

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

In the Matter of a Review of the Commission's Rules)
Regarding Small Water and Sewer Companies) **File No. WW-2017-0283**

ORDER SCHEDULING A WORKSHOP MEETING

Issue Date: January 16, 2018

Effective Date: January 16, 2018

The Commission opened this working case to assist its Staff in its review of the Commission's rules regarding small water and sewer companies. On January 12, 2018, Staff filed a motion asking the Commission to schedule a workshop meeting to collect comments about draft rules regarding incentives to acquire non-viable water or sewer utilities. The Commission will schedule the workshop meeting as requested by Staff.

THE COMMISSION ORDERS THAT:

1. The Commission's data center shall provide a copy of this order and Staff's draft rule to all certificated water and sewer companies in Missouri, and to the Office of the Public Counsel.
2. Interested stakeholders may submit written comments by January 30, 2018.
3. A workshop meeting is scheduled for January 31, 2018, at 1:30 p.m. in Room 110 of the Governor Office Building, 200 Madison Street, Jefferson City, Missouri 65102. This building meets accessibility standards required by the Americans with Disabilities Act. If you need additional accommodations to participate in this meeting, please call the Public Service Commission's Hotline at 1-800-392-4211 (voice) or Relay Missouri at 711 before the meeting.

4. This order shall be effective when issued.



BY THE COMMISSION

Morris L. Woodruff

Morris L. Woodruff
Secretary

Morris L. Woodruff, Chief Regulatory
Law Judge, by delegation of authority pursuant
to Section 386.240, RSMo 2016.

Dated at Jefferson City, Missouri,
on this 16th day of January, 2018.

PURPOSE: The purpose of the proposed rule is to create a process for a water or sewer utility to propose an acquisition incentive to encourage acquisition of nonviable water or sewer utilities by a water or sewer utility with the resources to rehabilitate the acquired utility within a reasonable time frame.

Incentives for acquisition of nonviable utilities.

(1) As used in this rule, the following terms mean—

(A) Nonviable utility:

1. A utility that is in violation of statutory or regulatory standards concerning the safety, adequacy, efficiency, or reasonableness of service and facilities, and lacks the financial or managerial resources necessary to remedy said violations; or

2. A utility that is insolvent.

(B) Rate of return premiums. Additional rate of return basis points awarded in recognition of risks involved in acquisition of nonviable utilities and the associated system improvement costs.

(C) Debit acquisition adjustment. Adjustments to an acquiring utility's rate base to reflect a portion or all of the excess of acquisition cost over depreciated original cost of the acquired system.

(D) Original cost plant-in-service study. A method of determining the valuation costs of the property of a public utility that requires the acquiring utility to develop realistic plant balances and accumulates the records and accounting details that support those balances.

(2) The commission may consider applications for rate of return premium and/or debit acquisition adjustment to be recovered in the applicant's next rate case proceeding following acquisition of a nonviable utility.

(3) A request for an acquisition incentive must be filed at the beginning of a case seeking authority under section 393.190 or section 393.170.

(4) When submitting an application for an acquisition incentive to acquire a nonviable utility, the acquiring utility has the burden of proof and shall demonstrate the following. Disputes regarding the acquiring utility's original cost valuation of the assets of the acquired system will be resolved in the context of a rate case proceeding.

(A) The acquiring utility does not meet the definition of a non-viable utility and will not be impaired by the acquisition;

(B) The acquiring utility maintains the managerial, technical and financial capabilities to safely and adequately operate the system to be acquired;

(C) The system to be acquired is a nonviable utility;

(D) The purchase price and financial terms of the acquisition are fair and reasonable and have been reached through arm's length negotiations; 1. The acquiring utility is obligated to exercise due diligence and make reasonable attempts to obtain, from the seller, documents related to original cost. In particular, as part of its exercise of due diligence, the

acquiring utility shall request from the seller, for purposes of determining the original cost plant-in-service valuation, the original cost of the assets being acquired and records relating to contributions in aid of construction (CIAC), such as the following: A. Accounting records and other relevant documentation and agreements of donations or contributions, services, or property from states, municipalities or other government agencies, individuals, and others for construction purposes.

B. Records of un-refunded balances in customer advances for construction (CAC).

C. Records of customer tap-in fees and hook-up fees.

D. Prior original cost studies.

E. Records of local, State and Federal grants used for construction of utility plant.

F. Relevant commission records.

G. Summary of the depreciation schedules from all filed Federal tax returns.

H. Other accounting records supporting plant-in-service.

I. If any of the items required under (4)(D) are unavailable at the time the application is filed, they shall be furnished prior to the next rate case;

2. The failure of a seller to provide cost-related documents, after reasonable attempts to obtain the data, will not be a basis for the utility to provide incomplete information about the value of the acquired system's assets in its proposed rate base. Any information not available from the seller shall be estimated by the acquiring utility, along with documentation supporting the estimates developed.

(E) The system to be acquired is not part of a larger transaction involving multiple systems, unless each system qualifies as a nonviable utility;

(F) Any necessary plant improvements will be completed within a period of time no longer than 3 years after acquisition;

(G) How managerial or operational deficiencies that can be corrected without capital improvements will be corrected within six (6) months of the acquisition;

(H) How deficiencies requiring capital improvements will be corrected within three (3) years. The commission may order capital improvements to proceed at a different schedule than that proposed by the acquiring utility;

(I) The acquisition is in the public interest; and

(J) The acquisition would be unlikely to occur without the probability of obtaining an acquisition incentive.

(5) If the acquisition incentive is approved by the commission, the utility shall file a rate case no later than 12 months after commission approval of the acquisition or within the period of time as ordered by the commission in the section 393.190 or section 393.170 case. Rate impacts of the approved incentive mechanism will go into effect upon order of the

commission at the conclusion of that first rate case proceeding. If the acquisition incentive is approved, prior to its next rate case the acquiring utility, at a minimum, shall:

(A) Book contributions that were properly recorded on the books of the acquired system as CIAC. If evidence supports other CIAC that was not booked by the seller, the acquiring utility shall make an effort, supported with documentation, to determine the actual CIAC and record the contributions for ratemaking purposes, such as lot sale agreements or capitalization vs. expense of plant-in-service on tax returns; and,

(B) Identify all plant retirements and plant no longer used and useful, and complete the appropriate accounting entries;

(6) If a debit acquisition adjustment is approved, in its next rate case proceeding, an acquiring utility shall file an original cost plant-in-service study to support its requested acquisition adjustment to its rate base. The acquiring utility shall reconcile and explain any discrepancies between the acquiring utility's original cost plant-in-service valuation and the commission's records, to the extent reasonably known and available to the acquiring utility, at the same time the supporting documentation for the study is filed.

(7) Nothing in the rule precludes an acquiring utility that pays less than the depreciated original cost of the acquired system, from seeking to include in rate base an amount up to the depreciated original cost of the acquired system.

(8) Provisions of this rule may be waived by the commission for good cause shown.

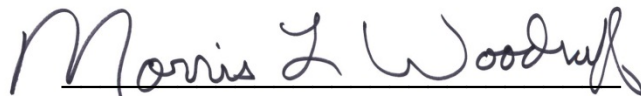
STATE OF MISSOURI

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 16th day of January 2018.**




Morris L. Woodruff
Secretary

MISSOURI PUBLIC SERVICE COMMISSION

January 16, 2018

File/Case No. WW-2017-0283

**Missouri Public Service
Commission**

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

Sincerely,

A handwritten signature in dark ink, reading "Morris L. Woodruff". The signature is fluid and cursive, with the first letters of each word being capitalized and prominent.

**Morris L. Woodruff
Secretary**

Distributed to all certificated Water and Sewer Companies in Missouri.

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