

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF AQUASOURCE UTILITY, )	
INC. FOR TRANSFER OF OWNERSHIP )	CASE NO. 99-303
RIGHTS OF GOSHEN UTILITIES, INC. )	

O R D E R

IT IS ORDERED that AquaSource Utility, Inc. ( AquaSource Utility ) shall file with the Commission the original and 11 copies of the following information, with a copy to all parties of record. Each copy of the data requested should be placed in a bound volume with each item tabbed. When a number of sheets are required for an item, each sheet should be appropriately indexed, for example, Item 1(a), Sheet 2 of 6. Include with each response the name of the witness who will be responsible for responding to questions relating to the information provided. Careful attention should be given to copied material to ensure that it is legible. Where information requested herein has been provided along with the original application, in the format requested herein, reference may be made to the specific location of said information in responding to this information request. The information requested herein is due no later than 10 days from the date of this Order. When applicable, the information requested herein should be provided for total company operations and jurisdictional operations, separately.

1. Provide a copy of Goshen Utilities, Inc. s ( Goshen Utilities ) 1998 balance sheet, income statement, statement of retained earnings, and cash flow statement. The statements should be provided separately for the water and sewer divisions.

2. Provide a copy of AquaSource Utility's 1998 balance sheet, income statement, statement of retained earnings, and cash flow statement.

3. Provide the journal entries AquaSource Utility will record to reflect the purchase of Goshen Utilities water division.

4. Provide the journal entries AquaSource Utility will record to reflect the purchase of Goshen Utilities sewer division.

5. Provide the journal entries AquaSource Utility will record on Goshen Utilities books to reflect the purchase of Goshen Utilities stock.

6. Provide copies of AquaSource Utility's and Goshen Utilities balance sheets reflecting the purchase of Goshen Utilities stock.

7. AquaSource Utility is requesting, among other things, that the Commission approve its purchase of Goshen Utilities stock, an acquisition adjustment for accounting and future rate-making purposes and amortizing the plant acquisition adjustment over a 15-year period. Relative to these requests, provide the following:

a. Relative to AquaSource Utility's purchases which have included acquisition adjustments in other states, provide a chart showing:

(1) The utility acquired, the state in which it operates, and if its operations are water, wastewater, or both.

(2) Whether the purchase was a stock transfer or asset transfer.

(3) The amount of any acquisition adjustment recorded.

(4) The amortization period approved by the commission. If the commission did not approve an amortization period, so state.

(5) The embedded cost per customer.

(6) Copies of any jurisdictional approvals AquaSource Utility was required to obtain in the acquisitions.

(7) The net book value of the utility acquired.

b. Have other regulatory commissions generally allowed AquaSource Utility to record an acquisition adjustment for a stock purchase, as opposed to an asset purchase?

c. Have other regulatory commissions generally allowed AquaSource Utility an acquisition adjustment for future rate-making purposes prior to the filing of a rate case? If so, did those approvals include settlement agreements containing multi-year rate freezes and/or rate cap plans?

d. The Commission is aware that AquaSource Utility has purchased small water utilities in New York and has agreed to multi-year rate freezes and subsequent rate cap guarantees for those utilities. In this instance, AquaSource Utility is proposing a rate freeze through the end of 2000 (17 months) and no explicit rate guarantees beyond then. Is AquaSource Utility willing to extend the rate freeze period beyond 2000 and/or agree to some type of rate cap plan subsequent to the end of that year?

8. In Case No. 9059,<sup>1</sup> the Commission determined that, the burden of proof is upon the utility to justify its investment at the price in excess of the net original cost based on economic and quality of service criteria. To meet this burden of proof, the Commission established the criteria a utility must meet in order to recover any

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<sup>1</sup> Case No. 9059, An Adjustment of Rates of Delta Natural Gas Company, Inc., Order issued September 11, 1985.

investment in excess of the net original cost ( plant acquisition adjustment ). Provide evidence to show that AquaSource Utility's proposed purchase of Goshen Utilities meets the following criteria:

- a. The purchase price was established upon arms-length negotiation.
- b. The initial investment, plus the cost of restoring the facilities to required standards, will not adversely impact the overall costs and rates of the existing and new customers.
- c. Operational economies can be achieved through the acquisition.
- d. The purchase price of utility and non-utility property can be clearly identified.
- e. The purchase price will result in overall benefits in the financial and service aspects of the utility's operations.

9. Will AquaSource Utility issue any form of evidence of indebtedness or stock to fund its proposed purchase of Goshen Utilities?

10. Provide the embedded cost per customer of Goshen Utilities sewer division to AquaSource Utility, including the plant acquisition adjustment.

11. Provide the embedded cost per customer of Goshen Utilities water division to AquaSource Utility, including the plant acquisition adjustment.

12. Is AquaSource Utility aware of any jurisdictions in which it currently has no operations that allow the recovery of a plant acquisition adjustment when a utility is acquired in a stock purchase? If yes, provide copies of the orders granting the approval.

13. In paragraph 10 of its application AquaSource Utility stated that, The purchase price will be compared to the book value of Goshen when the transaction is consummated with the difference reflected as an acquisition adjustment on the books and records of ASI and Goshen Utilities.

a. Explain how the purchase of Goshen Utilities stock would impact Goshen Utilities books and records.

b. Should AquaSource Utility's stock purchase be recorded as an investment and, therefore, the stock purchase would not impact the value of Goshen Utilities utility plant.

c. Explain why AquaSource Utility is comparing the book value of Goshen Utilities to the stock purchase price, rather than Goshen Utilities existing stock value.

14. AquaSource Utility intends to record the utility plant acquisition adjustment on its books as an asset, but include the unamortized balance in Goshen Utilities rate base. Explain how an asset recorded on the books of the parent corporation, AquaSource Utility, will be recovered in the rate base of its subsidiary, Goshen Utilities.

15. Goshen Utilities has separate water and sewer divisions. Does AquaSource Utility intend to maintain the water and sewer operations in separate divisions?

16. The following questions relate to paragraph 9 of the application:

a. Provide a detailed description of the immediate repairs (\$50,000) that AquaSource Utility intends to make to Goshen Utilities system.

b. AquaSource Utility anticipates that it will spend \$3 million to \$5 million over the next 5 years should the need of Goshen Utilities require such expenditure. Provide a detailed description, including a time line, for AquaSource Utility s anticipated expenditures.

c. Provide a detailed analysis of AquaSource Utility s expected cost savings that will be achieved through greater efficiencies and economies. AquaSource Utility should provide separate analyses for the sewer and water divisions.

d. AquaSource Utility intends to use Goshen Utilities as a platform for future growth in Kentucky. Provide a detailed narrative of AquaSource Utility s plans for future growth in Kentucky.

Done at Frankfort, Kentucky, this 12<sup>th</sup> day of August, 1999.

By the Commission

ATTEST:

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Executive Director