

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

In the Matter of Liberty Utilities (Missouri)
Water), LLC d/b/a Liberty's Application for) **File No. WF-2024-0135**
Authority to Issue Long Term Unsecured Debt)

STAFF RECOMMENDATION

COMES NOW the Staff of the Missouri Public Service Commission (“Staff”), through counsel, and files its *Staff Recommendation* and attached Memorandum, recommending that the Missouri Public Service Commission (“Commission”) approve Liberty Utilities (Missouri Water) LLC’s (“Liberty Water” or “Applicant”) Application for Authority to Issue Long Term Unsecured Debt (“Application”), with conditions. In support of Staff’s Memorandum, Staff states as follows:

1. On October 13, 2023, Liberty Water filed its *Financing Application and Request for Waiver*. The Applicant requested a waiver of Commission Rule 20 CSR 4240-4.017 which requires a minimum of 60 days’ notice prior to filing a new case with the Commission.

2. On October 17, 2023, the Commission ordered Staff to file its *Recommendation* or a *Status Report* by November 22, 2023. Staff requested to file its recommendation by December 22, 2023. Following that, the Commission directed Staff to file a recommendation by Staff’s proposed deadline.

3. Staff reviewed the *Application* regarding Liberty Water's request for the authority to issue up to \$30,000,000 in fixed rate long-term debt to Liberty Utilities, Co. (“LUCo”). The proposed debt issuance complies with § 393.200.1, RSMo.

4. For the purposes set forth in the *Application*, the request is reasonably necessary,¹ and operating expenses or income cannot reasonably cover those purposes.²

However, the Company also requested that the Commission allow it to "incur, pay, and amortize the debt issuance expense of 80 basis points of the principal amount of the Notes and/or similar expenses related thereto over the life of the Notes."

Staff recognizes "placement fees" or other transactional costs are inherently part of obtaining debt financing. These fees and costs are included in the total debt costs of the applicant, and their impact is determined when calculating the cost of debt in a subsequent **general rate case**, not in a finance case.

Staff also recognizes that the purpose of this particular finance application is to obtain long-term debt from the Applicant's parent company in order to pay off existing outstanding debts to the same parent company. Because of these facts, Staff does not consider the "placement fee" of 80 basis points as reasonable.

5. Based on its review and investigation, Staff recommends the following eight conditions in its Memorandum:

- (1) That nothing in the Commission's order shall be considered a finding by the Commission of the value of this transaction for rate making purposes, specifically including, but not limited to, the placement fee (if authorized), and that the Commission reserves the right to consider the rate making treatment to be afforded the

¹ Staff typically recommends the Commission include a condition that approval of the financing is not considered approval of the terms and conditions of the financing transaction for ratemaking purposes.

² Staff applies the "not detrimental to the public interest" standard for financing applications. Staff compared the requested amount to the company's stated uses to ensure that long-term financing authority requests are reasonable and support long-term capital investment. Staff assesses the potential impact of the requested financing on the company's credit metrics, taking into account the impact of the parent company's financial risk on the rating of the subject company.

financing transaction and its impact on cost of capital, in any later rate proceeding;

- (2) That the Company shall file with the Commission within thirty (30) days of issuance of any financing authorized pursuant to a Commission order in this proceeding, a report including the amount of indebtedness issued, date of issuance, interest rate (initial rate if variable), maturity date, redemption schedules or special terms, if any, use of proceeds, estimated expenses, and loan or indenture agreement concerning each issuance. In addition, the Company shall also provide the analysis, to include but not be limited to, indicative pricing information provided by investment banks it performed to determine that the terms for the debt it decided to issue were the most reasonable at the time;
- (3) That the Company shall file with the Commission, through its electronic filing and information system ("EFIS") any information concerning communication with credit rating agencies concerning any such issuance if there is any;
- (4) That the Company shall file with the Commission as a non-case related submission in EFIS under "Resources" - "Non-Case Related Query" - "Ordered Submission" any credit rating agency reports published on Liberty Water's or LUCo's corporate credit quality or the credit quality of its securities;³
- (5) That Liberty Water be required to file a five-year capitalization expenditure schedule in future finance cases;
- (6) That, to the extent that any non-regulated investments made by the Company or LUCo and affiliated companies may potentially impact the Company's credit quality and resulting credit ratings, the Company shall notify Staff of such possibility and provide a status report to the Commission;
- (7) That the Commission's grant of authority shall expire three years from the effective date of the order in this proceeding.
- (8) That the Commission not approve a specific "placement fee" in this finance case, and that any ratemaking treatment involving a "placement fee" or the amortization thereof shall be determined in future rate proceedings.

³ This condition is specific to case WF-2024-0135 and will end upon the conclusion of the case.

6. Liberty Water did not determine the portion of debt securities subject to the fee schedule in § 386.300.2, RSMo, in its *Application*.⁴

7. Liberty Water filed its five-year capitalization expenditure schedule, as required by Commission Rule 20 CSR 4240-10.125(1)(G).

8. Staff is not opposed to the Commission granting Liberty's requested waiver from the requirements of Commission Rule 20 CSR 4240-4.017(1).

WHEREFORE, Staff recommends the Commission authorize Liberty's *Application* with Staff's recommended conditions.

Respectfully submitted,

/s/ Eric Vandergriff

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CERTIFICATE OF SERVICE

I hereby certify that copies of the foregoing have been mailed or hand-delivered, transmitted by facsimile or electronically mailed to all parties and/or counsel of record on this 21st day of December, 2023.

/s/ Eric Vandergriff

⁴ Liberty Water also stated, in its *Application*, that when individual debt securities are issued, the Applicant will submit a verified report to the Commission documenting the issuance as well as the applicability and measurement of fees under § 386.300.2, RSMo.