

Exhibit No. 101

Exhibit No. 101
Issues: Agreed Purchase Price
Witness: David Casaletto
Type of Exhibit: Surrebuttal
Sponsoring Party: Ozarks Clean Water
Company
File Nos.: WM-2022-0186
Date: October 11, 2022

Missouri Public Service Commission

Surrebuttal Testimony

of

David Casaletto

On Behalf of

Ozarks Clean Water Company

October 11, 2022

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**SURREBUTTAL TESTIMONY OF
DAVID CASALETTO
OZARKS CLEAN WATER COMPANY**

1 **WITNESS INTRODUCTION**

2 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

3 A. My name is David Casaletto. My business address is 11 Oak Dr. P.O. Box 973,
4 Kimberling City, Missouri, 65686.

5 **Q. WHAT IS YOUR POSITION WITH OZARKS CLEAN WATER COMPANY
6 (“OCWC”)?**

7 A. I hold the office of President of the OCWC Board of Directors.

8 **Q. ARE YOU THE SAME DAVID CASALETTO THAT FILED DIRECT TESTIMONY
9 IN THIS CASE?**

10 A. Yes. I filed direct testimony on behalf of OCWC.

11 **PURPOSE**

12 **Q. HAVE YOU REVIEWED THE REBUTTAL TESTIMONY FILED BY THE STAFF
13 OF THE COMMISSION?**

14 A. Yes.

15 **Q. WHAT DOES STAFF RECOMMEND?**

16 A. Staff witness Robertson recommends the Commission approve Foxfire’s
17 application.

18 **Q. WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY?**

19 A. The purpose of my surrebuttal testimony is to respond to some observations made
20 by Staff in Schedule JJR-r2 to Staff witness Robertson’s Rebuttal Testimony in

1 regard to the negotiated purchase price of the assets of Foxfire Utility Company
2 (“Foxfire”), and the benefits customers will receive upon transfer to OCWC from
3 Foxfire.

4 **PURCHASE PRICE FOR FOXFIRE ASSETS**

5 **Q. IN SCHEDULE JJR-R2 TO STAFF WITNESS ROBERTSON’S REBUTTAL**
6 **TESTIMONY, THERE IS SOME CONCERN EXPRESSED AS TO THE**
7 **PURCHASE PRICE. DO YOU BELIEVE THAT THE AGREED-TO PURCHASE**
8 **PRICE FAIRLY REPRESENTS A FAIR MARKET VALUE FOR THE ASSETS TO**
9 **BE PURCHASED BY OCWC?**

10 A. Yes.

11 **Q. HOW DID YOU HEAR ABOUT THE LANTERN BAY WATER AND SEWER**
12 **SYSTEMS (FOXFIRE) BEING FOR SALE?**

13 A. The owner, Rick Helms, called me. Rick indicated that having reached retirement
14 age, he and his wife would like to have the freedom to travel and enjoy retirement
15 and that he was considering selling the Lantern Bay systems. Based on my
16 knowledge of these systems, I knew they would be a good fit for OCWC.
17 Ultimately, we agreed to a price of \$1,285,400 - \$1,245,400 of which Rick and his
18 wife would finance over 20 years at 2.5%.

19 **Q. DOES THE INTEREST RATE HAVE ANY IMPACT ON YOUR VIEW OF THE**
20 **PRICE?**

1 A. Yes. From OCWC's standpoint, the agreed purchase price of \$1,285,400 is the
2 equivalent of a \$1,000,000 sales price, if a more common market interest rate of
3 5% is applied. The total price for OCWC over the course of the loan is the same.

4 **Q. IS THERE ANY CONTEXT YOU WOULD USE IN EXAMINING THE**
5 **REASONABLENESS OF THE PURCHASE PRICE?**

6 A. Yes. During my years working with wastewater treatment plants, a good rule of
7 thumb was to figure \$12,000 per connection to build a treatment plant including
8 collection lines and 2/3 of that or \$8,000 per connection to drill a well and install a
9 water distribution system. Lantern Bay currently has 258 sewer connections and
10 258 water connections for an estimated construction cost (sewer and water) of
11 \$5,160,000. Lantern Bay has the capacity to serve 420 sewer connections and
12 420 water connections for an estimated construction cost (sewer and water) of
13 \$8,400,000. Again, this is just a rule of thumb for a new system, but it illustrates
14 why I consider the \$1,285,400 price tag, coupled with the 2.5% interest on a 20-
15 year note, to be reasonable. Further, I also knew that Lantern Bay is in top notch
16 condition. The current owner uses the same maintenance and operation company
17 as OCWC and I knew that he does not defer needed maintenance.

18 **Q. HAVE YOUR CONCLUSIONS REGARDING PRICE BEEN CORROBORATED?**

19 A. As the owner operator of OCWC I have entertained potential purchases from time
20 to time. I understand that a general rule of thumb as to valuation of a system is
21 \$2,000 per connection with a customer that has both a sewer and water connection
22 counting as two connections. So, using Lantern Bay's current 258 sewer and water

1 customers, that would be 516 current connections (water plus sewer) times \$2,000
2 for a total estimated value of \$1,032,000. I'll also note that it is my understanding
3 that the \$2,000 per connection price generally is a quote for systems that normally
4 are in poor condition and needing significant work. The Foxfire systems are not
5 systems needing significant work.

6 **Q. WHAT IS THE PER CUSTOMER/CONNECTION PRICE ASSOCIATED WITH**
7 **THIS TRANSACTION?**

8 A. At the effective price of \$1,000,000, and using the current 516 customers, the per
9 customer price would be \$1,937.98 per customer. If you include the 21 new water
10 and sewer customers that Mr. Helms describes in his Direct Testimony, that
11 becomes \$1,792.12 per customer ($\$1,000,000 / 558$).

12 **Q. HAVE YOU SEE ANY OTHER TRANSACTIONS THAT WOULD GENERALLY**
13 **SUPPORT THE PRICING ON THIS TRANSACTION?**

14 A. Yes. The Commission recently approved the sale of the Rex Deffenderfer
15 Enterprises, Inc. d/b/a RDE Water Company (RDE) water system to the City of
16 Nixa for \$2,500,000.¹ The RDE systems was described as having 1,300
17 customers. Those figures derive a \$1,923.08 price per customer.

18 **Q. ARE THERE ANY OTHER PUBLICLY AVAILABLE MATERIALS THAT WOULD**
19 **GENERALLY SUPPORT THE PURCHASE PRICE?**

¹ *Order Granting Application to Sell Assets*, File No. WM-2022-0246 (August 17, 2022).

1 A. Yes. In the past year, appraisals of public water and sewer systems have been
2 filed before this Commission. As a part of those appraisals, certified appraisers
3 have provided compilations of transactions on a per customer basis.
4 As an example, in File No. WA-2022-0311, the provided appraisal included a listing
5 of sales of combined water & sewer systems in Missouri and Illinois as of 2021.
6 That list is attached hereto as **Schedule DC-s1**.

7 **Q. WHAT IS SHOWN BY THAT COMPILATION?**

8 A. The compilation indicates a range of water and sewer system sale prices of \$649
9 to \$5,263 per customer, with a Median of \$3,213 per customer and a Mean of
10 \$3,095 per customer.

11 **Q. HOW DOES THAT COMPARE TO THE PRICE OF THIS TRANSACTION?**

12 A. As stated above, if I use the effective price of \$1,000,000, the per customer price
13 would be \$1,937.98, utilizing 516 customers; and, \$1,792.12 per customer, using
14 the known growth.

15 Using the contract purchase price of \$1,285,000, results in a per customer price of
16 \$2,491, utilizing 516 customers; and, \$2,304 per customer, using the known
17 growth.

18 All of these numbers are significantly lower than the Median and Mean of the
19 transactions shown in **Schedule DC-s1**.

20 **Q. HOW WILL OCWC PAY THE PRINCIPAL AND INTEREST COSTS?**

21 A. We already know the monthly payment for each of the twenty (20) years after
22 closing as it is included in the sample promissory note that is attached to the

1 purchase agreement. This amount is easily covered by current rates. The growth
2 identified by Mr. Helms will only help that situation, leaving more than sufficient
3 funds to address the current costs OCWC will incur for administration, overhead,
4 operation and maintenance, and continuing to build the reserve OCWC maintains
5 for repair.

6 **CUSTOMER BENEFITS**

7 **Q. DID THE STAFF TESTIMONY DESCRIBE CUSTOMER SERVICE BENEFITS**
8 **THAT WILL BE AVAILABLE TO FOXFIRE CUSTOMERS AFTER THE**
9 **CLOSING?**

10 A. No, they did not. I think it is important to mention that Customers will receive
11 several conveniences not currently available with Foxfire. These benefits include
12 ACH autopayment, e-mail billing, online payments and account histories, text
13 alerts, and a nearby office and drop box for payments.

14 **Q. IN YOUR EXPERIENCE, DO CUSTOMERS VALUE THESE SORTS OF**
15 **OPTIONS?**

16 A. Yes. This is especially true in area such as that served by Foxfire where most of
17 the customers own their property as second homes, or investment property, and
18 do much of their business with the company from afar.

19 **Q. DO YOU HAVE ANY ADDITIONAL COMMENTS?**

20 A. Just that OCWC has previously acquired regulated water and sewer systems to
21 the benefit of the systems and their customers: Savannah Heights Industrial
22 Treatment, Inc. (Case No. SO-2008-0094); Bear Creek Water and Sewer LLC

1 (Case No. SM-2010-0241); S.T. Ventures, LLC (Case No. SO-2011-0020); and
2 Kimberling City Water Company (Case No. WO-2015-0113). OCWC continues to
3 enjoy a good relationship with the customers of all these systems.

4 **Q. DOES THIS CONCLUDE YOUR SURREBUTTAL TESTIMONY?**

5 A. Yes, it does.

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Sales Comparison Approach
(Continued)

SUMMARY OF SALES OF COMBINED WATER & SEWER SYSTEMS								
Sale #	Grantor	Grantee	Location	Sale Date	Sale Price	# of Cust	Sale Price / Customer	
2	City of Hardin	Illinois American	City of Hardin	IL	Pending	\$ 3,300,000	840	\$ 3,929
3	City of Mount Pulaski	Illinois American	City of Mount Pulaski	IL	Pending	\$ 5,250,000	1,634	\$ 3,213
7	City of Bolivar	Liberty Utilities	City of Bolivar	MO	Pending	\$ 20,000,000	9,000	\$ 2,222
10	City of Jerseyville	Illinois American	City of Jerseyville	IL	Oct-2020	\$ 43,250,000	8,218	\$ 5,263
13	City of Rosiclare	Illinois American	City of Rosiclare	IL	May-2020	\$ 600,000	925	\$ 649
15	Village of Andalusia	Illinois American	Village of Andalusia	IL	May-2020	\$ 3,300,000	950	\$ 3,474
18	Village of Glasford	Illinois American	Village of Glasford	IL	Sep-2019	\$ 1,900,000	974	\$ 1,951
21	Fox River Water Reclamation District	Aqua Illinois	Kane County	IL	Nov-2019	\$ 3,550,000	752	\$ 4,721
23	City of Lawson	Missouri American	City of Lawson	MO	Aug-2018	\$ 4,000,000	1,874	\$ 2,134
24	Village of Sundale	Illinois American	Village of Sundale	IL	May-2018	\$ 2,000,000	1,960	\$ 1,020
26	Fisher Water & Wastewater System	Illinois American	City of Fisher	IL	Mar-2018	\$ 6,800,000	1,780	\$ 3,820
27	Peotone Water & Sewer System	Aqua Illinois Camden County Public Water	Village of Peotone	IL	Oct-2018	\$ 12,300,000	3,000	\$ 4,100
29	Lake Region Water & Sewer Co	Supply District Number Four	Camden & Miller Counties	MO	Jun-2017	\$ 6,084,000	1,608	\$ 3,784
30	Village of Wardsville	Missouri American	Cole County	MO	May-2017	\$ 2,750,000	887	\$ 3,100
36	Village of Glenview	Aqua Illinois	Village of Glenview	IL	Apr-2015	\$ 22,000,000	7,218	\$ 3,048
						High	9,000	\$ 5,263
						Low	752	\$ 649
						Median	1,634	\$ 3,213
						Mean	2,775	\$ 3,095

The above market data indicates a water and sewer system sale price of \$649 to \$5,263 per customer. A review of the market data pertaining to utility systems that included water and sewer shows the subject property's unit value of \$3,400 per customer is within the range indicated by the market data.

Based upon this analysis, it is our opinion the market value of the subject property systems (water and sewer) as a whole is supported at \$2,414,000 (TWO MILLION FOUR HUNDRED FOURTEEN THOUSAND DOLLARS) based upon the Sales Comparison Approach.

AFFIDAVIT

STATE OF MISSOURI)
)
COUNTY OF Stone) ss

I, David Casaletto, state that I am the President of Ozarks Clean Water Company; that the Surrebuttal Testimony and any schedules attached hereto have been prepared by me or under my direction and supervision; and, that the answers to the questions posed therein are true to the best of my knowledge, information and belief under penalty of perjury, and pursuant to § 509.030, RSMo.



David Casaletto

10/10/2022
Date