

**STATE OF MISSOURI
PUBLIC SERVICE COMMISSION**

At a session of the Public Service Commission held at its office in Jefferson City on the 7th day of March, 2018.

In the Matter of the Joint Application of)
Missouri-American Water Company and)
Spokane Highlands Water Company for)
MAWC to Acquire Certain Water Assets of)
Spokane Highlands and, in Connection)
Therewith, Certain Other Related Transactions)

File No. WM-2018-0104

ORDER APPROVING TRANSFER OF ASSETS

Issue Date: March 7, 2018

Effective Date: March 17, 2018

On October 24, 2017, Missouri-American Water Company (“MAWC”) and Spokane Highlands Water Company (collectively, “Applicants”) filed a joint application¹ with the Missouri Public Service Commission (“Commission”), which was subsequently amended, seeking authority for MAWC to purchase substantially all of the water assets of Spokane Highlands Water Company. Applicants also request a certificate of convenience and necessity for MAWC and a waiver from a Commission administrative rule.

MAWC is an existing regulated water and sewer utility currently providing water service to more than 450,000 customers in several service areas throughout Missouri. Spokane Highlands is a water corporation that provides water service to 49 single-family residential customers in a subdivision located to the east of the town of Spokane in Christian County, Missouri. MAWC and Spokane Highlands have entered into an Asset

¹ The application was filed pursuant to Section 393.190, RSMo 2016, and Commission Rules 4 CSR 240-3.310 and 4 CSR 240-4.017(1).

Purchase Agreement (“Agreement”) providing for the sale by Spokane Highlands to MAWC of substantially all its water assets. A copy of the Agreement was included with the joint application.

On October 25, 2017, the Commission issued notice and set an intervention deadline. No applications to intervene were filed. Staff filed a recommendation on January 22, 2018, but MAWC objected to two provisions in the recommendation. Staff filed an amended recommendation on February 26, 2018, suggesting that the Commission approve the joint application with certain conditions. Staff represents that the Applicants do not object to the amended recommendation. Staff recommends that the Commission do the following:

1. Authorize Spokane Highlands to sell and transfer water utility assets, including its CCN, to MAWC, and for MAWC to provide water service in the Spokane Highlands service area, as requested;
2. Authorize MAWC to apply its existing rules and District #3 rates to the Spokane Highlands service area;
3. Require MAWC to submit new tariff sheets showing the Spokane Highlands service area, and a revised District #3 rate sheet and revised service charge sheet showing applicability to the Spokane Highlands service area in its PSC MO No.13 tariff prior to closing on the assets;
4. Approve MAWC’s existing depreciation rates for water utility plant accounts to apply to the Spokane Highlands service area assets;
5. If closing on the water system assets does not take place within thirty (30) days following the effective date of the Commission’s order approving such sale and transfer of the assets, require MAWC and/or Spokane Highlands to submit a status report within five (5) days after this thirty (30) day period regarding the status of closing, and additional status reports within five (5) days after each additional thirty (30) day period, until closing takes place, or until either MAWC or Spokane Highlands determines that the transfer of the assets will not occur;
6. If MAWC or Spokane Highlands determines that a transfer of the assets will not occur, require MAWC and/or Spokane Highlands to notify the

Commission of such no later than the date of the next status report, as addressed above, after such determination is made, and require MAWC to submit tariff sheets as appropriate that would cancel tariff sheets filed and effective, if any, applicable to the Spokane Highlands service area;

7. Require MAWC to keep its financial books and records for Spokane Highlands plant-in- service and operating expenses in accordance with the NARUC Uniform System of Accounts;

8. Require MAWC to provide an example of its actual communication with the Spokane Highlands service area customers regarding its acquisition and operations of the Spokane Highlands water system assets, and how customers may reach MAWC regarding water matters, within ten (10) days after closing on the assets;

9. Require Spokane Highlands to provide to MAWC and for MAWC, as best as possible prior to or at closing, to take physical possession of and maintain all records and documents with respect to regulated operations, and any and all books and financial records of Spokane Highlands, including but not limited to all plant-in-service original cost documentation, along with depreciation reserve balances and records, invoices and purchase orders and purchase agreements, documentation of contribution-in-aid-of construction transactions, and any capital recovery transactions, all customer billing records and customer deposit records to the extent the Company has customer deposits;

10. To the extent any acquisition premium that may result from the purchase of Spokane Highlands utility assets by MAWC exists, require that any related acquisition adjustment be excluded from rate recovery in any future rate case;

11. Order MAWC to, within ninety (90) days after closing on the assets, correct its books and records to reflect the adjusted plant, depreciation reserve and Contributions in Aid of Construction balances reflected in Staff Accounting Schedules;

12. Require MAWC to provide in a general rate case an analysis documenting its proposed rate base values for Spokane Highlands water system assets, including an appropriate offset for associated CIAC;

13. Order MAWC to continue to maintain its existing allocation process already implemented with respect to procedures to allocate costs and investments between regulated entities of MAWC and between regulated and non-regulated MAWC operations, and to incorporate the newly acquired Spokane Highlands system into this allocation process;

14. Direct that MAWC continue to maintain its current time reporting and allocation system and to incorporate the newly acquired Spokane Highlands system into that time reporting and allocation system;
15. Make no finding that would preclude the Commission from considering the ratemaking treatment to be afforded any matters pertaining to MAWC, including expenditures related to the Spokane Highlands certificated service area and capacity adjustments, in any later proceeding;
16. Require MAWC to ensure adherence to Commission Rule 4 CSR 240-13 with respect to Spokane Highlands customers;
17. Require MAWC to include the Spokane Highlands customers in its established monthly reporting to the Customer Experience Department Staff on customer service and billing issues;
18. Require MAWC to distribute to the Spokane Highlands customers an informational brochure detailing the rights and responsibilities of the utility and its customers regarding its water service, consistent with the requirements of Commission Rule 4 CSR 240-13.040 (2) (A-L), within ten (10) days of closing on the assets;
19. Require MAWC to provide adequate training for the correct application of rates and rules to all customer service representatives prior to Spokane Highlands customers receiving their first bill from MAWC; and,
20. Require MAWC to provide to the Customer Experience Department Staff a sample of ten (10) billing statements from the first month's billing within thirty (30) days of such billing.

No party requested an evidentiary hearing in this matter and no law requires one, so the Commission may grant the Applicant's request based upon the application and Staff's recommendation.² This action is not a contested case,³ and the Commission need not separately state its findings of fact.

MAWC and Spokane Highlands are water corporations under Missouri law⁴, subject to the regulation, supervision and control of the Commission with regard to providing sewer

² See, *State ex rel. Rex Deffenderfer Enterprises, Inc. v. Public Service Commission*, 776 S.W.2d 494, 496 (Mo. App. 1989).

³ Section 536.010(4), RSMo 2016.

⁴ Section 386.020(59), RSMo 2016.

service to the public. The Commission has jurisdiction to rule on the application because Missouri law requires that “[n]o ... water corporation shall hereafter sell ...its ... works or system ... without having first secured from the commission an order authorizing it so to do.”⁵ The Commission will only deny the application if approval would be detrimental to the public interest.⁶

The parties agree that the public interest will suffer no detriment from the sale under the terms set forth in the Agreement, subject to Staff’s conditions. If the proposed sale and transfer is approved, those customers currently being served by Spokane Highlands will receive their water service from MAWC, which is fully qualified to own and operate the Spokane Highlands system and to provide safe and reliable water service. MAWC’s proposal to apply its existing water tariff and existing District #3 rates to customers in the Spokane Highlands service area is reasonable and will result in decreased water bills for those customers. The transaction will not have any impact on the tax revenues of any political subdivision where the water facilities are located.

Based on the information provided in the verified joint application and upon the verified recommendation and memorandum of Staff, the Commission finds that the proposed transfer of assets is not detrimental to the public interest and should be approved, subject to the conditions recommended by Staff. The Commission will make this order effective in ten days.

The application also asked the Commission to waive the 60-day notice requirement under 4 CSR 240-4.017(1), if necessary. Applicants assert that good cause exists in this case for granting such waiver because MAWC has had no communication with the office of

⁵ Section 393.190.1, RSMo 2016.

⁶ *State ex rel. City of St. Louis v. Public Service Comm’n of Missouri*, 73 S.W.2d 393, 400 (Mo. 1934).

the Commission within the prior 150 days regarding any substantive issue likely to be in this case. The Commission finds that good cause exists to waive the notice requirement, and a waiver of 4 CSR 240-4.017(1) will be granted.

THE COMMISSION ORDERS THAT:

1. Applicants' request for waiver of the notice requirement under Commission Rule 4 CSR 240-4.017(1) is granted.

2. Missouri-American Water Company and Spokane Highlands Water Company's joint application for approval of the transfer of the assets to Missouri-American Water Company is granted, subject to the amended conditions recommended by the Commission's Staff which are delineated in the body of this order.

3. Spokane Highlands Water Company is authorized to sell and transfer to Missouri-American Water Company the water assets described in the joint application and the Asset Purchase Agreement entered into between those parties.

4. Missouri-American Water Company and Spokane Highlands Water Company are authorized to do and perform, or cause to be done and performed, such other acts and things, as well as make, execute and deliver any and all documents as may be necessary, advisable and proper to the end that the intent and purposes of the approved transaction may be fully effectuated.

5. Missouri-American Water Company is granted a certificate of convenience and necessity to provide water service within the Spokane Highlands service area as more particularly described in the application, subject to the conditions and requirements contained in Staff's amended recommendation, effective upon the date of closing of the purchase transaction.

6. Missouri-American Water Company shall apply its existing rules and District #3 rates to the Spokane Highlands service area.

7. Missouri-American Water Company shall submit new tariff sheets showing the Spokane Highlands service area and a revised District #3 rate sheet and revised service charge sheet showing applicability to the Spokane Highlands service area in its PSC MO No.13 tariff prior to closing on the assets.

8. Missouri-American Water Company's existing depreciation rates for water utility plant accounts are approved to apply to the Spokane Highlands service area assets.

9. If closing on the water system assets does not take place within thirty (30) days following the effective date of this order, Missouri-American Water Company and/or Spokane Highlands Water Company shall submit a status report within five (5) days after this thirty (30) day period regarding the status of closing, and additional status reports within five (5) days after each additional thirty (30) day period, until closing takes place, or until either Missouri-American Water Company or Spokane Highlands Water Company determine that the transfer of the assets will not occur.

10. If Missouri-American Water Company or Spokane Highlands Water Company determine that a transfer of the assets will not occur, Missouri-American Water Company and/or Spokane Highlands Water Company shall notify the Commission of such no later than the date of the next status report, as addressed above, after such determination is made, and Missouri-American Water Company shall submit tariff sheets as appropriate that would cancel tariff sheets filed and effective, if any, applicable to the Spokane Highlands service area.

11. Missouri-American Water Company shall keep its financial books and records for Spokane Highlands plant-in- service and operating expenses in accordance with the NARUC Uniform System of Accounts.

12. Missouri-American Water Company shall provide an example of its actual communication with the Spokane Highlands service area customers regarding its acquisition and operations of the Spokane Highlands water system assets, and how customers may reach Missouri-American Water Company regarding water matters, within ten (10) days after closing on the assets.

13. Spokane Highlands Water Company shall provide to Missouri-American Water Company, and Missouri-American Water Company, as best as possible prior to or at closing, shall take physical possession of and maintain all records and documents with respect to regulated operations, and any and all books and financial records of Spokane Highlands Water Company, including but not limited to all plant-in-service original cost documentation, along with depreciation reserve balances and records, invoices and purchase orders and purchase agreements, documentation of contribution-in-aid-of construction transactions, and any capital recovery transactions, all customer billing records and customer deposit records to the extent the Company has customer deposits.

14. To the extent any acquisition premium that may result from the purchase of Spokane Highlands utility assets by Missouri-American Water Company exists, any related acquisition adjustment shall be excluded from rate recovery in any future rate case.

15. Missouri-American Water Company shall, within ninety (90) days after closing on the assets, correct its books and records to reflect the adjusted plant, depreciation

reserve and Contributions in Aid of Construction balances reflected in Staff Accounting Schedules.

16. Missouri-American Water Company shall provide in a general rate case an analysis documenting its proposed rate base values for Spokane Highlands water system assets, including an appropriate offset for associated CIAC.

17. Missouri-American Water Company shall continue to maintain its existing allocation process already implemented with respect to procedures to allocate costs and investments between regulated entities of Missouri-American Water Company and between regulated and non-regulated Missouri-American Water Company operations, and to incorporate the newly acquired Spokane Highlands system into this allocation process.

18. Missouri-American Water Company shall continue to maintain its current time reporting and allocation system and to incorporate the newly acquired Spokane Highlands system into that time reporting and allocation system.

19. The Commission makes no finding that would preclude the Commission from considering the ratemaking treatment to be afforded any matters pertaining to Missouri-American Water Company, including expenditures related to the Spokane Highlands certificated service area and capacity adjustments, in any later proceeding.

20. Missouri-American Water Company shall ensure adherence to Commission Rule 4 CSR 240-13 with respect to Spokane Highlands customers.

21. Missouri-American Water Company shall include the Spokane Highlands customers in its established monthly reporting to the Customer Experience Department Staff on customer service and billing issues.

22. Missouri-American Water Company shall distribute to the Spokane Highlands customers an informational brochure detailing the rights and responsibilities of the utility and its customers regarding its water service, consistent with the requirements of Commission Rule 4 CSR 240-13.040 (2) (A-L), within ten (10) days of closing on the assets.

23. Missouri-American Water Company shall provide adequate training for the correct application of rates and rules to all customer service representatives prior to Spokane Highlands customers receiving their first bill from Missouri-American Water Company.

24. Missouri-American Water Company shall provide to the Customer Experience Department Staff a sample of ten (10) billing statements from the first month's billing within thirty (30) days of such billing.

25. This order shall become effective on March 17, 2018.

BY THE COMMISSION



Morris L. Woodruff

Morris L. Woodruff
Secretary

Hall, Chm., Kenney, Rupp, Coleman, and
Silvey, CC., concur.

Bushmann, Senior Regulatory Law Judge

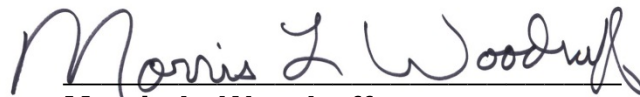
STATE OF MISSOURI

OFFICE OF THE PUBLIC SERVICE COMMISSION

I have compared the preceding copy with the original on file in this office and I do hereby certify the same to be a true copy therefrom and the whole thereof.

WITNESS my hand and seal of the Public Service Commission,
at Jefferson City, Missouri, this 7th day of March 2018.




Morris L. Woodruff
Secretary

MISSOURI PUBLIC SERVICE COMMISSION

March 7, 2018

File/Case No. WM-2018-0104

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Enclosed find a certified copy of an Order or Notice issued in the above-referenced matter(s).

Sincerely,



**Morris L. Woodruff
Secretary**

Recipients listed above with a valid e-mail address will receive electronic service. Recipients without a valid e-mail address will receive paper service.