

MEMORANDUM

From: Shawn Lafferty, Public Utility Accountant – Office of Public Counsel
Date: January 27, 2012
Re: Missouri-American Water Company Acquisition and CCN for Saddlebrooke Water and Sewer Case No. WA-2012-0066 / SA-2012-0067

On August 26, 2011, Missouri-American Water Company (“WAWC”) filed an application for a Certificate of Convenience and Necessity (“CCN”) authorizing it to install, own, acquire, construct, operate, control, manage and maintain Water and Sewer Systems in Christian and Taney Counties, Missouri. The area is generally known as the Saddlebrooke subdivision.

On January 6, 2012, the Missouri Public Service Commission Staff (“Staff”) filed its recommendation requesting the Commission issue an Order granting MAWC’s Certificates of Convenience and Necessity, to install, own, acquire, construct, operate, control, manage, and maintain Water and Sewer Systems in Christian and Taney Counties, Missouri, subject to the conditions contained in their recommendation.

Attached to Staff’s recommendation were EMS runs that supported incremental increases in rates for Water and Sewer customers of \$8,125 and \$1,984 respectively based upon a Return on Equity of 7.58%.

On January 13, 2012, The Office of Public Counsel (“OPC”) filed its initial response to Staff’s recommendation. Public counsel stated that it had no opposition to Staff’s recommendation that the Commission issue an Order granting MAWC’s request for Certificates of Convenience and Necessity. However, Public Counsel objected to Staff’s recommended rates for service.

From an accounting perspective, OPC’s primary concerns relate to the following items:

- Due to the lack of availability of many substantiating documents staff had to render estimates of multiple expense and capital items.
- Based upon OPC’s calculations, which given lack of available substantiating documents, were based upon Staff’s estimates of plant-in service and accumulated depreciation, Missouri-American Water acquired the Saddlebrooke system at a substantial discount to the net book value of the acquired plant. In such situations, OPC believes Missouri-American should earn a return-on and a return of their investment (i.e. purchase price) rather than the net book value of the plant.
- Staff included \$31,000 of plant which is not yet in-service and is not used and useful in the current operations. This plant is to be added by MAWC subsequent to close of the transaction, assuming Commission approval for of the application for the Certificate of Convenience and Necessity.

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Based upon OPC's analysis, water rates would increase by \$1,690 and sewer rates decline by \$1,358. OPC utilized the plant and expense data provided by Staff, modified to exclude the \$31,000 of plant not yet in service and to include the acquisition adjustment for the purchase discount. See attached Water and Sewer schedules.

As previously mentioned, Staff was unable to obtain complete records for the original construction of the utility systems and recent operations expenses from the Developer's Companies because the records no longer exist. Thus the data OPC used to construct the financials is also unaudited, suspect and subject to inaccuracy. Therefore OPC questions the appropriateness of MAWC immediately increasing rates pursuant to the Commission granting approval of the CCN.

Missouri-American Water
Application for CCN - Saddlebrooke subdivision
WA-2012-0066 / SA-2012-0067

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