

STATE	ACQUISITION ADJUSTMENT
Alabama	The Commission regulates the rates of eight small water companies. There is no specific statutory authority dealing with water company acquisition adjustments. However, in <i>Re Mobile Gas Service Corporation</i> , 2003 WL 23101066 (Ala. P.S.C. Oct. 9, 2003), the Commission relied on prior precedent to find that a positive acquisition adjustment would be allowed in rate base where the following principal criteria are satisfied: (1) the purchase price was the result of arm’s length negotiations; (2) the acquisition would produce operational efficiencies; and (3) the acquisition would promote the integration of facilities.
Alaska	<i>In the Matter of Alaska Power Co. Application, No. U-01-98, Order No. 1 (R.C.A. Feb. 25, 2002)</i> (“The Commission has interpreted this statute [AS 42.05.441(b)] to permit recovery of an acquisition adjustment if the utility demonstrate that the acquisition will provide clear, tangible benefits to ratepayers in an amount at least equal to the acquisition adjustment. However, the Commission has interpreted this rule narrowly and has refused to permit acquisition adjustments in many cases.”).
Arizona	<i>In the Matter of the Joint Application of Citizens Utilities Company, et. al, Decision No. 63584 (A.C.C. Apr. 24, 2001)</i> (“Arizona-American is cautioned that the Commission will require Arizona-American to demonstrate that clear quantifiable and substantial net benefits to ratepayers have resulted from the acquisition of Citizens’ systems that would not have been realized had the transaction not occurred before the Commission will consider recovery of any acquisition adjustment in a future rate proceeding.”).
Arkansas	Ark. Code Ann. § 23-4-111 (2008) (Commission will use net book value unless adjustment warranted after consideration of factors such as the reasonableness of original cost and whether customers will receive known and measurable benefits at least equal to the incremental amount sought to be recovered.).

California	<p>Cal. Pub. Util. Code § 2720 (2008)(Commission will use fair market value to establish the rate base value of a distribution system of a public water system acquired by a water corporation. If fair market value exceeds reproduction cost, difference may be included in rate base if commission determines additional amount is fair and reasonable.).</p> <p><i>Application of Citizens Utilities Co. of California (U-87-W), a California Corp., and California-American Water Company, a California Corp., Decision 01-09-057 (Cal. P.U.C. Sept. 20, 2001)</i> (approving alternative sharing program, compliant with § 2720, whereby realized synergies go first to acquiring company to amortize acquisition premium, and second to customers and company in a 90%/10% split).</p>
Colorado	<p>No general policy has been established for dealing with water company acquisition adjustments. Commission staff was unable to recall any requests for acquisition adjustments by water companies. In other sectors, acquisition adjustments are considered on a case-by-case basis.</p>
Connecticut	<p>Conn. Gen. Stat. § 16-262o, § 16-262s (2008) (all reasonable costs of the acquisition of troubled or economically not viable water systems may be recovered in rates).</p>
Delaware	<p><i>Re Tidewater Water Supply Co., Inc., 2000 WL 33121630 (Del. P.S.C. Nov. 21, 2000)</i> (Commission has an “established practice of not allowing rate base recognition of premiums over net book value paid by an acquirer of a utility,” barring exceptional circumstances).</p>
District of Columbia	<p style="text-align: center;"><i>PRIVATE WATER SYSTEMS NOT REGULATED</i></p>
Florida	<p>Fla. Admin. Code 25-30.0371 (2008) (positive acquisition adjustment not allowed in rate base absent extraordinary circumstances; negative acquisition adjustments recognized under certain circumstances).</p>
Georgia	<p style="text-align: center;"><i>PRIVATE WATER SYSTEMS NOT REGULATED</i></p>

<p>Hawaii</p>	<p>The Commission has consistently disallowed the recovery of any acquisition adjustments from customers, but evaluates requests on a case-by-case basis.</p> <p><i>In the Matter of the Application of Citizens Communications Company, Kauai Electric Div. and Kauai Island Utility Co-op, Docket No. 02-0060, Order No. 19658 (Haw. P.U.C. Sept. 17, 2002)</i> (approving stipulation which included the following condition: “Applicants acknowledge the commission’s policy to not allow recovery from utility customers of goodwill or acquisition premium amounts arising from utility merger and acquisition transactions. In accordance with this policy, [acquiring company] will not seek rate recovery of any goodwill amortization, acquisition premium costs or goodwill impairment changes . . . in future rate proceedings.”).</p>
<p>Idaho</p>	<p><i>Re United Water Idaho Inc., 187 P.U.R.4th 312 (1998)</i> (approving an acquisition adjustment to the rate base “based on its findings that the acquisition benefits customers as well as its conclusion that the purchase price was fair and reasonable and arrived at through arms-length negotiation.”).</p> <p><i>Re Resort Water Co., Inc., 2005 WL 673648 (Idaho P.U.C. Mar. 15, 2005)</i> (“It has been a consistent policy of the Commission that rate base not include the purchase price of a water system unless it could be reasonably shown that the customers have not previously paid for the water system assets . . . the amount to be included in rate base as an acquisition adjustment must be determined on a case-by-case basis”).</p>
<p>Illinois</p>	<p><i>Re Consumers Illinois Water Co., 2003 WL 21108549 (Ill. C.C. Mar. 18, 2003)</i> (traditional practice of Commission is to require that acquisition adjustment be recorded below the line; however, under unique circumstances, ICC will include it in rate base).</p>

<p>Indiana</p>	<p><i>City of Ft. Wayne v. Util. Center, Inc., d/b/a/ Aquasource</i>, 840 N.E.2d 836 (Ind. Ct. App. 2006) (affirming Commission finding that, based on new owner’s efforts to remedy problems at troubled utility and arms-length transaction, a return on the acquisition adjustment should be allowed).</p> <p><i>Re Indiana-American Water Co., Inc.</i> 238 P.U.R. 4th 428 (2004) (“[G]ranting a return on an acquisition adjustment but no return of an acquisition adjustment is consistent with past practice of this Commission.” The acquisition was found to have “resulted in cost savings in excess of the cost of capital investment needed to make those savings possible. . .”).</p> <p><i>Re Lincoln Util., Inc.</i>, 2006 WL 452338 (Ind. U.R.C. Jan. 25, 2006) (order authorizing water company to earn a return on acquisition adjustment).</p> <p><i>Re Indiana-American Water Co., Inc.</i> 2002 WL 32091039 (Ind. U.R.C. Nov. 6, 2002) (“It is the established policy of this Commission to allow an acquisition adjustment in rates in only two events, namely: 1. As a result of the acquisition, are there significant and demonstrable benefits flowing to the ratepayers, e.g. better service and/or lower rates? 2. Does the acquisition result in correction or salvage of an entity identified by this Commission as a ‘troubled utility?’”).</p>
<p>Iowa</p>	<p><i>Office of Consumer Advocate v. Iowa Util. Bd.</i>, 454 N.W.2d 883, 113 P.U.R.4th 479 (Iowa 1990) (“According to prior board precedent, the acquisition amount may be included in the rate base if actual benefits to customers are established by the utility.”).</p>
<p>Kansas</p>	<p>The State Corporation Commission regulates a few very small water companies. There is no specific authority dealing with water company acquisition adjustments. However, in the gas and electric sectors, the Commission limits recover of an acquisition premium to an amount that reflects the realistic level of savings that the Commission believes can be achieved by the merged company. <i>See In the Matter of the Application of Kansas City Power & Light Co. for approval of its acquisition of all classes of the capital stock of Kansas Gas and Electric</i>, Docket Nos. 172, 745-U; 174, 155-D (Kan. S.C.C. Nov. 14, 1991).</p>
<p>Kentucky</p>	<p><i>Re Kentucky-American Water Co.</i>, 2005 WL 578209 (Ky. P.S.C. Feb. 28, 2005) (“[T]he net original cost of plant devoted to utility use is the fair value for rate-making purposes, unless the utility can prove, with conclusive evidence, that the overall operations and financial condition of the utility have benefited from acquisitions at prices in excess of net book value. Any utility seeking recovery of an acquisition adjustment must justify its purchase decision based on economic and quality of service criteria.”)(internal quotations omitted).</p>

Louisiana	No information available.
Maine	<p>As a general matter, acquisition adjustments are not allowed, but requests will be evaluated on a case-by-case basis. Commission staff was unable to recall any requests for acquisition adjustments by water companies in the past decade.</p> <p><i>Re Terms and Conditions of Edmund J. Quirion, 1995 WL 785875 (Me. P.U.C. Nov. 14, 1995)</i> (“We note that this Commission’s general policy has been to use the original cost minus depreciation as the proper method of determining the value of utility property. However, there may be circumstances under which acquisition cost might be considered.”).</p>
Maryland	<p>As a general matter, if sufficient customer benefits are shown the Commission may allow an acquisition adjustment and amortize it over several years. Commission staff noted requests for acquisition adjustments by water companies are rare.</p> <p><i>Re Greenridge Utilities, Inc., 1997 WL 998596 (Md. P.S.C. June 4, 1997)</i> (“The decision to allow inclusion of the acquisition adjustment in the Company’s rate base is predicated upon consideration of whether such inclusion provide a benefit to the ratepayers.”).</p>
Massachusetts	<p><i>Guidelines and Standards for Acquisitions and Mergers, D.P.U. 93-167-A at 6-7, 18-19 (1994)</i> (Companies may use savings that result from mergers and acquisitions to offset acquisition premiums and related transaction costs, based on a balancing of the benefits arising from the merger with the costs associated with the merger).</p> <p>Commission staff noted that a showing of savings must be made at the time of the acquisition, and not be based on generalized statements about potential merger benefits. While the policy has been focused on gas and electric company merger and acquisition activity, the precedents in <i>Guidelines and Standards for Acquisitions and Mergers</i> could potentially be applied to water companies.</p>
Michigan	<i>PRIVATE WATER SYSTEMS NOT REGULATED</i>
Minnesota	<i>PRIVATE WATER SYSTEMS NOT REGULATED</i>
Mississippi	<i>State of Miss. v. Miss. Pub. Serv. Comm’n, 435 So.2d 608 (Miss. 1983)</i> (“...public utilities’ amortization of acquisition adjustment is a proper component of cost of service and should be included as a proper operating expense

	when proven by the utility to be beneficial.”).
Missouri	<p>Mo. Rev. Stat. § 393.146(11) (2008)</p> <p>“If the commission orders the acquisition of a small water or sewer corporation, the commission shall authorize the acquiring capable public utility to utilize the commission’s small company rate case procedure for establishing the rates to be applicable to the system being acquired. Such rates may be designed to recover the costs of operating the acquired system and to recover one hundred percent of the revenues necessary to provide a net after-tax return on the ratemaking rate base value of the small water or sewer corporation’s facilities acquired by the capable public utility, and the ratemaking rate base value of any improvements made to the facilities by the acquiring capable public utility subsequent to the acquisition, at a rate of return equivalent to one hundred basis points above the rate of return authorized for the acquiring capable public utility in its last general rate proceeding.</p> <p><i>Re Alliance Gas Energy Corp., 2008 WL 320768 (Mo. P.S.C. Feb. 5, 2008)</i> (observing that “there are strong precedents against allowing acquisition premiums to be reflected in rates when the assets are purchased at more than book value. For example, the Commission has stated that it will not require a company to write down its rate base when the assets are sold at less than book value.”).</p> <p><i>Re UtiliCorp United Inc., 2004 WL 431561 (Mo. P.S.C. Feb. 26, 2004)</i> (“Missouri has traditionally applied the net original cost standard when considering the ratemaking treatment of acquisition adjustments. That means that the purchasing utility has not been allowed to recover an acquisition premium from its ratepayers. But it also means that ratepayers do not receive lower rates through a decreased rate base when the utility receives a negative acquisition adjustment.”).</p>

<p>Montana</p>	<p>Mont. Code Ann. § 69-3-109. Ascertaining property values.</p> <p>“The commission may, in its discretion, investigate and ascertain the value of the property of each public utility actually used and useful for the convenience of the public. The commission is not bound to accept or use any particular value in determining rates. However, if any value is used, the value may not exceed the original cost of the property, except that the commission may include all or some of an acquisition adjustment for certain property purchased by a public utility in the purchasing utility’s rate base if the transfer of the property to the purchasing utility is in the public interest.”</p> <p><i>Re NorthWestern Corp., 259 P.U.R.4th 493 (2007)</i> (“It is a long held regulatory principle of this Commission that the value of plant in rate base is determined by original cost less depreciation. Original cost of utility property is determined when the asset is first dedicated to public service. The action of selling a utility, absent any compelling reason, is not sufficient to allow an adjustment in rate base to reflect acquisition costs.”).</p>
<p>Nebraska</p>	<p>No general policy has been established for dealing with water company acquisition adjustments. Commission staff was unable to recall any requests for acquisition adjustments by water companies. In other areas, the Commission sometimes allows acquisition adjustments.</p>
<p>Nevada</p>	<p>The Commission includes the original cost of the acquired system in rate base and does not recognize acquisition adjustments.</p>
<p>New Hampshire</p>	<p><i>Re Lakes Region Water Co., Inc., 2004 WL 3457746 (N.H. P.U.C. Sept. 23, 2004)</i> (after noting commission’s longstanding practice of not allowing recovery in excess of original cost, PUC ordered water company to book purchase price in excess of net book value as an acquisition adjustment so that it was not reflected in future customer rates).</p>
<p>New Jersey</p>	<p>No general policy has been established for dealing with water company acquisition adjustments but the Commission rarely grants acquisition adjustments and will require that a benefit to existing customers be shown by the requesting utility.</p> <p><i>Re Consumers New Jersey Water Company, 1995 WL 592835 (N.J.B.P.U. Sept. 20, 1995)</i>(adopting stipulation where given the “special and unique” circumstance of proven benefits of the acquisition to customers, company would be allowed an acquisition adjustment in next rate base by amortizing adjustment over a period of years and including the unamortized portion into rate base).</p>

New Mexico	<p><i>In the Matter of the Petition By New Mexico-American Water Company, Inc. to Change Its Service Rates, Case No. 2202 (N.M. P.S.C. Dec. 28, 1988)</i> (order approving stipulation that excluded the acquisition adjustment from the rate base and its amortization from the cost of service - acquired assets would be treated as if transferred at original cost.).</p> <p>Commission staff noted that general policy is to not allow an acquisition adjustment unless net benefit to customers is proven.</p>
New York	<p><i>Proceeding on Motion of the Commission to Establish a Policy to Provide Incentives for the Acquisition and Merger of Small Water Utilities, Case No. 93-W-0962 (N.Y. P.S.C. Aug. 8, 1994)</i> (established guidelines for acquisition of small water companies whereby, if certain customer benefits are shown, Commission may provide incentives such as inclusion of acquisition adjustment in rate base (if purchase price greater than acquired company rate base) or inclusion of acquired company rate base (if purchased for less than rate base)).</p> <p><i>Joint Petition of United Waterworks Inc. and South County Services Co., Inc. for Permission for United Waterworks to Acquire the Stock of South County Water Corp., Case No. 02-W-0949 (N.Y. P.S.C. May 21, 2004)</i> (citing to policy on acquisition of small water utilities, allowed acquiring company to include book value of stocks in rates instead of lower purchase price).</p> <p><i>Joint Petition of Aqua New York, Inc., f/k/a Kingsvale Water Co., Inc., and New York Water Service Corp., Case No. 06-W-0700 (N.Y. P.S.C. Dec. 20, 2006)</i> (the full amount of purchase premium treated as goodwill (not recoverable in rates) where acquisition was not of a small water utility).</p>
North Carolina	<p><i>In the Matter of Petition of Utilities, Inc., 147 N.C. App. 182, 555 S.E.2d 333 (2001)</i> (affirming Commission approach whereby it would refrain from allowing rate base treatment of an acquisition adjustment unless the purchasing utility established by the greater weight of the evidence that the purchase price was prudent and that both the existing customers of the acquiring utility and the customers of the acquired utility would be better off (or at least no worse off) with the proposed transfer, taking into consideration rate base treatment of any acquisition adjustment).</p>
North Dakota	<p style="text-align: center;"><i>PRIVATE WATER SYSTEMS NOT REGULATED</i></p>
Ohio	<p>The Commission includes the original cost of the acquired system in rate base and does not allow acquisition adjustments. <i>Re Dayton Power and Light Co., 21 P.U.R.4th 376 (Oh. P.U.C. 1977)</i> (proposed acquisition adjustment should “clearly” be excluded from rate base given state’s use of original cost.).</p>

Oklahoma	Acquisition adjustments are not allowed in rate base absent extraordinary circumstances, although requests are evaluated on a case-by-case basis. Commission staff did not recall any recent requests for acquisition adjustments by water companies.
Oregon	Or. Admin. R. 860-036-0716 (2008) (water utility may petition Commission for approval of acquisition adjustment in rates where benefits of acquisition outweigh the increase to customers' rates resulting from acquisition).
Pennsylvania	66 Pa. C.S.A. § 1327 (2008) (positive acquisition adjustments allowed under identified circumstances where small, troubled or non-viable water systems are acquired and improved; negative acquisition adjustments must be amortized to utility operating income unless, in the Commission's discretion, the public interest would not be served by doing so).
Rhode Island	Acquisition adjustments are generally not allowed, although they are evaluated on a case-by-case basis. Cost savings or other extraordinary circumstances may justify an acquisition adjustment. Commission staff did not recall any requests for acquisition adjustments by water companies in the past decade. <i>In re: Petition of Valley Gas Co., Bristol and Warren Gas Co. and Southern Union Company for Approval of Mergers, Docket Nos. D-00-02, D-00-03 (R.I. P.U.C. July 24, 2000)</i> (order approving a settlement agreement which contained the following term : "The Settling Parties agree that the Companies will not seek direct or indirect recovery of any acquisition premium in rates either through an amortization or rate base adjustment in future rate cases . . .").
South Carolina	<i>Re Georgia Water & Well Serv., Inc., 233 P.U.R.4th 482 (2004)</i> ("If a regulatory agency determines that the cost was reasonable and beneficial to the customers, an above-the-line expense could be allowed as an Amortization of Utility Acquisition Adjustments." However, "[t]he prevailing rule relating to the acquisition of utility plant previously used in a regulated business is that the plant must continue to be recorded at the depreciated original cost to the first owner devoting the property to public service.").
South Dakota	<i>PRIVATE WATER SYSTEMS NOT REGULATED</i>
Tennessee	The Authority does not have a general policy on acquisition adjustments. Generally speaking, the purchase of utility plant previously used in providing utility service is recorded on the acquiring company's books at original cost, net of accumulated depreciation. Exceptions would be considered only if the price above the seller's original cost was clearly in the public interest and would be addressed on a case-by-case basis.

Texas	30 Tex. Admin Code § 291.31(d) (2008) (positive acquisition adjustment allowed under identified circumstances).
Utah	Commission Staff stated that, in general, when the acquired asset is already a utility asset, the book value goes into rat base. When the acquired asset was not previously a utility asset, the purchase price goes in to the rate base. <i>Re Utah Power and Light Co., 53 P.U.R.4th 461 (Ut. P.S.C. May 23, 1983)</i> (“The commission agrees that in the context of acquiring assets already dedicated to the providing of public service the general rule for determining the value of such acquired property for rate-making purposes is depreciated book value . . .The commission also recognizes, however, that there may be exceptions to this general rule should sufficient benefits accrue to the acquiring public utility and its ratepayers to justify deviations from net book value treatment. It should be emphasized that this exception would be an unusual circumstance and would be evaluated on a case-by-case basis.”).
Vermont	Board includes acquisition adjustments below the line; never included in rates. Board staff was unable to recall any recent requests for acquisition adjustments by water companies. <i>Joint Petition of Young’s Cable TV Corp. and Okemo Vue, Inc., 1986 WL 361091 (Vt. P.S.B. May 26, 1986)</i> (“the Board policy on rate-base acquisition adjustments is that permitted earnings on rate-base investment are limited to the depreciated cost of utility property when first placed into service, and that an upward rate base adjustment will not be permitted when ownership of the assets is directly or indirectly at a price in excess of their depreciated original cost.”)
Virginia	<i>Re Virginia Natural Gas, Inc., 250 P.U.R.4th 421 (2006)</i> (“An acquisition adjustment is allowed only in extraordinary circumstances and may be authorized if the applicant utility satisfies certain criteria . . .(i) the purchase price was determined in an arms-length bargaining and (ii) the purchase was an investment made prudently for the benefit of the customers and the utility.”).
Washington	<i>Washington Util. and Transp. Comm’n v. PacifiCorp, 2006 WL 1517095 (Wash U.T.C. Apr. 17, 2006)</i> (“When a utility purchases a plant, it may seek an acquisition premium adjustment to reflect that the price paid for the plant may be higher than its book value. However, the cost of the premium is not included in rate base unless the Commission allows such treatment after finding the underlying plant purchase was prudent.”). <i>In the Matter of the Application of Herman Suess Applicant, For the Sale and Transfer of Assets to Pattison Water Co., 2005 WL 2660173 (Wash. U.T.C. June 15, 2005)</i> (Staff advised applicant that “absent a showing of commensurate benefits, acquisition adjustments are not included in rate base for inclusion in rates.”).

<p>West Virginia</p>	<p>No general policy has been established for dealing with water company acquisition adjustments. Acquisition adjustments are often not allowed.</p> <p><i>Re West Virginia-American Water Co., 231 P.U.R.4th 423 (W. Va. P.S.C. Jan. 2, 2004)</i> (ordered negative acquisition adjustment to rate base).</p> <p><i>West Virginia-American Water Co. and East Bank Water Dep’t., Case No. 00-1719-W-PC (W. Va. P.S.C. Feb. 6, 2001)</i> (ordered acquiring company to record the book cost of assets, and “[a]ny amount paid in excess of the net book value of the acquired assets, as adjusted, should be recorded in [the acquisition adjustment account] and be amortized over 20 years. Any amount of asset book value in excess of the amount paid will be considered as a contribution. Lastly, any necessary rate recognition relating to this acquisition will be given the appropriate treatment in the [next rate case].”).</p>
<p>Wisconsin</p>	<p><i>Joint Application for Approvals Related to Wisconsin Power and Light Company’s Sale of its Beloit Area Water Utility Assets to the City of Beloit, 2003 WL 22220326 (Wis. P.U.C. Sept. 19, 2003)</i>(after finding sufficient benefits to customers, allowed city to recover in customer rates a straight-line amortization of acquisition adjustment over 25 years and a return on the unamortized balance).</p> <p><i>Preliminary Agreement of the Village of Footville, Rock County, as an Electric Public Utility, to Sell Its Electric Public Utility Plant to Wisconsin Power and Light Company, Dockets 2040-EA-100, 6680-EB-103 (Wis. P.U.C. Feb. 24, 1989)</i>(As a general matter, a utility must provide some substantial physical or electrical benefit to the purchaser’s system in order to be exempted from the ordinary rule that utility customers pay no more than net book value. Redistribution of costs or spreading costs over more customers is not a system benefit in and of itself.).</p>
<p>Wyoming</p>	<p>No general policy has been established for dealing with water company acquisition adjustments. Commission staff was unable to recall any requests for acquisition adjustments by water companies. Requests would be reviewed on a case-by-case basis.</p>