

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

In the Matter of the Joint Application of )  
Missouri-American Water Company and )  
Woodland Manor Water Company, LLC for ) **Case No. WM-2016-0169**  
MAWC to Acquire Certain Water Assets of )  
Woodland Manor and in Connection )  
Therewith, Certain Other Related Transactions )

**STAFF RESPONSE**

**COMES NOW** the Staff of the Missouri Public Service Commission, by and through counsel, and for its *Response* in this matter hereby states:

1. Missouri-American Water Company (MAWC) and Woodland Manor Water Company, LLC, (Woodland Manor) filed a joint application (Application) January 5, 2016, for Commission authorization of Woodland Manor to sell all of its assets, including its Certificate of Convenience and Necessity (CCN) to MAWC. The Commission ordered Staff to file its *Recommendation*, which Staff filed February 22, 2016. MAWC filed a response to *Staff's Recommendation*, accepting all of Staff's conditions except one. The Commission ordered Staff to respond to MAWC's point of contention no later than March 22, 2016.

2. MAWC stated in its *Response to Staff's Recommendation* that it was opposed to Condition g (summarizing *Staff Memorandum* condition 8), which requires MAWC to utilize certain balances in its rate base:

Authorize MAWC to book the plant-in-service, depreciation reserve, CIAC and CIAC amortization balances, as calculated by the Audit Staff as of December 31, 2015 and shown on Attachment B, for purposes of rate base for plant-in-service and depreciation reserve to be included within the books and records of MAWC with respect to the Woodland Manor system, with actual values for plant-in-service, depreciation reserve, CIAC and CIAC amortization subject to review and adjustment in MAWC's next rate

case; and requires MAWC to maintain and retain proper rate base records on a going forward basis;

3. Staff and MAWC met to discuss MAWC's opposition to Condition g; from which Staff gained a better understanding of MAWC's position. Staff's understanding is that the company desires to include certain future expense savings and sales transition costs as regulatory assets in its rate base in conjunction with this acquisition should it be approved by the Commission. Based on that understanding and more fully outlined in *Staff's Memorandum* attached as Appendix A to this pleading; Staff is opposed, at this time and in the context of this case, to MAWC's position either in part or fully, and reaffirms Staff's original position as outlined in its *Recommendation* filed February 22, 2016.

**WHEREFORE**, Staff prays that the Commission will accept this *Response* as satisfaction of its March 15 order; accept MAWC's position as a point of contention in this matter; and grant such other and further relief as the Commission considers just in the circumstances.

Respectfully submitted,

**/s/ Whitney Payne**

Whitney Payne

Legal Counsel

Missouri Bar No. 64078

Attorney for the Staff of the

Missouri Public Service Commission

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**CERTIFICATE OF SERVICE**

I hereby certify that a true and correct copy of the foregoing was served by electronic mail, or First Class United States Postal Mail, postage prepaid, on this 22<sup>nd</sup> day of March, 2016, to all counsel of record.

**/s/ Whitney Payne**

## MEMORANDUM

TO: Missouri Public Service Commission Official Case File  
Case No. WM-2016-0169  
Woodland Manor Water Company, LLC.  
Transfer of Assets to Missouri American Water Company

FROM: Jim Merciel – Water and Sewer Unit; Case Coordinator  
Kim Bolin – Auditing Unit  
Jennifer Grisham – Auditing Unit

/s/ Kim Bolin / March 22, 2016  
Auditing Unit      Date

/s/ Whitney Payne / March 22, 2016  
Staff Counsel      Date

SUBJECT: Missouri Public Service Commission Staff (Staff's) Response to Missouri-American Water Company's March 3, 2016 Response

DATE: March 22, 2016

### STAFF'S RESPONSE

Missouri-American Water Company (MAWC) filed a response to *Staff's Recommendation to Approve Transfer of Assets*. In this response MAWC had no objection to the Staff Recommendation, except for Condition g of the Staff Recommendation (Condition 8 of the Memorandum), which requires MAWC to utilize certain balances related to rate base as shown on Attachment B. Condition 8 of the Memorandum states, "Authorize MAWC to book the plant-in-service, depreciation reserve, CIAC and CIAC amortization balances, as calculated by the Audit Staff as of December 31, 2015 and shown on Attachment B, for purposes of rate base for plant-in-service and depreciation reserve to be included within the books and records of MAWC with respect to the Woodland Manor system, with actual values for plant-in-service, depreciation reserve, CIAC and CIAC amortization subject to review and adjustment in MAWC's next rate case; and requires MAWC to maintain and retain proper rate base records on a going forward basis;"

Staff has contacted the Company about its opposition to this recommendation and the Company has provided additional information clarifying its concerns. MAWC is requesting authorization to create two regulatory assets in relation to this acquisition; an "operational synergies savings" regulatory asset and "transition costs" regulatory asset. Staff will address each of these proposals in turn.

Staff is opposed to authorization of an operational synergies regulatory asset. "Operational synergies" represent the purported operational savings accruing to an acquired entity due to a merger and acquisition transaction. To determine what truly is operational synergy savings due to the acquisition is inherently very subjective because any estimated net savings must be computed utilizing an "as if" scenario assuming that the acquisition transaction never took place. Also, any such regulatory asset should also take into account any increases in expense that may result from the

acquisition transaction. While MAWC is free to track for internal purposes any net savings it believes will result to the Woodland Manor operations due to the acquisition, Staff does not believe that deviation from normal accounting for Woodland Manor's ongoing costs is justified due only to a change in ownership.

"Transition costs" are incremental costs incurred by an acquiring entity in order to merge the operations of the newly acquired utility into the acquiring utility. For purposes of resolution of this proceeding, Staff is not opposed to authorizing MAWC to book a regulatory asset for its incurred incremental transition costs associated with the Woodland Manor operations, for possible consideration in future rate proceedings. Costs already incurred by Woodland Manor would not qualify as transition cost. However, to ensure that any such asset not remain on MAWC's books for an extended period of time, Staff recommends that such authorization be conditioned upon MAWC agreeing to start amortizing any transition costs regulatory assets over a five-year period, commencing one year from the effective date of the Woodland Manor acquisition.

Staff maintains the recommendations it made earlier in this case regarding the appropriate accounting by MAWC for Woodland Manor's plant in service, depreciation reserve, and contributions in aid of construction.

Staff also recommends that the Commission maintain its traditional policy of not ordering any ratemaking treatment for the rate base, revenues and expenses of MAWC/Woodland Manor in any order approving this acquisition.

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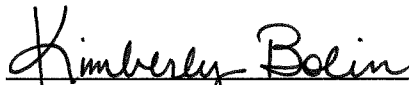
**File No. WM-2016-0169**

**AFFIDAVIT OF KIMBERLY K. BOLIN**

STATE OF MISSOURI     )  
                                  ) ss  
COUNTY OF COLE     )

**COMES NOW**, Kimberly K. Bolin, and on her oath declares that she is of sound mind and lawful age; that she contributed to the attached Staff Memorandum; and that the same is true and correct according to her best knowledge and belief.

Further the Affiant sayeth not.

  
\_\_\_\_\_  
Kimberly K. Bolin

Subscribed and sworn before me on this 22<sup>nd</sup> day of March, 2016.

  
\_\_\_\_\_  
Notary Public

JESSICA LUEBBERT  
Notary Public - Notary Seal  
State of Missouri  
Commissioned for Cole County  
My Commission Expires: February 19, 2019  
Commission Number: 15633434