

Foster, Keith

From: Foster, Keith
Sent: Thursday, September 27, 2012 7:57 AM
To: 'Crystal Greene'
Subject: FW: Algonquin Water Resources of Missouri LLC d/b/a Liberty Water - 2011 Missouri PSC Annual Report Deficiency

Crystal,

This is a reminder that your response to the attached deficiency email is due on October 2.

Please let me know if you have any questions.

Thank you,

Keith D. Foster, PMP

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Auditing Unit
Utility Services Department
Missouri Public Service Commission
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From: Foster, Keith
Sent: Wednesday, September 12, 2012 8:09 AM
To: 'Crystal Greene'
Subject: FW: Algonquin Water Resources of Missouri LLC d/b/a Liberty Water - 2011 Missouri PSC Annual Report Deficiency

The Missouri Public Service Commission (Commission) has received your response to its deficiency notice regarding the [Algonquin Water Resources of Missouri LLC d/b/a Liberty Water](#) 2011 Annual Report. Commission Staff has reviewed the response and has determined it does not correctly address all deficiencies reported. Therefore, an additional response on behalf of the Company is required.

For your convenience, a copy of the original deficiency email has been attached which outlines the items that are required.

Items 1, 4, 5, 8, 9, 10, 11, 15, 16, and 19 have been adequately addressed.

While item 2 was addressed, the Company's complete current certificated name was not completed.

While item 3 was addressed, the verification page must be submitted with the annual report or filled in electronically as described in the original deficiency email.

While portions of item 6 were addressed, the portion regarding the lack of Capital Stock data for lines 3-7 was not addressed. If stock is not applicable to your Company, the amount on page 5, line 3 may have been incorrectly placed. Please correctly fill out page 5, line 3 or update page 2, lines 3-7, accordingly.

While item 7 was addressed, the dollar amounts associated with each acquisition should be reported.

While item 12 was addressed, the amounts for each vendor listed on the Company's attached 8a and 8b, must be broken out as shown on page 8 (amount of payments for Water Expensed, Water Capitalized, Sewer Expensed, and Sewer Capitalized).

While item 13 was partially addressed, no Balance at Beginning of Year was provided on line 3 of page 9. In the Commission's report and order (effective March 23, 2007) for the company's last rate case (Commission Case No. WR-2006-0425), the net CIAC to be recorded was \$910,248 for water and \$299,258 for sewer. You must update page 9 to accurately report CIAC, including accurate beginning balances or provide an explanation of how over \$1.2 million in CIAC went to zero in less than four years. You must also provide a detailed explanation for the Additions During the Year reported on line 4.

While item 14 was addressed, the Total on line 21 of page 10 doesn't match the total on page 5, line 6, if all the amounts reported on page 10 represent short-term debt to affiliates.

Item 17 appears to have been addressed by completely removing the amount reported in your original submission. Please provide an explanation of why the \$461,014.93 reported in Repairs of Water Plant – Other was removed. If this was done in error, please correct and provide the required description on page W-3a, as originally directed.

Item 18 was not addressed. It does not appear that the amounts related to the KMB Utility water and Noel Water acquisitions were properly reported in the correct plant accounts as additions for 2011 on page W-5. On July 24, 2012, I forwarded to you the workpapers associated with Liberty Water's purchase of the two utilities. These workpapers should be used to help the Company accurately report the plant-in-service and depreciation reserve amounts associated with the two acquisitions. Of course, there may be other additions and retirements that occurred during 2011 outside of these acquisitions or after the dates of these acquisitions that also need to be considered as well. To be clear, let me address what should be reported for each of the columns on pages W-5 and W-6:

Balance at Beginning of Year, column (c): This must contain the amounts reported in the Balance at End of Year, column (f) from the Company's 2010 annual report. The amounts reported for account numbers 325.1 and 332 do not match what was in the Company's 2010 annual report.

Additions During the Year, column (d): This must contain the plant-in-service balances for each account for Noel Water and KMB Utility water at the time of the acquisition of each. In addition, you would report any other water plant additions that occurred during the year for Liberty Water, including any additions for Noel Water and KMB Utility water that occurred after their acquisition. It does not appear that the additions from the acquisitions are reported in the appropriate accounts.

Retirements During the Year, column (e): This must contain the value of any retirements that occurred during the year for Liberty Water, including any retirements for Noel Water and KMB Utility water that occurred after their acquisition.

Balance at End of Year, column (f): This is the sum of columns (c) and (d), less column (e). This is automatically calculated by Microsoft Excel when using the electronic annual report form.

Annual Depreciation Rate %, column (g): The depreciation rates as ordered by the Commission in the most recent rate case, or acquisition case(s).

Depreciation Expense, column (h): This column is a bit more complicated because it should be calculated based upon the total plant-in service at the beginning of the year and the actual in-service and retirement date(s) of new equipment (additions) and retirements that occurred during the year. Since Noel Water and KMB Utility water were acquired during the reporting year, the depreciation expense associated with their addition should be calculated based on the number of months in 2011 each was a part of Liberty Water. The depreciation reserve balances associated with each acquisition at the time of acquisition should not be reported here but in column (m). It does not appear that all the depreciation expense is reported in the appropriate accounts. And it appears that the depreciation reserve balances from the two acquisitions may have been included, which overstates the company's true depreciation expense.

Reserve Balance at Beginning of Year, column (i): This must contain the amounts reported in the Reserve Balance at End of Year, column (n) from the Company's 2010 annual report. The amounts you reported in this column do match those from the prior year.

Retirement of Property, columns (j), (k), and (l): These would contain amounts related to any retirements reported in column (e).

Other Charges, column (m): This must contain, for your company, the depreciation reserve balances at the time of acquisition for Noel Water and KMB Utility water plant.

Reserve Balance at End of Year, column (n): This is the sum of columns (h), (i), (l), and (m), less columns (j) and (k). This is automatically calculated by Microsoft Excel when using the electronic annual report form.

While item 20 was partially addressed, no information was reported in lines 15-19 for Storage Facilities. If storage facilities are not used, then so state, otherwise, you must provide the information requested for each facility.

Item 21 was not adequately addressed. The Total at Beginning of Year column (c) for Mains no longer matches the ending balance for 2010, and no additions or removals were recorded. Please review and update as originally requested.

Item 22 appears to have been addressed by completely removing the amount reported in your original submission. Please provide an explanation of why the \$284,852.14 reported in Repairs of Sewer Plant – Other was removed. If this was done in error, please correct and provide the required description on page S-3a, as originally directed.

While item 23 was partially addressed, there are still some discrepancies. It does not appear that the amounts related to the KMB Utility sewer acquisition were properly reported in the correct plant accounts as additions for 2011 on page S-4. On July 24, 2012, I forwarded to you the workpapers associated with Liberty Water's purchase of KMB Utility. These workpapers should be used to help the Company accurately report the plant-in-service and depreciation reserve amounts associated with the acquisition. Of course, there may be other additions and retirements that occurred during 2011 outside of these acquisitions or after the acquisitions that also need to be considered as well. To be clear, let me address what should be reported for each of the columns on pages S-4 and S-5:

Balance at Beginning of Year, column (c): This must contain the amounts reported in the Balance at End of Year, column (f) from the Company's 2010 annual report. The amounts you reported in this column do match those from the prior year.

Additions During the Year, column (d): This must contain the plant-in-service balances for each account for KMB Utility sewer at the time of the acquisition. In addition, you would report any other sewer plant additions that occurred during the year for Liberty Water, including any additions for

KMB Utility sewer that occurred after its acquisition. It does not appear that the additions from the acquisition are reported in the appropriate accounts.

Retirements During the Year, column (e): This must contain the value of any retirements that occurred during the year for Liberty Water, including any retirements for KMB Utility sewer that occurred after its acquisition.

Balance at End of Year, column (f): This is the sum of columns (c) and (d), less column (e). This is automatically calculated by Microsoft Excel when using the electronic annual report form.

Annual Depreciation Rate %, column (g): The depreciation rates as ordered by the Commission in the most recent rate case, or acquisition case(s).

Annual Depreciation Expense, column (h): This column is a bit more complicated because it should be calculated based upon the total plant-in service at the beginning of the year and the actual in-service and retirement date(s) of new equipment (additions) and retirements that occurred during the year. Since KMB Utility was acquired during the reporting year, the depreciation expense associated with its addition should be calculated based on the number of months in 2011 KMB Utility sewer was a part of Liberty Water. The depreciation reserve balances associated with the acquisition at the time of acquisition should not be reported here but in column (m). It does not appear that all the depreciation expense is reported in the appropriate accounts. And it appears that the depreciation reserve balances from the acquisition may have been included, which overstates the company's true depreciation expense.

Reserve Balance at Beginning of Year, column (i): This must contain the amounts reported in the Reserve Balance at End of Year, column (n) from the Company's 2010 annual report. The amounts you reported in this column do match those from the prior year.

Retirement of Property, columns (j), (k), and (l): These would contain amounts related to any retirements reported in column (e).

Other Charges, column (m): This must contain, for your company, the depreciation reserve balances at the time of acquisition for KMB Utility sewer plant.

Reserve Balance at End of Year, column (n): This is the sum of columns (h), (i), (l), and (m), less columns (j) and (k). This is automatically calculated by Microsoft Excel when using the electronic annual report form.

The following additional deficiencies were found with the revised annual report:

24. When electronically filing its updated 2011 Annual Report, the Company only submitted a response under **BMAR-2012-1703** for water. Since the Company is also a sewer service provider, you must also electronically file your response under **BMAR-2012-1706** for sewer.
25. On page 1, lines 11-16, the primary licensed operator information and the operator license number (line 16) must be completed each for water and sewer plant operations.
26. On page 2, lines 29-31, the DNR permit information must be completed.
27. On page W-1a, under the Description for Page W-1, Line 11, Rent Expense, you must describe what the rent in the amount of \$6,105.78 is for.
28. On page W-1a, under the Description for Page W-1, Line 21, Other Expenses, please explain the purpose of the negative "acquisition depreciation – expensed in prior years as KMB & Noel." Any prior depreciation expense for acquisitions would be included in the depreciation

reserve balances for water plant-in-service. Please review this expense item and update as appropriate.

29. On page W-2a, it is not necessary to complete the section for Other Revenue. These amounts are already included on page W-2, lines 17 and 19. Please note, due to a known spreadsheet error, you will not be able to delete the amount in the box next to "Other Revenue."
30. On page S-1a, under the Description for Page S-1, Line 21, Other Expenses, please explain the purpose of the negative "Prior Year Depreciation from KMB & Noel Water Company." Any prior depreciation expense for acquisitions would be included in the depreciation reserve balances for sewer plant-in-service. In addition, Noel Water did not provide sewer services. Please review this expense item and update as appropriate.
31. On page S-4a, an explanation was not provided for the Other Collection Plant Facilities reported on Page S-4, Line 12. Since a value was reported on page S-4, line 12, this section must be completed.

A response for these item(s) is required in order to show your report as complete and remove it from deficiency status.

You **must resubmit** the annual report, in its entirety, with the appropriate changes and the reference number below for it to be properly entered into the system. An updated verification attesting to the new/updated information is also required.

Your prompt attention to resolving this matter is appreciated. The Commission rule 4 CSR 240-3.540 (4) states that a utility company which receives a notice that deficiencies exist in the information provided in the annual report shall respond to that notice within **20 days**, or the utility company is subject to a **penalty of \$100** for each day that it is late in filing its response to the deficiency.

The completed document/revision should be submitted electronically under EFIS (accessible from the Commission's Web page <http://www.psc.mo.gov/>) or mailed to:

Data Center
Missouri Public Service Commission
200 Madison Street, Suite 100, Jefferson City, MO 65101
(P.O. Box 360, Jefferson City, MO 65102-0360)

When contacting the Commission concerning your report, please reference the following identification number: **BMAR-2012-1703 and BMAR-2012-1706.**

Should you have any questions or need assistance in this process, please contact me.

A COMPANY RESPONSE TO THE ABOVE DEFICIENCIES IS REQUIRED.

Sincerely,

Keith D. Foster, PMP

*Utility Regulatory Auditor
Auditing Unit
Utility Services Department
Missouri Public Service Commission
PO Box 360*

keith.foster@psc.mo.gov

CONFIDENTIALITY NOTICE: This e-mail message including attachments, if any, is intended only for the person or entity to which it is addressed and may contain confidential and/or privileged material. Any unauthorized review, use, disclosure or distribution is prohibited. If you are not the intended recipient, please contact the sender by reply e-mail and destroy all copies of the original message. If you are the intended recipient but do not wish to receive communications through this medium, please so advise the sender immediately.

From: Foster, Keith

Sent: Thursday, May 24, 2012 5:31 PM

To: 'Shawn.Bundy@libertywater.com'

Subject: Algonquin Water Resources of Missouri LLC d/b/a Liberty Water - 2011 Missouri PSC Annual Report Deficiency

Thank you for submitting your 2011 Annual Report to the Missouri Public Service Commission. As a result of my review, I have identified the following item(s) that need to be corrected:

1. The correct annual report form was not used for this submission. Each year in January, the Commission authorizes the current annual report form to be utilized for submissions. This form is sent to each company either via mail or email to the contact on file as provided by the company. This year, major revisions to the report were made, which require the proper form to be submitted. Therefore, a complete resubmission using the correct form is necessary.

The correct form and instructions can be obtained on the Commission's website at:

[www.http://psc.mo.gov](http://psc.mo.gov) then clicking the Forms box on the left hand side of the page, then selecting the Water/Sewer link; or by contacting the Commission.

2. The company's name was incorrectly listed. The report must include any d/b/a names on each line requesting the company's name. Our records indicate the company's current certificated name is **Algonquin Water Resources of Missouri LLC d/b/a Liberty Water**. The name currently listed on the report will need to be changed to reflect this.
3. The verification page was not completed by the Company nor notarized. When submitting the annual report form electronically, complete the verification page in full. Electronic signatures are acceptable pursuant to Sections 432.200 through 432.295 RSMo. The original document shall be notarized and kept for your records. On the electronic version, type the electronic signatures (/s/ John Doe) and dates that are reflected on the original document.
4. On page 1, line 5, Company E-mail Address was not completed. Line 8 must include the city, state, and zip code of the company contact.
5. Although page 1, line 18, Total Revenues (for Water) under MO Jurisdictional, correctly equals the total operating revenues reported on page W-2, line 24, it does not match the sum of lines 16 and 17. In addition, lines 16 and 17 must correlate to what is reported on page W-2; line 17 on page 1 reports Other Revenues of \$47.99, yet no Other Revenues are reported on page W-2, line 23, Other Operating Revenues.
6. Page 2 does not contain any Capital Stock data for lines 3-7, although \$3,434,329 of Capital Stock is reported on the Balance Sheet, page 5, line 3. This section must be completed as well as the section for Security Holders and Voting Powers, lines 8-17. Boxes 27 (Secretary of State Requirements) and 28 (Department of Natural Resources Permits) must be checked if the company has filed and is current.

7. Page 3, does not list any major transactions occurring during the year, yet on pages W-5 and S-4, \$2,130,018.91 and \$82,904.22, respectively, are reported for Additions During the Year, column (d). Please revise page 3 to describe these additions.
8. A required detailed explanation of the amount reported on page 4, line 19 (Other Assets), was not attached. The current annual report form has a page 4a, upon which you must provide this explanation.
9. The amount of Total Assets on page 4, line 20, does not match the amount of Total Equity and Liabilities listed on page 5, line 22. These two amounts must match. Please check the data provided and correct any errors.
10. A required detailed explanation of the amount reported on page 5, line 21 (Other Liabilities), was not attached. The current annual report form has a page 5a, upon which you must provide this explanation.
11. No payroll data was provided on page 7. Individual payroll data must be provided for all officers and employees. If there are no officers or employees, then page 8 must be completed. Additional sheets may be added if necessary.
12. Page 8 was not completed. The information noted on the page must be provided for each service provider. If no payments were made for services rendered by other than employees, then page 7 must be completed.
13. No information was recorded on page 9, Contributions in Aid of Construction (CIAC). In the company's last rate case (Public Service Commission Case No. WR-2006-0425), the commission ordered the Company to record specific CIAC amounts (see Report and Order dated March 13, 2007, page 20). You must update page 9 to accurately report CIAC and its amortization or provide an explanation of why it is not included.
14. Page 10 does not list any debtors, yet \$310,686.49 in short-term debt to affiliates is reported on page 5, line 6. Each item of debt must be reported on page 10.
15. Gallons sold and the revenue amounts for each type of metered sales of water are not included on page W-2, lines 10-15. These amounts must be provided for each meter size.
16. A required detailed explanation of the amount reported on page W-2, line 15 (Other), was not attached. The current annual report form has a page W-2a, upon which you must provide this explanation.
17. A required detailed explanation of the amount reported on page W-3, line 7 (Repairs of Water Plant - Other), was not attached. The current annual report form has a page W-3a, upon which you must provide this explanation.
18. The amounts recorded under Annual Depreciation Expense, column (h), on page W-6, do not all appear to be calculated correctly. Of particular note is the annual depreciation expense on line 29 for account number 343 (Transmission and Distribution Mains) at \$1,164,375.43, or approximately 27.8% of the Plant-in-Service balance for that account, far above an annual depreciation rate of 2.0% (Note: this does not mean the annual depreciation amount should be exactly 2.0% of the Plant-in-Service balance; this total should be calculated based upon actual in-service and retirement dates of new equipment and retirements during the period). Please check this data and make any necessary corrections.
19. Page W-7 is incomplete. Installation and replacement dates must be provided for each pump listed. If a date is unknown, then that should be stated. Year Constructed (line 15) and Type of Construction (line 16) must be provided for each well listed. If unknown, then that should be stated.

20. No information was recorded on page W-8. Since page W-2 identifies 1,448 metered customers, on page W-8 you must provide the information requested under Meters and Meter Settings, as well as under Storage Facilities.
21. Page W-9 does not show any Total Additions During the Year (column d) or Total Removed or Abandoned During the Year (column e) of pipes for Mains. However, on page W-5, \$1,919,804.56 is reported as Additions During the Year (column d) for Transmission and Distribution Mains (Account 343) on line 29. Please review and update page W-9 to accurately reflect any additions and removals that occurred during the year.
22. A required detailed explanation of the amount reported on page S-3, line 7 (Repairs of Sewer Plant - Other), was not attached. The current annual report form has a page S-3a, upon which you must provide this explanation.
23. The amounts recorded under Annual Depreciation Expense, column (h), on page S-5, do not all appear to be calculated correctly. Of particular note is (1) the annual depreciation expense on line 11 for account number 352.2 (Collection Sewer - Gravity) at \$46,056.69, or approximately 7.7% of the Plant-in-Service balance for that account, over three times the annual depreciation rate of 2.0% and (2) the annual depreciation expense on line 21 for account number 372 (Oxidation Lagoon) at \$168,793.37, or approximately 19% of the Plant-in-Service balance for that account, nearly four times the annual depreciation rate of 5.0% (Note: this does not mean the annual depreciation amount should be exactly 2.0% or 5.0% of the Plant-in-Service balance; this total should be calculated based upon actual in-service and retirement dates of new equipment and retirements during the period). Please check this data and make any necessary corrections.

The above list of deficiencies is based on the information as presented on this form as filed. However, given that your revised submission will be completed on the current and correct annual report form, some items might need to be provided on a different line or area of the new form or there may be additional information requested on the new form. Given this, when a revised annual report is received, a complete review of that form will be conducted which may identify deficiencies due to the addition of data not previously reported or for some other reason. At the completion of that review, we will notify you if the report has been accepted or if deficiencies exist.

A response for these item(s) is required in order to show your report as complete and remove it from deficiency status.

You **must resubmit** the annual report, in its entirety, with the appropriate changes and the reference number below for it to be properly entered into the system. An updated verification attesting to the new/updated information is also required.

Your prompt attention to resolving this matter is appreciated. The Commission's rule 4 CSR 240-3.540 (4) states that a utility company which receives a notice of deficiency for the information provided in the annual report shall respond to that notice within **20 days**, or the utility company is subject to a **penalty of \$100** for each day that it is late in filing its response to the deficiency.

The completed document/revision should be submitted electronically under EFIS (accessible from the Commission's Web page <http://www.psc.mo.gov/>) or mailed to:

Data Center
Missouri Public Service Commission
200 Madison Street, Suite 100, Jefferson City, MO 65101
(P.O. Box 360, Jefferson City, MO 65102-0360)

When contacting the Commission concerning your report, please reference the following identification number: **BMAR-2012-1703 and BMAR-2012-1706.**

Should you have any questions or need assistance in this process, please contact me.

A COMPANY RESPONSE TO THE ABOVE DEFICIENCIES IS REQUIRED.

Sincerely,

Keith D. Foster, PMP

Utility Regulatory Auditor

Auditing Unit

Utility Services Department

Missouri Public Service Commission

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Jefferson City, MO 65102-0360

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