

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

**In the Matter of the Joint Application of)
Missouri-American Water Company and)
Roark Water & Sewer, Inc. for Authority) File No. WO-2011-0213
For Missouri-American Water Company to)
Acquire Certain Assets of Roark Water &)
Sewer, Inc. and, in Connection therewith,)
Certain Other Related Transactions)**

STAFF RECOMMENDATION

Comes now the Staff of the Missouri Public Service Commission (“Staff”), by and through counsel, and for its *Recommendation* states as follows:

1. On December 31, 2010, Missouri-American Water Company (“MAWC”) and Roark Water & Sewer, Inc (“Roark”) (jointly referred to hereafter as “Applicants”) filed with the Missouri Public Service Commission (“Commission”) a *Joint Application for Authority for MAWC to Acquire Certain Assets of Roark and, in Connection Therewith, Certain Other Related Transactions* (“Joint Application”) was filed with the Commission.

2. MAWC and Roark have entered into an Asset Purchase Agreement dated December 20, 2010 (“Agreement”). Pursuant to the Agreement, MAWC proposes to purchase substantially all of the assets of Roark for consideration as described in the Agreement.

3. On January 31, 2011, Staff filed *Staff’s Preliminary Response to Joint Application and Request for Additional Time to File Recommendation* requesting an extension of thirty (30) days in which to file a recommendation or status update.

4. On February 4, 2011, the Commission issued an *Order Directing Filing* granting Staff’s request for extension and directed Staff to file its recommendation or a status report by March 7, 2011. This filing is meant to comply with that Order.

5. Staff has reviewed and investigated the Applicant's Joint Application and incorporates by reference herein its Recommendation as Attachment A, the attached Memorandum prepared by Staff members.

6. Staff recommends that the Commission issue an Order that incorporates Staff's recommendations as enumerated in Attachment A to this *Recommendation*.

WHEREFORE, Staff respectfully submits this *Staff Recommendation* and respectfully requests the Commission grant the Joint Application that allows Missouri-American Water Company to acquire certain assets of Roark and, in connection therewith, certain other related transactions as requested in the Joint Application; Staff also respectfully requests the Commission incorporate Staff's recommendations as enumerated in the attached Appendix A.

Respectfully submitted,

/S/ RACHEL M. LEWIS
Rachel M. Lewis
Deputy Counsel
Missouri Bar No. 56073

Attorney for the Staff of the
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CERTIFICATE OF SERVICE

I hereby certify that copies of the foregoing have been mailed, hand-delivered, transmitted by facsimile or electronically mailed to all counsel of record this 7th day of March, 2011.

/S/ RACHEL M. LEWIS

MEMORANDUM

TO: Missouri Public Service Commission Official Case File
File No. WO-2011-0213
Missouri-American Water Company and Roark Water and Sewer, Inc.

FROM: Jim Merciel – Water & Sewer Department
Paul Harrison – Auditing Department
David Williams – Engineering and Management Services Department

<u>/s/ Jim Busch _____</u>	<u>3/7/2011</u>
Water and Sewer Department	Date

<u>/s/ Rachel Lewis _____</u>	<u>3/7/2011</u>
Staff Counsel's Office	Date

SUBJECT: Staff Recommendation Regarding Sale of Utility Assets

DATE: March 7, 2011

BACKGROUND

On December 31, 2010, Missouri-American Water Company (MAWC or Company) and Roark Water and Sewer, Inc. (Roark) filed a *Joint Application and, if Necessary, Motion for Waiver (Joint Application)* seeking to sell and transfer Roark's water and sewer utility assets to MAWC. Hereafter, MAWC and Roark will collectively be referred to as the Applicants. This filing created two cases, Case No. WO-2011-0213 related to the water assets, and Case No. SO-2011-0214 related to the sewer assets.

On January 4, 2011, the Commission issued its *Order Directing Notice and Order Directing Filing* in which, among other things, it prescribed January 24, 2011 as the date by which interested parties should seek to intervene in this case, and ordered the Staff to file its recommendation on the *Joint Application* on January 31, 2011.

On January 6, 2011, MAWC and Roark filed a *Motion to Consolidate* in which it requested consolidation of the above two noted cases, which the Commission did on January 28, 2011 in its *Order Consolidating Cases*. On January 31, 2011, Staff filed its *Staff's Preliminary Response to Joint Application and Request for Additional Time to File Recommendation*. On February 4, 2011, the Commission extended Staff's filing date to March 7, 2011. This memorandum is intended to comply with the Commission's order regarding the filing of a recommendation.

MAWC is a regulated water and sewer utility serving more than 450,000 customers throughout Missouri. Its various water and sewer service areas are largely a collection resulting from utility mergers and acquisitions that have taken place over many years. Roark obtained a Certificate of Convenience and Necessity (Certificate) from the Commission in Case No. WA-94-104 to provide water and sewer service in an area generally known as Stonebridge near Branson, Missouri. This was an area of new development at the time. Roark currently provides service to approximately 650 customers.

STAFF'S INVESTIGATION

Staff members from the Auditing Department, the Engineering & Management Services Department, Financial Analysis Department, and the Water and Sewer Department participated in the Staff's investigation of the Application. All Staff participants and the assigned Staff attorney were afforded the opportunity to review and comment on this Memorandum prior to it being filed.

MAWC and Roark have entered into an "Asset Purchase Agreement" dated December 20, 2010 (Agreement). MAWC proposes to adopt existing rates, rules and regulations, by filing tariff adoption notices that are currently in effect for Roark, until such time as the rates may be modified as approved by the Commission. However, MAWC proposes one new change to the tariffs as noted in paragraph 10 of the *Joint Application*. MAWC intends to file revised tariff sheets as part of this proceeding. Although these revised tariff sheets will retain the existing approved monthly rates of Roark and some existing CIAC charges, they will authorize a new connection fee (contribution-in-aid-of-construction fee, or CIAC) for water and sewer totaling a combined \$2,450 for new customers in certain portions of Roark's existing service area. In this area, known as Forest Lake subdivision, Roark presently has "rate base" in water distribution and sewer collection plant facilities. These fees will be collected by MAWC for a maximum of 300 customers, and will expire 20 years after approval of the transfer by the Commission. The funds collected by MAWC under this tariff will immediately be remitted to Roark under the terms of the Agreement for the purpose of reimbursing Roark for its plant investment. MAWC will treat the maximum amount of possible remittances to Roark of \$735,000 as a contribution by Roark, and thus there could potentially be a reduction in rate base that will benefit customers.

Based upon a review of information received from MAWC and information from Roark's most recent rate case, WR-2005-0154, Staff's determination of the current appropriate amount of rate base (net plant in service, less accumulated contributions in aid of construction) for Roark is as follows:

Water	Sewer	Total
\$1,109,070	\$2,172,106	\$3,281,176

These amounts were derived by using Staff's ending net rate base value for Roark's plant in service in its last rate case, and then accounting for all plant additions, retirements, net salvage and contributions Roark has experienced since that rate proceeding through December 31, 2010.

Additionally, Staff reviewed its inspection records and available information from the Department of Natural Resources ("DNR") regarding Roark's operations and MAWC's operations. At present there are no DNR violations with respect to either of the involved water and sewer systems, and no significant service issues being addressed by DNR or Staff.

Regarding the matter of the depreciation rates to be used for the water and sewer systems, Staff finds that the schedules of depreciation rates set out in Attachment A and Attachment B to this Memorandum should be prescribed by the Commission and used by MAWC from the date of transfer forward, until changed by order of the Commission. These are depreciation rates presently in effect for Roark.

No parties sought to intervene in this case. Staff received four (4) public comments and one telephone call from a customer, all were concerned about future rate increases.

STAFF'S FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS

Staff finds, based on its knowledge of Roark's water and sewer systems, its knowledge of MAWC's water and sewer systems, financial information it has studied for both of these companies, and information filed in the *Joint Application* that MAWC will be capable of merging the operations of the Roark systems into its operations. Based on Staff's knowledge and discussions with MAWC, the proposed acquisition is not detrimental to the public interest.

Staff recommends that the Commission approve the transfer as proposed, that MAWC and/or Roark notify the Commission of the closing of the transfer of assets within five (5) business days after the activity occurs. After the closing of the transfer of assets, MAWC should be required to adopt the tariffs presently in effect for Roark by filing adoption notices with the Commission. In addition, MAWC should be required to file revised tariff sheets that reflect the CIAC amounts as indicated in the Purchase Agreement and in the *Joint Application*.

Neither MAWC nor Roark has deficiencies with regard to filing annual reports or payment of annual assessments. Both MAWC and Roark have filed annual reports, as shown on the Commission's Electronic Filing and Information System (EFIS) records for the calendar years 2002 through 2009. Also, both MAWC and Roark are current on payment of the Commission's Assessments.

MAWC has several other formal cases pending before the Commission. However, approval of this transfer of assets will have no impact upon any other matter pending before the Commission. It is Staff's position that this transfer is not detrimental to the public interest.

SUMMARY

Staff recommends the Commission issue an order that:

1. Approves the request to sell and to transfer Roark's water and sewer utility assets to MAWC;
2. Requires the Applicants to notify the Commission within five (5) business days after the assets have been transferred from Roark to MAWC;
3. Requires that MAWC and/or Roark, if closing on the assets has not occurred within thirty (30) days after the effective date of an order from the Commission approving this transfer of assets, to file a status report with the Commission thirty (30) days after the effective date of the order, and at the end of each subsequent thirty (30) day period until closing and the transfer of assets is complete; and, alternatively if the transfer is not expected to be completed at all requires MAWC and/or Roark to file a pleading with the Commission stating such;
4. Requires MAWC, within five (5) business days after the assets have been transferred, to adopt Roark's currently approved tariffs by filing an adoption notice for each of the tariffs;
5. Authorizes MAWC to file revised tariff sheets in the current Roark water and sewer tariffs containing new CIAC fees totaling \$2,450 per customer applicable to the next 300 new customers in Forest Lake subdivision, to expire twenty (20) years after the effective date of the revised tariff sheets;
6. After receipt of the notice in No. 2 above, cancels the Certificate of Convenience and Necessity applicable for Roark to provide water and sewer service;
7. Requires MAWC to use the schedule of depreciation rates set out in Attachments A and Attachment B to this memorandum that were prescribed by the Commission and used by Roark, from the date of transfer forward, until changed by further order of the Commission.

Attachments:

- A. Depreciation Schedule for Water Utility Assets
- B. Depreciation Schedule for Sewer Utility Assets

ROARK WATER AND SEWER COMPANY
Attachment A - DEPRECIATION RATES

(WATER)

WO-2011-0213

<u>ACCOUNT NUMBER</u>	<u>ACCOUNT</u>	<u>DEPRECIATION RATE %</u>	<u>AVERAGE SERVICE LIFE (YEARS)</u>
311	Structures & Improvements	2.50%	40
314	Wells & Springs	2.00%	50
325	Electric Pumping Equipment	10.00%	10
332	Water Treatment Equipment	2.90%	35
342	Distribution Reservoirs & Standpipes	2.50%	40
343	Transmission & Distribution Mains	2.00%	50
345	Services	2.50%	40
346.1	Meters	5.00%	20
347.1	Meter Installations	2.50%	40
348	Hydrants	2.00%	50
390	Structures & Improvements	2.50%	40
391	Office Furniture & Equipment	5.00%	20
393	Stores Equipment	4.00%	25
394	Tools, Shop, Garage Equipment	5.00%	20
397	Communication Equipment	6.67%	15

ROARK WATER AND SEWER COMPANY

Attachment B - DEPRECIATION RATES

(SEWER)

WO-2011-0213

<u>ACCOUNT NUMBER</u>	<u>ACCOUNT</u>	<u>DEPRECIATION RATE %</u>	<u>AVERAGE SERVICE LIFE (YEARS)</u>
351	Structures & Improvements	2.5%	40
352.1	Collection Sewers (Force)	2.0%	50
352.2	Collection Sewers (Gravity)	2.0%	50
353	Services	2.0%	50
354	Flow Measurement Devices	3.3%	30
362	Receiving Wells & Pump Pits	4.0%	25
363	Pumping Equipment	10.0%	10
372	Treatment & Disposal Facilities	5.0%	20
373	Plant Sewers	2.5%	40
374	Outfall Sewers	2.0%	50
391	Office Furniture & Equipment	5.0%	20
393	Stores Equipment	4.0%	25
394	Tools, Shop, Garage Equipment	5.0%	20

BEFORE THE PUBLIC SERVICE COMMISSION

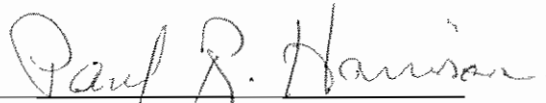
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AFFIDAVIT OF PAUL R.HARRISON

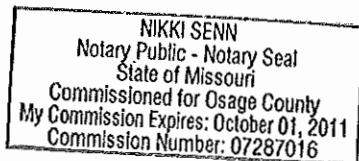
STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

Paul R. Harrison, of lawful age, on his oath states: that he has participated in the preparation of the foregoing Staff Recommendation in memorandum form, to be presented in the above case; that the information in the Staff Recommendation was developed by him; that he has knowledge of the matters set forth in such Staff Recommendation; and that such matters are true and correct to the best of his knowledge and belief.



Paul R. Harrison

Subscribed and sworn to before me this 3rd day of March, 2011.





Notary Public

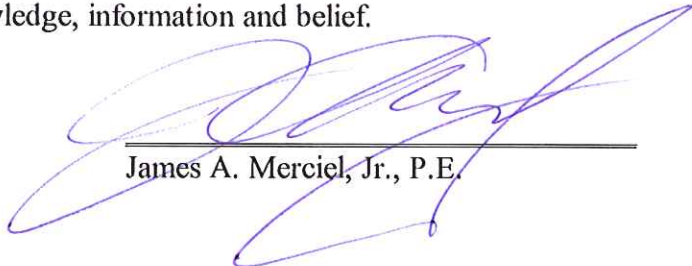
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AFFIDAVIT OF JAMES A. MERCIEL, JR., P.E.

STATE OF MISSOURI)
) ss
COUNTY OF COLE)

James A. Merciel, Jr., P.E., of lawful age, on his oath states: (1) that he is the Assistant Manager – Engineering in the Water and Sewer Department of the Missouri Public Service Commission; (2) that he participated in the preparation of the foregoing *Staff Recommendation* in memorandum form, to be presented in the above case; (3) that the information in the *Staff Recommendation* was provided to him; (4) that he has knowledge of the matters set for in such *Staff Recommendation*; and (5) that the matters set forth in the foregoing *Staff Recommendation* are true and correct to the best of his knowledge, information and belief.



James A. Merciel, Jr., P.E.

Subscribed and sworn to before me this 4th day of March 2011.



Notary Public

SUSAN L. SUNDERMEYER
Notary Public - Notary Seal
State of Missouri
Commissioned for Callaway County
My Commission Expires: October 03, 2014
Commission Number: 10942086

BEFORE THE PUBLIC SERVICE COMMISSION

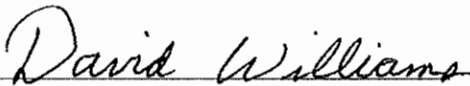
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AFFIDAVIT OF DAVID WILLIAMS

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

David Williams, of lawful age, on his oath states: that he has participated in the preparation of the foregoing Staff Recommendation in memorandum form, to be presented in the above case; that the information in the Staff Recommendation was developed by him; that he has knowledge of the matters set forth in such Staff Recommendation; and that such matters are true and correct to the best of his knowledge and belief.


David Williams

Subscribed and sworn to before me this 3rd day of March, 2011.

NIKKI SENN
Notary Public - Notary Seal
State of Missouri
Commissioned for Osage County
My Commission Expires: October 01, 2011
Commission Number: 07287016


Notary Public