sell Certain Water System Assets to the City of Waynesville, Missouri.

DATE: April 2, 2012

CASE FILING SUMMARY

On January 11, 2012 (unless noted otherwise, all dates herein refer to the year 2012), Highway H Utilities, Inc. (Highway H or Company) filed an Application with the Commission seeking authority for the City of Waynesville (City or Waynesville) to acquire certain water system assets of Highway H.

On January 12, the Commission issued its *Order Directing Notice and Order Directing Filing* in which February 1 was set as an intervention deadline for interested parties. No applications to intervene have been submitted by any party. This Order also set February 15 as the date by which the Staff was to file its *Recommendation* in this case.

On February 10, the Commission granted Staff's request for an extension of time to April 2 to file its *Recommendation*. Upon Staff's request, a Local Public Hearing was held at the Waynesville City Council Chambers on March 5.

BACKGROUND

Highway H is an existing regulated water and sewer utility, having started business as a water utility as authorized by the Commission in Case No. WA-90-26 to serve a subdivision known as Southside. The Company subsequently obtained certificates for additional areas in the following cases: in Case No. WA-91-127 to provide both water and sewer service to a subdivision known as High Pointe, in Case No. WA-91-128 to provide water service to a subdivision known as

Hunter's Pointe, in Case No. WA-2004-0588 to provide both water and sewer service to a subdivision known as Northern Heights, and in Cases Nos. WA-2009-0316 and SA-2009-0317 to provide both water and sewer service to a subdivision known as Northern Heights. All of the existing service areas are within a few miles of each other in Pulaski County near Waynesville. The Company presently provides service to a total of approximately 808 water customers and 283 sewer customers.

Highway H requests to sell only those assets serving the Hunter's Pointe subdivision (subdivision) to the City and will continue as the respective water and sewer utility in the remaining subdivisions, as designated in the Company's current tariff.

The water service in the subdivision is currently provided via two ground-water wells, each with its own pneumatic storage tank. Highway H provides water service to approximately 573 residential customers in the affected subdivision.

The Company is current with regard to filing its annual reports and paying annual assessments with the Commission.

The facility operates under Missouri Department of Natural Resources (DNR) permit MO-3036033 and is not subject to any compliance-related issues. Highway H is current with regard to filing its PSC annual reports and paying annual assessments.

Sewer service in the subdivision is provided by Pulaski County Sewer District #1 and will not be affected by the sale of the water system.

Waynesville currently owns and operates a water supply system that provides service to approximately 1,800 customers. The facility operates under DNR permit MO-3010841 and is not subject to any compliance-related issues. The City also owns and operates electric and natural gas utilities.

Highway H will remain a regulated utility for its other systems and Staff's investigation into this sale did not include a review of the entire Company's books and records or any future impact on Highway H's remaining customers, as that will be addressed in the next rate case filed by Highway H.

TRANSFER OF OWNERSHIP DETAILS

Waynesville intends to purchase all the assets of the water system serving the subdivision from Highway H. The closing of the sale is to take place within thirty (30) days after the effective date of a Commission Order approving the sale.

As a municipal government entity, Waynesville has statutory authority to operate as a municipal water utility and, pursuant to Section 386.250(3), RSMo 2011, will not be subject to regulation by the Commission if this Application is approved.

In anticipation of the purchase of the water system, the City applied for, and has been approved for, an infrastructure loan from the Missouri Public Utility Alliance to purchase the system and fund infrastructure improvements. The loan is contingent upon the Commission approving the sale of the water system to the City. Improvements are to include the construction of an interconnection pipe that would connect the subdivision distribution system to the existing City distribution system, the addition of chlorination capability to both of the subdivision wells, construction of an additional water storage structure, and the addition of fire hydrants within the subdivision. These improvements are planned to occur in phases over the next three years. The improvements will ultimately provide the residents of the subdivision with better fire protection capabilities and will benefit the customers of both the subdivision and the City through a more reliable source of water due to the interconnection of multiple wells and storage facilities.

The City will initially carry on the operation of the water supply as it is currently, upon taking over the ownership of the subdivision facilities, and water service to the customers will continue without interruption.

Highway H's tariff currently specifies a monthly Customer Charge of \$6.16, which includes 2,000 gallons of water usage, and a Commodity Charge of \$1.13 for every 1,000 additional gallons of usage. Upon purchase of the system, the City proposes a Customer Charge of \$6.00 plus an additional \$1.20 for every 1,000 gallons of usage. For comparison, a customer that uses 5,000 gallons per month would incur an increase of \$2.45 per month.

As the planned improvements occur over the next three years, the rate for all customers will ultimately be the same as that paid by City customers. Currently, the City bills its customers a Customer Charge of \$10.00 per month plus an additional \$2.75 for every 1,000 gallons of usage.

The annual local tax revenue impact by the proposed sale of assets is not presently known, but should be negligible.

NOTICE AND INVESTIGATION

Highway H sent notification of the proposed sale of the water system serving the subdivision to those customers being served by the system on January 16. The notification provided the customers with instructions on how to register a comment with the Commission via mail, email and the electronic filing information system (EFIS). As of the drafting of this Recommendation, a total of six Public Comments have been received. Staff responded to each comment by email or letter.

During the Local Public Hearing, the City provided an informational brochure to the attendees in which the details of the transfer, the proposed improvements to the system and the proposed and future rate schedule were all explained. Approximately fifty customers attended and one customer presented oral testimony.

The primary issues presented by the subdivision residents in Public Comments and at the Local Public Hearing related to concern that the City intends to annex the subdivision and concern that the customers will have no voice among City representatives, being outside of City limits. The City responded by stating that Waynesville has only pursued voluntary annexations in the past and would only consider annexing the subdivision if they were petitioned by those residents to be done so voluntarily. Further, the City has taken steps to include at least one resident of the subdivision to act as a liaison to the City Utilities Committee, which convenes monthly. Staff understands that the City will move forward on this inclusion upon completion of the sale. Staff recommends the City follow-up on this, as it is beneficial to all involved.

Staff performed a site visit to Highway H on March 13, at which time Staff met with the President of the Company and the water system operator. Details of the sale were discussed and the facilities were inspected. No issues were noted that would cause concern regarding the proposed sale of subdivision water facilities to the City of Waynesville.

STAFF'S CONCLUSIONS

Staff, based upon its review, finds that the proposed sale and transfer of assets is not detrimental to the public interest, and, therefore Staff recommends approval of the *Application*.

STAFF'S RECOMMENDATIONS

Based upon the above, Staff recommends that the Commission issue an order that:

- 1) Grants Highway H Utilities, Inc. the authority to sell, and the City of Waynesville to acquire, the water assets identified herein of Highway H Utilities, Inc., as requested in the Application;
- 2) Requires Highway H Utilities, Inc. to submit notice to the Commission regarding evidence of the transfer of assets to the City of Waynesville within three (3) business days after the transfer to the City of Waynesville;
- 3) Requires Highway H Utilities, Inc. to file all necessary revisions to its tariff on file, including but not limited to, 1st Revised Sheet No. 3 and Original Sheet No. 2A, to exclude entirely from its tariff the area being served by the water assets identified herein within five (5) business days after the assets have been transferred to the City of Waynesville;
- 4) Requires Highway H Utilities, Inc., if closing on the assets has not occurred within thirty (30) days after the effective date of an order from the Commission approving this transfer of assets, to file a status report with the Commission thirty (30) days after the effective date of the order, and at the end of each subsequent thirty (30) day period until closing and the transfer of assets is complete; and, alternatively if the transfer will not be

completed, requires Highway H Utilities, Inc. to file a pleading with the Commission stating such.

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

AFFIDAVIT OF JERRY SCHEIBLE, P.E.

STATE OF MISSOURI)
) SS **CASE NO. WO-2012-0211**
COUNTY OF COLE)

COMES NOW Jerry Scheible, P.E., being of lawful age, and on his oath states the following:

(1) that he is a Utility Regulatory Engineer in the Missouri Public Service Commission's Water & Sewer Unit; (2) that he participated in the preparation of the foregoing Staff Recommendation Memorandum; (3) that he has knowledge of the information presented in the foregoing Staff Recommendation Memorandum; and (4) that the information presented in the foregoing Staff Recommendation Memorandum is true and correct to the best of his knowledge, information and belief.

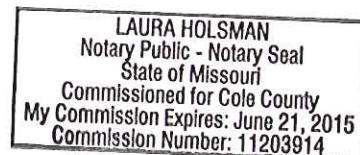


Jerry Scheible, P.E.

Subscribed and sworn to before me this 30th day of March 2012.



Notary Public



My Commission Expires: 6/21/15