

**199—41.5(476) Acquisition of a water, sanitary sewage, or storm water utility.** A rate-regulated public utility proposing to acquire, in whole or in part, a water, sanitary sewage, or storm water system with a fair market value of \$500,000 or more from a non-rate-regulated entity described in Iowa Code section 476.1(4) shall file an application for approval of the acquisition with the commission. If the acquisition is approved, ratemaking principles that will apply when the costs of the acquisition are included in regulated rates shall be determined as part of the commission's review of the application. At a minimum, an application made under this rule shall substantially comply with the following informational requirements, to the extent such information is reasonably available. Any omission of required information on the basis that it is not reasonably available shall be adequately justified by the applicant. The commission will consider such omissions on a case-by-case basis and may require the applicant to provide additional information.

**41.5(1) General information.** An application shall include the following general information:

*a.* A general description of the system to be acquired, including the total number of customers, a description of the general arrangement of major structures and equipment, maps of the system, and a general description of the scope of the system.

*b.* The identification and general description of all material capital investments and operating expenses associated with the proposed acquisition anticipated within five years of the date of the acquisition.

*c.* A proposed procedural schedule that, at a minimum, provides proposed dates for direct testimony, rebuttal testimony, and a hearing for cross-examination of all testimony. The proposed schedule should generally comply with the commission's procedural rules in 199—Chapter 7.

**41.5(2) Acquisition information.** An application shall include the following information related to the acquisition:

*a.* The final reports of both appraisals prepared pursuant to Iowa Code section 388.2A(2) "a"(2).

*b.* Final fair market value of the system as identified in Iowa Code section 388.2A(2) "b."

*c.* The final price for the system as negotiated pursuant to Iowa Code section 388.2A(2) "c."

*d.* An inventory of the acquired system's real and personal property as identified in Iowa Code section 388.2A(2) "d."

*e.* A financial information sheet prepared pursuant to Iowa Code section 388.2A(2) "e."

*f.* An affirmation that the acquiring utility and the acquired system have complied with the applicable components of Iowa Code section 388.2A.

*g.* The proposed acquisition contract.

**41.5(3) Impact of acquisition.** An application shall include the following information related to the acquired system and its potential impact on the acquiring utility:

*a.* If the acquired system is not in compliance with applicable local, state, or federal standards, estimates of the approximate cost and time required to put the system in compliance with such standards.

*b.* A description of anticipated capital investments and retirements for the acquired system, including estimated dollar amounts, for each of the first five years after the acquisition.

*c.* Any anticipated staffing changes due to the proposed acquisition.

*d.* A description of the proposed accounting to be utilized in any transfer of assets necessary to accomplish the acquisition.

*e.* A description of the anticipated effects of the acquisition, including a cost-benefit analysis which describes the projected benefits and costs of the acquisition, quantified in terms of present value and identifying the sources of such benefits and costs.

*f.* An analysis of the projected financial impact of the acquisition on the ratepayers of each of the affected utilities for each of the first five years after the acquisition.

*g.* Historical and projected fixed expenses for the acquired system, including expense factors for fixed operation and maintenance costs.

*h.* Historical and projected variable expenses for the acquired system, including expected variable operation and maintenance costs.

*i.* The estimated maximum, minimum, and expected cash inflows and outflows for the acquired system.

*j.* A description of the financing components of the acquisition and an analysis of the impacts on the acquiring utility's ability to attract capital on reasonable terms and to maintain a reasonable capital structure.

**41.5(4)** *Ratemaking principles.* Each ratemaking principle proposed shall be supported as described in this subrule. Proposed ratemaking principles not envisioned by these rules shall be supported by sufficient information to justify the use of such principles.

*a. Cost of equity.* The utility shall file financial models demonstrating the proposed equity rate or range of equity rates necessary to attract equity capital for the proposed acquisition. The financial analysis shall include a risk assessment of the proposed acquisition, including a comparison with similar acquisitions.

*b. Ratepayer allocations.* Proposals for allocating the cost of the acquired system and anticipated improvements to customers of the acquired system and the utility's existing customers shall include information showing that the proposed allocation will result in rates that are just and reasonable for both groups of customers.

*c. Initial depreciable value.* Proposals for establishing the value of the acquired system to be used as the initial gross asset balance for depreciation shall be supported by the lesser of the sale price or the fair market value of the system as determined consistent with Iowa Code section 388.2A(2) "b." The utility shall also provide the accumulated depreciation balances for the assets.

*d. Depreciable life.* Proposals for establishing rates which will be used to depreciate the acquired system shall be supported by a depreciation study or by depreciation rates applied in the utility's last general rate case.

**41.5(5)** *At-risk systems.* An application shall state whether the system to be acquired is an at-risk system, as defined by Iowa Code section 455B.199D as enacted by 2020 Iowa Acts, House File 2452. If the commission determines that an application to acquire an at-risk system does not contain sufficient information consistent with this rule to render a timely decision, the commission may reject the application without prejudice.

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