

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

In the Matter of the Matter of the Missouri-American)	
Water Company for Certificates of Convenience)	<u>File No.: WA-2019-0366</u>
And Necessity Authorizing it to Install, Own,)	
Acquire, Construct, Operate, Control, Manage)	
And Maintain a Water System and a Sewer System)	<u>File No.: SA-2019-0367</u>
In an Area of Camden County, Missouri (Sunset)	
Palms Condominium Complex))	

**MOTION FOR ADDITIONAL TIME TO OCTOBER 11, 2019
TO FILE STAFF RECOMMENDATION**

COMES NOW the Staff ("Staff") of the Missouri Public Service Commission ("Commission"), by and through counsel, and moves the Commission for additional time, to October 11, 2019, to file its recommendation in this case.¹ In support, Staff states as follows:

1. Missouri-American Water Company ("MAWC" or "Company") filed its *Application and Motion for Waivers* ("Application") on May 26, 2019, requesting certificates of convenience and necessity ("CCNs") authorizing it to own and operate water and sewer systems at a development known as the Sunset Palms Condominiums, in Camden County, Missouri. In its Application, MAWC explains that the Sunset Palms Condominium Association ("Association") will be MAWC's only customer. The Association will pass water and sewer fees on to approximately 90 customers.²

¹ Staff made a similar motion in Case Nos. WA-2019-0364 and SA-2019-0365. Staff has communicated with the Company regarding this motion and anticipates the Company filing a response similar to that it filed in WA-2019-0364 and SA-2019-0365. The Company's response in WA-2019-0364 and SA-2019-0365 suggested a 30-day extension may be appropriate under the circumstances.

² Missouri-American Water Company, *Application and Motion for Waivers* ¶ 4 (May 26, 2019).

2. On May 29, 2019, the Commission ordered Staff to file a suggested due date for its staff recommendation. On June 19, 2019, Staff suggested August 16, 2019; also on June 16, the Commission ordered Staff to file its recommendation by August 16, 2019.

3. Commission rules 4 CSR 240-3.305(1)(A)5 and 3.600(1)(A)5 require CCN applicants to submit:

A feasibility study containing plans and specifications for the utility system and estimated cost of the construction of the utility system during the first three (3) years of construction; plans for financing; proposed rates and charges and an estimate of the number of customers, revenues and expenses during the first three (3) years of operations[.]

Staff requires a feasibility study, coupled with purchase price documentation and workpapers, to evaluate the viability of current or proposed rates and evaluate the original costs of plant assets.

4. MAWC's Feasibility Study, attached as Appendix C-C to its *Application*, did not contain plans and specifications for the utility systems and estimated construction costs, as required by 4 CSR 240-3.305(1)(A)5 and 3.600(1)(A)5.

5. Staff contacted MAWC directly on June 5, 2019, in an attempt to obtain information on the systems. MAWC provided by email an engineering report for the systems that included design calculations and engineering drawings, but it did not include equipment specifications. Additionally, MAWC stated it believes Sunset Palms is fully built-out and no significant construction is planned.

6. On June 11, 2019, Staff submitted discovery requests ("DRs") to MAWC.³ These DRs included requests for documents and workpapers regarding the systems'

³ Staff also submitted DR on June 17, June 27, and July 12.

purchase prices.⁴ In response, MAWC stated that it developed no documentation or analysis to determine the appropriate rate base value of these water and wastewater assets. MAWC indicated that the purchase price was determined through negotiations and the Company's general knowledge of water and wastewater systems.⁵

7. Further, on July 8, 2019, Staff auditor Matthew Young and a MAWC manager exchanged emails about supplementing MAWC's response to DR 7. MAWC emailed Mr. Young a supplemented response,⁶ and an expanded version of

⁴ According to the terms of the purchase agreement attached to the Application, MAWC will purchase the Sunset Palms water and sewer systems for ****\$396,000.00.**** MAWC, *Asset Purchase Agreement for the Purchase of the Sunset Palms Water and Wastewater Systems* (April 26, 2019).

⁵ MAWC responded as follows:

DR 3: Please provide copies of all documents that Sunset Palms Homeowners Association and MAWC have in their possession to determine the value of the Sunset Palms water and sewer system assets.

Response: No documents available.

DR 5: 1. Please provide a valuation of the water and sewer utility Plant-in-Service for the assets being acquired by MAWC. For each plant item, please include the values by USOA account, copies of invoices for the original purchase and installation and subsequent capital repairs and additions, if any. 2. For each USOA account (water and sewer systems,) please provide the current depreciation reserve with supporting backup calculations showing how the amounts were derived, and the depreciation rates used. 3. Provide the amount of CIAC for both water and sewer systems. For each response above, provide all supporting documentation and workpapers.

Response: MAWC continues to collect information from the seller relative to the assets on the system. At this point, we do not have a full asset listing prepared. We will create a full asset list by closing if and when this transaction is approved, and we complete the due diligence process.

DR 7: Reference the Asset Purchase Agreement provided in MAWC's application for a Certificate of Convenience and Necessity. 1. Please provide all documentation and supporting workpapers used to determine the purchase price identified in Article 2.2.2. Please provide a copy of all the schedules identified in the Asset Purchase Agreement.

Response: 1. The schedules and exhibits have not been created at this time. In most cases, they are prepared if and when we receive approval from the Missouri Public Service Commission to proceed with the transaction. We can supply the schedules if and when they are completed by Seller.

DR 16 (submitted July 12, 2019): Please provide any property appraisal report(s) for the Sunset Palms water and sewer systems.

Response: Missouri American Water Company does not have a property appraisal report for the Sunset Palms water and sewer system.

⁶ MAWC's supplemented response is as follows:

MAWC's supplemental response was entered into EFIS on July 17, 2019.⁷ However, neither supplemented response provides documents, workbooks or papers, or analysis regarding the assets' value.

8. Staff has continued discussions with Company to obtain the information required for Staff to complete its examination and analysis. MAWC has indicated that additional information will be provided to Staff, but even if that information is provided today, Staff will not have the necessary time to review said information and incorporate it into a Staff Recommendation by the originally-suggested deadline of August 16.

9. Should MAWC fail to provide Staff with the information sufficient to complete its examination and analysis, Staff believes it will need to conduct its own analysis for estimated book value. Because this Application involves a non-regulated system with seemingly-limited information, Staff estimates that this process may take approximately sixty (60) days to complete. Staff will file its recommendation sooner, if possible.

The purchase price was a negotiated amount between the buyer and seller. Missouri-American negotiates the lowest purchase price possible whenever it buys a system. The purchase price for this particular system took into account reviewing of the net value of the assets including any land purchase minus any contributed property. The purchase price does not exceed the value of the assets.

⁷ The expanded supplemental response is as follows:

Resubmitted response: 1. The purchase price was a negotiated amount between the buyer and seller. Missouri-American negotiates the lowest purchase price possible whenever it buys a system. During September/October of 2018, Scott Frisella (PMP, LLC) and Brent Haas (MAWC) held a number of conversations regarding both Sunset Palms and Isle Del Sol and the potential purchase by MAWC of the water and sewer assets. During these discussions, Mr. Haas inquired of Mr. Frisella as to what his asking price might be. After some deliberation, Mr. Frisella communicated that it would likely take \$800,000 to purchase the combined systems. MAWC, after consideration of this asking price, its general knowledge of water and sewer systems, and its knowledge of the condition and age of the Sunset Palms and Isle Del Sol systems, offered a combined price of \$750,000, which was accepted by the sellers. 2. The schedules and exhibits have not been created at this time. In most cases, they are prepared if and when we receive approval from the Missouri Public Service Commission to proceed with the transaction. We can supply the schedules if and when they are completed by Seller.

WHEREFORE, Staff respectfully submits this *Motion for Additional Time to October 11, 2019 to File Staff Recommendation* for the Commission's consideration. Staff requests this additional time to allow the Company to provide this information, or if needed to prepare its own estimate for book value, and prepare its recommendation.

Respectfully submitted,

/s/ Alexandra L. Klaus

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CERTIFICATE OF SERVICE

I hereby certify that copies of the foregoing have been electronically mailed to all parties and/or counsel of record on this 16th day of August, 2019.

/s/ Alexandra L. Klaus