Exhibit No. 101

Staff – Exhibit 101
Curt B. Gateley
Rebuttal Testimony
File No. WA-2021-0376

Exhibit No.:
Issue(s): *Staff Recommendation*
Witness: *Curt B. Gateley*
Sponsoring Party: *MoPSC Staff*
Type of Exhibit: *Rebuttal Testimony*
Case No.: *WA-2021-0376*
Date Testimony Prepared: *December 3, 2021*

MISSOURI PUBLIC SERVICE COMMISSION

INDUSTRY ANALYSIS DIVISION

WATER AND SEWER DEPARTMENT

REBUTTAL TESTIMONY

OF

CURT B. GATELEY

MISSOURI-AMERICAN WATER COMPANY

CASE NO. WA-2021-0376

Jefferson City, Missouri
December 2021

REBUTTAL TESTIMONY

OF

CURT B. GATELEY

MISSOURI-AMERICAN WATER COMPANY

CASE NO. WA-2021-0376

Q. Please state your name and business address.

A. My name is Curtis Gateley. My business address is 200 Madison Street, Jefferson City, Missouri 65101.

Q. By whom are you employed and in what capacity?

A. I am employed by the Missouri Public Service Commission ("Commission") as the Manager of the Water and Sewer Department.

Q. Please describe your educational background, work experience, and any cases in which you have previously filed testimony before this Commission.

A. My credentials and a listing of cases in which I have filed testimony previously before this Commission are attached to this rebuttal testimony as Schedule CBG-r1.

Q. What is the purpose of your rebuttal testimony?

A. The purpose of my rebuttal testimony is to sponsor Staff's Recommendation on the Application filed by Missouri-American Water Company ("MAWC") for a Certificate of Convenience and Necessity authorizing it to install, own, acquire, construct, operate, control, manage, and maintain a water system and sewer system in Eureka, Missouri. I will also be rebutting certain portions of the Direct Testimony filed by MAWC's witnesses.

Q. What is Staff's recommendation in this case?

A. Staff recommends the Commission reject MAWC's application, as stated in the Staff Recommendation attached to this testimony as Schedule CBG-r2, because the proposed purchase price and appraised value is $10,193,386 above Staff's calculated net book value. While it is anticipated that the procedure authorized by Section 393.320, RSMo, may result in an appraised value above the net book value, it is Staff's position that granting MAWC more than $10 million in excess of the net book value is not in the public interest. In addition, it is Staff's opinion that the procedure used in this application to arrive at the proposed purchase price and appraised value relies on flawed methodology and poor judgement, and does not take into consideration the intended use of the assets.

Q. Did you prepare Staff's Recommendation?

A. No, Staff's Recommendation was prepared by several witnesses. I primarily contributed to the sections relating to rates, tariffs, the Flinn engineering report, and the appraisal. Staff witnesses David T. Buttig, PE, and Amanda Coffer prepared the calculations of Staff's net book value, and the proposed depreciation rates. Staff witness Amanda C. McMellen prepared portions related to rate base and the appraisal. Staff witness Scott J. Glasgow contributed the portions related to publicity, customer notice, and customer experience. Sarah Fontaine, who also contributed to the publicity, customer notice, and customer experience sections, is no longer with the Public Service Commission. Staff witnesses David C. Roos and Andrew Harris, PE, prepared the sections on Staff's investigation of the existing water and sewer assets, MAWC's proposed improvements to those assets, the service area, the Flinn engineering report, and the appraisal.

Q. Could you please summarize Staff's concerns with the methods and decisions used to develop the appraisal and purchase price?

A. MAWC's proposed purchase price relies on an appraisal[1] that does not take into account known deficiencies in the physical assets. While Staff cannot replicate the creation of the appraisal, there are several facts that Staff finds questionable. The appraisal relies[2] on a report from Flinn engineering that makes incorrect assumptions about the condition of the assets, rather than verifying the actual condition of those assets. The appraisal assumes the Flinn report is accurate and complete.[3] Therefore, the methodology used in the formulation of MAWC's application appears to avoid consideration of information that would influence the calculation of an appraised market value.

Q. Can you summarize the publically-available information about the condition of the sewer collection and treatment system that was not addressed in the Flinn report or the appraisal?

A. I can briefly list some examples, which are available through an open records request to the Missouri Department of Natural Resources (DNR). The sewage treatment facility has failed to meet permit effluent limitations since at least October 2016 for biochemical oxygen demand.[4] The sewer collection system is affected by excessive inflow and infiltration (I&I), which is usually precipitation entering the sewage collection system through damaged or failed components, but illicit connections (such as a customer's gutters, or a basement sump pump) can also contribute if not controlled. DNR notes Eureka has been taking steps to repair the collection system to reduce I&I since at least February of 2019.[5] While some amount of I&I is

[1] The Application uses the terms 'Appraisal' 'Appraisal Report' and 'Valuation Report' interchangeably. I will use the term 'appraisal' in this testimony.
[2] Appraisal, page 2.
[3] Appraisal, page 12.
[4] DNR inspection report, August 20, 2019.
[5] DNR inspection report, August 20, 2019.

inevitable, if not controlled through regular repair and maintenance, it can overwhelm the collection system and impair the performance of the sewage treatment plant. DNR also noted damaged manholes in at least one report,[6] which contribute to I&I. Several sewer lift stations, which pump sewage through the collection system, were damaged during floods in 2015 and 2017.[7] MAWC has noted one of those lift stations is in urgent need of replacement at a cost of $350,000.[8] Eureka has experienced several sanitary sewer overflow (SSO) events, which are discharges of untreated sewage from the collection system that endanger public health and the environment. Some of these were due to flooding, such as in December 2015 and April 2017.[9] Others were due to excessive I&I overwhelming the collection system or dry weather failures of the collection system components. In addition to the flooding events, SSOs occurred in March of 2015, November of 2016, April, July, and August of 2019.[10, 11, 12] This is not intended to be a complete list of all information available.

Q. Is Staff alleging that the author of the Flinn engineering report had malicious intent in excluding information in the report?

A. No. It is stated in the engineering report and direct testimony,[13] that the scope of the Flinn engineering report was very limited, that the site was not visited, and that it relied upon information from Eureka and MAWC. Staff does not know why physical verification of the mechanical condition of the above-ground utility assets wasn't conducted.

[6] DNR Letter of Warning, October 19, 2017.
[7] DNR Letter of Warning, October 19, 2017.
[8] MAWC response to Staff DR No. 0004, and discussions with Staff September 15, 2021.
[9] DNR Letter of Warning, October 19, 2017.
[10] DNR contact records, August 26, 2019, September 9, 2019.
[11] DNR inspection report, August 20, 2019.
[12] DNR Letter of Warning, October 19, 2017.
[13] MAWC witness Kelly A. Simpson, Direct Testimony, page 5.

Staff also does not know why the report did not review public records of compliance history from DNR to assist in determining the condition of the water and sewer systems.

Q. Did Eureka share the compliance issues and condition of the sewer system with the author of the Flinn report?

A. Witness Sean Flower, Mayor of Eureka and appearing as a witness on behalf of MAWC, in his Direct testimony on page 6 lines 8-9 states "Eureka staff worked extensively with the appraisers and engineers to provide detailed information regarding our system." Yet, the resulting Flinn report does not mention the SSOs or effluent limit violations. As these compliance failures are reported to DNR by Eureka, Eureka was aware of these serious violations. Whether this information was not shared with Flinn or Flinn received the information from Eureka but failed to account for it in the report, is unknown to Staff.

Q. Are all violations that must be reported to DNR indications of poor condition of a treatment system?

A. No. For example, some violations associated with a sewer treatment system can be the result of operational mistakes. Some can be relatively simple mechanical failures that are quickly repaired. However, the details provided by DNR, and viewed by Staff, show significant mechanical failures that have not been repaired, a collection system in need of significant repairs, and infrastructure that is past its useful life.

Q. Is a review of physical condition and compliance history typically conducted when consulting engineers prepare reports?

A. In Staff's experience, it is. A significant portion of the report is a determination of the current condition of the utility assets, along with the age of those assets. Whether or not the mechanical portions of the assets properly function would seem to be a crucial part of the

determination. Whether the utility has been able to provide safe and adequate service and meet DNR compliance standards would also seem to be a crucial part of the determination. Instead, both versions of the Flinn report assume the components to be in 'good' condition.[14]

Q. Why is the exclusion of the information about the sewer system noncompliance, which indicates it is not in good condition, important for this case?

A. Because according to the appraisal,[15] the appraisers relied on the Flinn report for an assessment of the condition and functionality of the assets. It is a reasonable conclusion that if the Flinn report had not made assumptions, and instead verified the condition of the systems and stated the needed repairs and compliance problems, that the appraisers would have considered this information in formulating their appraisal. MAWC witness Joseph E. Batis states[16] that reliance on an engineering report that did not include inspection of the assets is "…in accordance with applicable professional appraisal standards…". This may be true in a situation where the condition of the asset is unlikely to be in question, and would therefore be unlikely to alter the market value. However, it is Staff's position that determining the working condition of an asset is critical to assessing its market value, especially considering it is the public who ultimately pays for not only the purchase of the assets, but the repair and/or replacement of assets in poor condition.. When purchasing a used vehicle, whether or not it is able to travel at highway speeds is going to have a significant impact on its value. A sewer collection system with significant I&I and SSOs, and a sewer treatment facility unable to meet

[14] Flinn Engineering Report, March 16, 2020. References to assumptions of good condition appear in several locations throughout the document.
[15] Valuation Report, March 23, 2020, page 12.
[16] Joseph E. Batis, Direct Testimony, page 14 lines 3-9.

effluent limitations, should not be assumed to be in 'good' condition as was done in MAWC's application.

Q. Did the appraisers attempt to take into account publically-available information from DNR on the condition of the assets?

A. No. Mr. Batis states[17] that the engineering report and the final analysis of market value rely on "…information that is available." However, neither the engineering report nor the appraisal state that they considered the publically-available information on the condition of the sewer system. In the appraisal on page 12, it states that Appraisers aren't qualified to assess condition and assume "… proper working order of system's components and compliance with regulatory requirements." But the sewer system is not "in proper working order" and does not meet regulatory requirements. Staff asserts that the appraisal needs to be reconsidered just as the second paragraph of page 12 states that they reserve the right to do. To date, the appraisal still assigns value based on the utility assets being in good working order.

Q. Why do you feel Staff is qualified to offer these observations about the Flinn report and the appraisal?

A. Staff reviews applications presented to the Commission in order to offer a recommendation to the Commission. The observations noted above require no special licensure or certification to understand, and I believe what I have noted above would be considered problematic based on my experience.

Q. Has MAWC asked that the appraisal be revised to include information about the condition of the sewer assets?

[17] Joseph E. Batis, Direct Testimony, page 12, lines 9-18.

A. MAWC has not indicated such to Staff. In fact, MAWC has indicated that they consider the sewer system to be "…well maintained and in good condition relative to many other similar systems."[18]

Q. Does Staff agree with this opinion?

A. No. The concept that some other municipal systems are in a similar state of disrepair and damage does not mean that Eureka's system is in 'good' condition.

Q. Does Staff agree that all facts surrounding the drinking water system were properly considered in the purchase price?

A. No. While Staff understands that the appraisal considered the value of the drinking water assets "as is" as of March 18, 2020,[19] MAWC does not appear to have negotiated a lower purchase price based on the intended use of the assets. In his direct testimony, MAWC witness Jeffrey Kaiser explains the main reason for Eureka exploring the sale of the utility assets to MAWC was to obtain a different source of water[20] due to the aesthetic problems with the existing wells. This new source of water, a pipeline from MAWC's St. Louis service area, is expected to be in use eighteen (18) months after MAWC closes on the Eureka assets.[21] Mr. Kaiser asserts that once MAWC completes construction of a new water main to Eureka, the City's existing wells will be used only as an emergency back-up water supply. Thus, MAWC's application proposes a market value for the drinking water assets that does not reflect their intended use. Staff has not attempted to calculate how of much a reduction could have

[18] MAWC response to Staff DR No. 0036.
[19] Joseph E. Batis, Direct Testimony, page 10, 14-19.
[20] Id. Page 5, lines 6-18.
[21] Application Appendix D, page 16, term 6.11.

been negotiated, but believes it reasonable that it should have been reflected in the purchase price negotiations.

Q. Is it possible that Staff would support MAWC's purchase of the utility assets of Eureka under different conditions?

A. Yes. MAWC has the ability to operate the Eureka systems to provide safe and adequate service, and the citizens of Eureka have voted to approve the sale. Staff argues, for the reasons articulated above and in Staff's Recommendation, that granting MAWC's application as it is presented is not in the public interest. Staff suggests that MAWC revise their application to include an appraisal that takes into account the actual condition of the plant assets, a negotiated purchase price that takes into consideration the intended use of the drinking water assets, and refile this application.

Q. Does this conclude your rebuttal testimony?

A. Yes.

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of the Application of Missouri-American Water Company for a Certificate of Convenience and Necessity Authorizing it to Install, Own, Acquire, Construct, Operate, Control, Manage and Maintain a Water System and Sewer System in and Around the City of Eureka, Missouri	)	Case No. WA-2021-0376

AFFIDAVIT OF CURT B. GATELEY

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

COMES NOW Curt B. Gateley, and on his oath declares that he is of sound mind and lawful age; that he contributed to the foregoing *Rebuttal Testimony of Curt B. Gateley;* and that the same is true and correct according to his best knowledge and belief, under penalty of perjury.

Further the Affiant sayeth not.

C. B. Gateley

Curt B. Gateley

JURAT

Subscribed and sworn before me, a duly constituted and authorized Notary Public, in and for the County of Cole, State of Missouri, at my office in Jefferson City, on this 30th day of November, 2021.

DIANNA L. VAUGHT
Notary Public - Notary Seal
State of Missouri
Commissioned for Cole County
My Commission Expires: July 18, 2023
Commission Number: 15207377

Dianna L. Vaught

Notary Public

Curt B. Gateley

I am the Manager of the Water & Sewer Department, in the Industry Analysis Division of the Missouri Public Service Commission. I have been employed by the State of Missouri for 21 years, and have been with the Commission seven years. My duties as the Manager of Water and Sewer involve all aspects of the Commission's regulation of the water and sewer industries including customer complaints, reviewing testimony, setting policy, and working with the utilities to promote best practices in their provision of safe and adequate service at just and reasonable rates.

Educational Background and Work Experience

I have a Bachelor of Science degree in Fisheries and Wildlife from the University of Missouri-Columbia. Prior to joining the Public Service Commission I was employed by the Missouri Department of Natural Resources from 2000-2014, as an Environmental Specialist and a Unit Chief. During my time with the agency I worked in compliance and enforcement, industrial and domestic wastewater permitting, industrial stormwater permitting, and eventually oversaw a staff of eight Permit Writers. I have served as expert witness before the Administrative Hearing Commission, as well as expert witness in State and Federal enforcement cases.

Previous Testimony Before the Public Service Commission

Case No.	Company	Type of Filing	Issue
SR-2014-0153	Peaceful Valley	Live Testimony only	Compliance with Dept. of Natural Resources Regulations
WR-2015-0301	Missouri American Water Company	Direct and Rebuttal Testimony	Class Cost of Service Report
SR-2016-0202	Raccoon Creek Utility Operating Company	Direct and Rebuttal Testimony	Rate Design and Tariff Review
WO-2017-0236	Ridge Creek Utility Company, LLC	Live Testimony only	Petition for Interim Receiver
WR-2017-0110	Terre Du Lac Utilities Corporation	Direct Testimony	Rate Design and Tariff Review
WR-2017-0259	Indian Hills Utility Operating Company	Direct, Rebuttal and Surrebuttal Testimony	Rate Design
WR-2017-0285	Missouri American Water Company	Direct, Rebuttal and Surrebuttal Testimony	Class Cost of Service, Rate Design
WR-2018-0285	Liberty Utilities	Direct Testimony	Contract Services, Miscellaneous Service Charges, Tariff Revisions
WR-2020-0344	Missouri American Water Company	Direct Testimony	Class Cost of Service Report
WA-2020-0397	Liberty Utilities	Direct and Rebuttal Testimony	Staff Recommendation, Rate Base

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of the Application of Missouri-American Water Company for a Certificate of Convenience and Necessity Authorizing it to Install, Own, Acquire, Construct, Operate, Control, Manage, and Maintain a Water System and Sewer System in and around the City of Eureka, Missouri	)	**File No. WA-2021-0376**

STAFF RECOMMENDATION

COMES NOW the Staff of the Missouri Public Service Commission ("Staff") and for its *Staff Recommendation*, states as follows:

Procedural History

1. On April 26, 2021, Missouri-American Water Company ("MAWC") filed applications with the Missouri Public Service Commission ("Commission") requesting Certificates of Convenience and Necessity ("CCNs") to install, own, acquire, construct, operate, control, manage, and maintain a water system (Case No. WA-2021-0376) and a sewer system (Case No. SA-2021-0377) in and around the City of Eureka, Missouri ("Eureka").

2. On April 27, 2021, the Commission issued an *Order Directing Notice, Setting Date for Intervention Requests, Setting Deadlines for Responses to Consolidation, and Directing Filing of Staff Recommendation*. On May 10, 2021, the Commission consolidated the files under File No. WA-2021-0376.

3. On June 28, 2021, Staff submitted its *Motion for Extension*, requesting the Commission order Staff to file its Recommendation in this matter no later than September 27, 2021; the Commission granted Staff's request that same day. Staff later submitted its *Second Motion for Extension* on September 23, 2021, requesting a short extension of

time until October1, 2021, by which to submit its report. The Commission approved Staff's *Second Motion for Extension* on September 24, 2021.

Staff Recommendation

4. Pursuant to Section 393.170, RSMo, no water or sewer corporation shall provide service to consumers without first having obtained approval from the Commission.

5. When reviewing whether a utility should be granted a CCN, the Commission typically applies the five Tartan Criteria established in *In the Matter of Tartan Energy Company, et all.*, 3 Mo. PSC 3d 173, 177 (1994). The criteria are: (1) there must be a need for the service; (2) the applicant must be qualified to provide the service; (3) the applicant must have the financial ability to provide service; (4) the applicant's proposal must be economically feasible; and (5) the service must promote the public interest.

6. In addition to the Tartan Criteria, when considering an application involving existing water and/or sewer systems, the Commission analyzes the TMF capabilities of the applicant.

7. MAWC filed its applications as a "Large Water Public Utility" per Section 393.320, RSMo, in order to purchase the water and sewer systems by utilizing the appraisal method, also outlined under Section 393.320, RSMo.

8. Pursuant to subsection 2. of 393.320, RSMo, the appraisal procedures laid out therein may be chosen to be used by a "large water public utility,"[1] and "if so chosen

[1] As used in Section 393.320, RSMo, a "**Large water public utility"** is a public utility that regularly provides water service or sewer service to more than eight thousand customer connections and that provides safe and adequate service but shall not include a sewer district established under Section 30(a), Article VI of the Missouri Constitution, sewer districts established under the provisions of chapter 204, 249, or 250, public water supply districts established under the provisions of chapter 247, or municipalities that own water or sewer systems;

shall be used by the public service commission to establish the ratemaking rate base of a small water utility[2] during an acquisition."

9. Subsection 3. of 393.320, RSMo, states as follows:

> 3. (1) An appraisal shall be performed by three appraisers. One appraiser shall be appointed by the small water utility, one appraiser shall be appointed by the large water public utility, and the third appraiser shall be appointed by the two appraisers so appointed. Each of the appraisers shall be a disinterested person who is a certified general appraiser under chapter 339.
>
> (2) The appraisers shall:
>
> > (a) Jointly prepare an appraisal of the fair market value of the water system and/or sewer system. The determination of fair market value shall be in accordance with Missouri law and with the Uniform Standards of Professional Appraisal Practice; and
> >
> > (b) Return their appraisal, in writing, to the small water utility and large water public utility in a reasonable and timely manner.
>
> (3) If all three appraisers cannot agree as to the appraised value, the appraisal, when signed by two of the appraisers, constitutes a good and valid appraisal.

10. As explained in Staff's Memorandum, attached hereto as Appendix A, Staff conducted an investigation into MAWC's request. Based upon its review, Staff concludes that MAWC fulfills the requirements regarding TMF capacities. Staff also finds that MAWC meets the first four Tartan Criteria; i.e., (1) there is a need for the service;

[2] As used in Section 393.320, RSMo, a **"Small water utility"**, is a public utility that regularly provides water service or sewer service to eight thousand or fewer customer connections; a water district established under the provisions of chapter 247 that regularly provides water or sewer service to eight thousand or fewer customer connections; a sewer district established under the provisions of chapter 204, 249, or 250 that regularly provides sewer service to eight thousand or fewer customer connections; or a water system or sewer system owned by a municipality that regularly provides water service or sewer service to eight thousand or fewer customer connections; and all other entities that regularly provide water service or sewer service to eight thousand or fewer customer connections.

(2) MAWC is qualified to provide the service; (3) MAWC has the financial ability to provide service; and (4) MAWC's proposal is economically feasible.

11. However, as more thoroughly discussed in Appendix A, it is Staff's position that using the appraised value of $28,000,000 as the basis for rate base for the Eureka systems, pursuant to Section 393.320, RSMo, would be contrary to the public interest. That in turn leads Staff to conclude that MAWC's request for a CCN, utilizing the appraisal method outlined under Section 393.320, is not convenient or necessary for the public service Section 393.170, RSMo, and does not promote the public interest.

12. More specifically, Staff reviewed MAWC's Application and its supporting documents, performed a physical inspection of the City of Eureka Systems. In its review of the Appraisal and its supporting documentation, Staff found several facts troubling. First, in discussions with Staff, MAWC has indicated that a significant driver of Eureka's interest in selling their utilities was to obtain a different source of drinking water from MAWC. In order to do this, MAWC will need to make significant investments into the system, and the current wells would be used merely for emergency backup. From Staff's review, the Appraisal does not take into account that the wells currently utilized by the Eureka systems are to be essentially abandoned.

13. Further, the Appraisal was completed partially in reliance upon a report prepared by Flinn Engineering. Within the Appraisal of the Eureka systems, under the heading "Special Assumptions and Limiting Conditions," the appraisers state the following:

> The Flinn Engineering report referenced in the Scope of Work section of this report is assumed to be accurate, complete, and prepared in compliance with applicable industry standards.

> We reserve the right to revise all opinions and conclusions presented herein upon receiving or becoming aware of any information that is inconsistent with/or contradicts the information, analysis, opinions, and conclusions presented in the Flinn report. We also reserve the right to revise all opinions and conclusions presented herein upon receiving more detailed and complete information regarding the age and condition of the existing water and sewer mains.[3]

As more thoroughly detailed in Staff's Memorandum, it is Staff's position that this report has significant deficiencies. These deficiencies include:

- The report is not signed, sealed, and dated, rendering the report improper for use in these proceedings.
- Two versions of the report were provided to Staff with different results, but neither report acknowledges the existence of the other. In addition, there is no mention in the second report of what was revised.
- The engineer responsible for the report stated they did not observe the assets, but makes assertions as to the physical condition and functionality of the assets.
- The engineering report fails to acknowledge the known deficiencies with the physical condition and functionality of significant portions of the assets, and instead states they are in good condition.
- The engineering report fails to acknowledge that the wells and treatment equipment are to be functionally abandoned as part of the acquisition.

14. As stated supra, for compliance with Section 393.320, RSMo, the appraisers must make their determination of fair market value "in accordance with Missouri law and with the Uniform Standards of Professional Appraisal Practice". It is Staff's position that the significant deficiencies identified within the Flinn Engineering report show that it is clearly not accurate, complete, or prepared in compliance with applicable industry standards. Therefore, the Appraisal must be revised based on that information. The existing appraisal is insufficient as a matter of law.

[3] *See* MAWC's *Application and Motion for Waiver*, Appendix A, page 12.

15. Further, while Section 393.320, RSMo, requires the Commission to utilize the lesser of purchase price or appraised value commission "to establish the ratemaking rate base of a small water utility[4] during an acquisition," the Commission must also determine whether the issuance of a CCN would be convenient or necessary for the public interest, pursuant to Section 393.170, RSMo.

16. "The determination of what is necessary and convenient has long been, and continues to be, a matter of debate." ***State ex rel. Pub. Water Supply Dist. No. 8 v. Pub. Serv. Comm'n***, 600 S.W.2d 147, 154 (Mo. App. W.D. 1980). Specific criteria have not been set out by statute as to when a certificate is "necessary or convenient for the public service" and thus should be issued. ***State ex rel. Ozark Elec. Co–op v. Pub. Serv. Comm'n***, 527 S.W.2d 390, 394 (Mo. App. 1975). Instead, whether "the evidence indicates the public interest would be served in the award of the certificate" is within the discretion of the Commission. ***State ex rel. Intercon Gas, Inc. v. Pub. Serv. Comm'n of Missouri***, 848 S.W.2d 593, 598 (Mo. Ct. App. 1993)(internal citations omitted).

17. In its investigation, Staff also reviewed available information to determine its own estimate of the net book value of the system assets. Based upon Staff's analysis, the net book value of assets proposed to be purchased from the City of Eureka by MAWC, as of August 31, 2021, is approximately $7,096,878 for the sewer system, and $10,709,736 for the water system; $17,806,614 combined.

18. Subsection 6. of 393.320, RSMo, states:

> Upon the date of the acquisition of a small water utility by a large water public utility, whether or not the procedures for establishing ratemaking rate base provided by this section have been utilized, the small water utility shall, for ratemaking purposes, become part of an existing service area, as

[4] DEFINITION

> defined by the public service commission, of the acquiring large water public utility that is either contiguous to the small water utility, the closest geographically to the small water utility, or best suited due to operational or other factors. This consolidation shall be approved by the public service commission in its order approving the acquisition.

19. In this situation, MAWC is requesting that the Commission approve a transaction with a determination of rate base for utility assets that is substantially above the traditional regulatory valuation of those systems. Pursuant to Section 393.320.6, RSMo, the Eureka systems would be incorporated into an already existing service area, and therefore, it is asking for its other customers to help pay the appraised value to add this system to its portfolio. Further, MAWC will ask the rest of its customers in St. Louis County to help pay for future planned upgrades to Eureka's water system. When the entirety of the public interest is viewed from this perspective, considering the uncertainty surrounding the Flinn Engineering Report, and potential insufficiency of the appraisal, it is Staff's position that setting rate base for these systems based upon the appraisal that relied, at least partly, upon the Flinn Report is not in the public interest.

20. Accordingly, Staff recommends that the Commission reject MAWC's request for CCNs to install, own, acquire, construct, operate, control, manage, and maintain a water and sewer system in and around the City of Eureka, Missouri, as outlined within Appendix A to this pleading.

WHEREFORE, Staff respectfully submits this *Staff Recommendation* for the Commission's information and consideration, and hereby requests the Commission reject MAWC's Application; and grant such further relief as the Commission deems just in the circumstances.

Respectfully submitted,

/s/ Mark Johnson
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Attorney for the Staff of the
Missouri Public Service Commission

CERTIFICATE OF SERVICE

I hereby certify that copies of the foregoing have been mailed, hand-delivered, transmitted by facsimile, or electronically mailed to all parties and or counsel of record on this 1st day of October, 2021.

/s/ Mark Johnson

M E M O R A N D U M

TO: Missouri Public Service Commission
Official Case File, Case No. WA-2021-0376
Missouri American Water Company

FROM: David T. Buttig, PE – Engineering Analysis Department
Amanda Coffer – Engineering Analysis Department
Sarah Fontaine – Customer Experience Department
Curt B. Gateley – Water and Sewer Department
Scott J. Glasgow – Customer Experience Department
Andrew Harris, PE – Water and Sewer Department
Amanda C. McMellen – Auditing Department
David C. Roos – Water and Sewer Department

/s/ Curt B. Gateley 10/1/2021 / Case Manager / Date
/s/ Mark Johnson 10/1/2021 / Staff Counsel's Office / Date

SUBJECT: Staff's Recommendation to Reject MAWC's Application for Certificates of Convenience and Necessity

DATE: October 1, 2021

EXECUTIVE SUMMARY

In its *Application and Motion for Waiver* (Application) requesting Certificates of Convenience and Necessity (CCNs) authorizing it to install, own, acquire, construct, operate, control, manage, and maintain a water and sewer system in Eureka, Missouri, Missouri-American Water Company (MAWC) has elected to exercise an option provided by §393.320, RSMo. The lesser of the purchase price or the appraised value, together with the reasonable and prudent transaction, closing, and transition costs incurred by the large water public utility, shall constitute the ratemaking rate base for the small water utility as acquired by the acquiring large water public utility. The appraised value, and the agreed upon purchase price, in this case is $28,000,000. Staff reviewed the application and its supporting documents, performed a physical inspection of the utilities, reviewed data request responses, and reviewed available documentation from the Department of Natural Resources (DNR) and the city of Eureka. Staff recommends rejection of MAWC's Application to purchase the water and sewer assets from Eureka, for the reasons described below.

CASE BACKGROUND

On April 26, 2021, MAWC filed its Application with the Missouri Public Service Commission (Commission) for CCNs authorizing it to install, own, acquire, construct, operate, control, manage, and maintain a water and sewer system in Eureka, Missouri, which is located in St. Louis County. In its Application, MAWC states that it intends to acquire the water and sewer utility assets that are presently owned and operated by the City of Eureka (Eureka or City). The Eureka systems, as municipal utilities, are not presently subject to the jurisdiction of the Commission. The Application was docketed in two separate cases, Case Nos. WA-2021-0376 and SA-2021-0377, which were consolidated by the Commission, with Case No. WA-2021-0376 being designated the lead case.

On April 27, 2021, the Commission issued its *Order Directing Notice, Setting Deadline for Intervention Requests, Setting Deadline for Responses to Consolidation, and Directing Filing of Staff Recommendation.* Among other things, the Commission's order directed Staff to file a recommendation on or before June 28, 2021, a filing date that was later extended to September 27, 2021. On May 4, 2021, the Jefferson County Public Sewer District (JCPSD) applied to intervene, and this was granted on May 18, 2021.

BACKGROUND OF MAWC

MAWC is an existing water and sewer corporation and public utility subject to the jurisdiction of the Commission. MAWC is currently providing water service to approximately 470,000 customers and sewer service to more than 15,000 customers in several service areas throughout Missouri. In recent years, MAWC has acquired several existing small water and sewer systems. MAWC is a subsidiary of American Water Works Company, Inc. (American Water), and is affiliated with other American Water companies that undertake some of the tasks associated with utility service, such as customer billing, and share technical resources.

BACKGROUND OF THE CITY OF EUREKA

The City of Eureka is located along Interstate 44 in the southwestern corridor of St. Louis County. Land use in the local area consists of a combination of residential, retail, commercial, and institutional uses. The Eureka area is known for the Six Flags St. Louis amusement park which has expanded to include a water park. Over the years, the City has had a number of

successful annexations and is, at present, a city of approximately 9.35 square miles. According to the U.S. Census Bureau, the 2019 population of Eureka was estimated at 10,946.

At present, the City of Eureka owns and operates a water supply system and a sewage collection and treatment system that according to Appendix A of the Application provides water service to approximately 4,009 customers and sewer service to approximately 3,957 customers.[1] Among these, 25 water customers and 20 sewer customers are outside Eureka's city limits. The Eureka city limits extend into Jefferson County, but Eureka does not currently provide water or sewer service to that area, as sewer service is provided by the JCPSD and water service is provided by the Jefferson County Public Water Supply District #2 (JCPWSD).

STAFF'S INVESTIGATION

Water and Sewer Systems

Staff from the Water and Sewer Department investigated the water and sewer systems, including a review of compliance with drinking water and environmental regulations. As part of this investigation, Staff reviewed engineering studies and reports generated by both MAWC and the City of Eureka. Staff also reviewed information from DNR records, including operating permits, inspections, notices of violations, sampling results, and correspondence with the owner/operator via formal sunshine requests. Additionally, physical inspections of the condition of the water and sewer systems occurred on May 12 and June 10, 2021.

This Memorandum provides system descriptions, results of Staff's review of engineering studies and reports, Staff observations, and system improvements under evaluation by MAWC. Included in MAWC's proposed improvements are cost estimates for the proposed improvements. Staff considers MAWC's proposals as conceptual and the cost estimates as preliminary. Staff has included these proposals and cost estimates in this memorandum only to inform the Commission, and their inclusion is in no way an indication of Staff's support or adoption. During MAWC's next rate case, Staff will evaluate completed improvements for being used and useful, and review the actual costs of construction for inclusion into MAWC's rate base.

1 *See* Appendix A to MAWC's *Application and Motion for Waiver*. The Application itself states approximately 3,900 water customers and 4,000 sewer customers.

Should MAWC's Application be approved by the Commission, Staff suggests that MAWC regularly update Staff on the design, construction, and startup of the improvements to the systems.

Service Area

In the Application, MAWC requests Service Areas for both water and sewer service that indicated a southern boundary including a portion of Jefferson County. Subsequently, JCPSD filed to intervene in this case. Through discussion with MAWC, Staff learned that the southern boundary of the requested service areas did not reflect MAWC's intent to follow the county line (being the Meramec River) along the southern limit. MAWC submitted a revised legal description and service area map in response to Staff Data Request 0026 that clarifies that MAWC does not intend to provide water or sewer service in JCPSD's and JCPWSD's territory. As this territorial border is already clearly delineated by the Jefferson/St. Louis County border, no territorial agreements appear to be necessary at this time.

Staff recommends that this modified service area map and legal description be utilized, and, should the Commission approve MAWC's Application, that this service area be depicted in MAWC's tariff.

Description of the Water System

Eureka's water supply system has experienced significant population growth since it became active in 1959. This population change has required the addition of water supply sources and the decommissioning of wells with reduced production rates. The current supply for Eureka's drinking water system is provided by six wells with installation dates ranging from 1977 to 2017, and pumping capacities ranging from 480 gallons per minute (gpm) to 860 gpm. Four other wells have been previously used, but two have been capped and abandoned per DNR specifications, one has been converted to a monitoring well, and one is no longer in use but has not been abandoned per DNR specifications. DNR and the City of Eureka have used a different numbering system for these wells. In addition, between DNR, the City of Eureka and its consultants, and the real estate appraisers used in this case place names and physical location of the wells are inconsistent. To avoid confusion, Staff uses the City of Eureka Well ID (City Well) number and the real estate appraiser's physical location of assets in this report. The following table is a cross reference of

the DNR's, City of Eureka and its consultants', and the real estate appraiser's well ID and physical location of the wells.

Table 1: City of Eureka Water Wells

Appraiser ID	MDNR Well ID	City Well ID	Status	Installation	Water Quality Issues
Water-6	5 (Howerton)	1 (Howerton)	Active	1977	VOC (TCE) Hardness, TDS
Water-3	6 (Drewel Park)	5 (Drewel)	Active	1990	VOC (TCE) Hardness, TDS
Water-4	7 (Legends)	6 (Legends)	Active	1996	Hardness, TDS
Water-8	8 (Viola)	8 (Large Viola)	Active	2003	Hardness, TDS
Water-7	9	9 (Arbors)	Active	2017	Hardness, TDS
Water-5	10 (Ashton Rd)	10 (Ashton)	Active	2006	Hardness, TDS Radionuclides
	8 Mega Mall		Never Drilled		
Water-6	1	N/A	Abandoned and Capped		
	2	N/A	Abandoned and Capped		
Water-8	3	N/A	Monitoring Well		
Water-2	4	N/A	Not used Not abandoned		

All Active wells have 12-inch diameter casing

Ground Water Quality

As shown in Table 1, all of the active wells have raw water quality issues that require treatment before distribution to the customers. Historically, trichloroethene (TCE), was found in City Wells 1 and 5; however water samples taken since 2016 have not detected TCE.[2]

Radioactive materials, called radionuclides, from naturally occurring sources can contaminate groundwater and surface waters in Missouri. When radionuclides break down (decay), they create radiation. Water quality concerns for the system include radionuclides found at City Well

2 DNR Inspection Reports and DNR Permit to Dispense.

10 which, prior to 2012, exceeded the Total Gross Alpha Particle Activity Maximum Contaminate Level (MCL) of 15 picocuries per liter (pCi/L). From 2008 to 2010 Radionuclide sampling results ranged from 15.5 – 25 pCi/L. In 2012, Water softening equipment was added at each well site; the water softening unit at City Well #10 has reduced radionuclide concentrations and hardness. When the groundwater passes through the water softeners, the radionuclides adhere to the solid media in the softeners. When the softeners are regenerated with a salt brine solution, the radionuclides detach from the media, and dissolve in the brine solution. Spent brine solution is then discharged to the sanitary sewer. After water softening, City Well #10 has operated with no exceedances of the MCL for radionuclides.[3]

Over the years, customers have complained about water-quality-related taste, odor, and corrosion of water appliances. The water distributed by the City of Eureka meets all primary (health related) drinking water standards. However, secondary (aesthetic) parameters such as hardness[4] and total dissolved solids (TDS)[5] are likely contributing to the taste, odor, and corrosion complaints.

In response to these complaints, the City of Eureka contracted the engineering firm Bartlett and West to evaluate and report on the water quality of Eureka's water supply. This report shows that the raw groundwater recovered from the six operating water wells range at the well head, from 300 to 399 milligrams per liter (mg/l) of hardness, which is considered very hard water by US EPA guidelines,[6] and TDS from 364 to 1430 mg/l. After water softening, at each well location, hardness at each of the six operating ranges from 23 to 151 mg/l, and TDS remains relatively unchanged at 404 to 1110 mg/l. As these results show, the water softener reduced hardness, as intended, but water softening will typically not reduce dissolved solids.

Elevated TDS concentrations are not in and of themselves a health hazard, but are regulated as a secondary standard due to aesthetic concerns. High TDS drinking water may have a salty or brackish taste, result in scale formation, and decrease the efficiency of hot water heaters

3 2015.03.10DNR Insp.
4 Hardness is a measure of the amount of dissolved minerals, primarily calcium and magnesium, in the water.
5 TDS is a measure of the total quantity of solids that are dissolved in the water. Dissolved solids include calcium, magnesium, sodium, bicarbonate, nitrate, sulfate, chloride, and other compounds.
6 US EPA Guidelines.

and other home appliances. The secondary (non-health) standard (maximum concentration) for TDS concentration is 500 mg/L (USEPA, June 2003).

Equipment Description

Currently, the City of Eureka's water system serves approximately 10,600 individuals through 4,690 active service connections. It is a primary ground water system with six wells, six 500,000-gallon ground storage tanks, one 250,000-gallon ground storage tank, and utilizes chlorine, fluoride, and water softening treatment at each well. The system produces an average of 1,458,364 gallons of water per day through all six wells.[7]

This water system is monitored and controlled through an electronic Supervisory Control and Data Acquisition (SCADA) system. The SCADA system tracks pressures, tank levels, pumps, fluoride levels, chlorine residuals, hardness levels, softening cycles, and discharge. Pressure zones are maintained and adjusted as needed by opening and closing valves, along with starting and stopping well operation. DNR classifies Eureka's water system as a community public water system requiring an operator with a Treatment C and Distribution III certification.

The equipment, referenced above, is dispersed over ten locations within the City of Eureka. Location names, and physical location of the equipment are not consistent between DNR, the City of Eureka and its consultants, and the real estate appraisers used in this case. Based on available documentation and Staff's physical inspection of the water system, Staff developed the following table to provide the actual physical location of the equipment and referenced location names.

Table 2: Eureka Water System Equipment Location

Appraiser's ID	City Wells	Treatment	Storage (Gallons)	Booster Pump Station	Backup Power
Water-1 (Augustine)			Stand Pipe 500,000	Yes	Yes
Water-2 (Pallisades)	capped well		Ground Storage 500,000	Yes	Yes
Water-3 (Drewel)	Well-5	Softening, Fluoridation Chlorination			Yes

7 DNR 2018.08.23.

Water-4 (Legends)	Well-6	Softening, Fluoridation Chlorination	Ground Storage 500,000	Yes	Yes
Water-5 (Ashton)	Well-10	Softening, Fluoridation Chlorination			Yes
Water-6 (Howerton)	Well-1	Softening, Fluoridation Chlorination			Yes
Water-7 (Arbors)	Well-9	Softening, Fluoridation Chlorination	Ground Storage 500,000	Yes	Yes
Water-8 (Viola)	Well-8	Softening, Fluoridation Chlorination	Ground Storage (2) 500,000 250,000	Yes (2)	Yes
Water-9 (Forby)			Ground Storage 500,000	Yes	Yes
Water-10 (Emerald Forest)				Yes	Yes

As stated above, water softening equipment was added at each well site in 2012. This equipment consists of three 7-foot diameter by 7-foot tall water softeners at each well. Only a portion of the ground water passes through the softeners. In general, two units are active with one in standby, with about two-thirds of the total influent flow evenly split between the two active units. The remaining one-third of the total influent flow bypasses the softeners and recombines with the softened water immediately downstream of the softeners. The treated water then receives fluoride and is disinfected via chlorination.

Water Distribution System

The treated drinking water is stored in seven (7) tanks located throughout the City.[8] The water is distributed from the storage tanks through the system by gravity or booster stations that pressurize the waterlines. There are eight (8) booster stations located throughout the City. The booster systems are generally composed of an emergency high flow pump, at least one volume pump, and a jockey pump for low flows. The wells are all connected to the SCADA system for operational control.

8 As stated above, six (6) of the storage tanks hold 500,000 gallons, and one (Small Viola) holds 250,000 gallons.

DNR Permits and Inspections

The City of Eureka's drinking water system has been given the public water system identification number ("PWS ID") MO6010258, and the system operates under a Permit to Dispense Water to the Public Number 6000070-19, issued most recently on June 27, 2019. DNR records indicate that the system was inspected by DNR on numerous occasions from 2015 to the present. Based on DNR records, the City of Eureka's drinking water system is currently in compliance with the regulatory requirements of DNR.

Sanitary Survey Inspections are general inspections of the system conditions, operations, and recordkeeping. The results from the 2015 sanitary survey inspection found Eureka's public water system to be in compliance with the regulatory requirements of DNR. The results from the 2018 sanitary survey inspection found Eureka's public water system to be out of compliance with the regulatory requirements of DNR, with one significant deficiency, and two unsatisfactory findings. The significant deficiency was an overflow pipe that had holes in the cover. The unsatisfactory findings were that Well 4 had not been properly abandoned (closed and plugged), and the Emergency Operation Plan had not been updated since 2005. Eureka performed the required actions to correct the significant deficiency and unsatisfactory findings, and on December 3, 2018, DNR issued a Return to Compliance letter to Eureka.

In 2016, DNR conducted a Concern Investigation (Concern #10,545) regarding a low / no pressure event at the Legends subdivision caused by a water main break. The break was isolated and repaired. Eureka did not follow standard DNR protocol for a low / no pressure event by not filing a Low Pressure Event (LPE) report, not issuing a boil advisory, and not collecting bacteriological samples before placing the repaired water main back on-line. The results of follow up sampling showed coliform to be absent. Based on DNR records, DNR did not pursue enforcement actions for failing to follow standard DNR protocols.

In response to Staff's Sunshine Request for this case, DNR provided the inspection report from Liquid Engineering Corporation, an independent contractor that inspected the steel water storage tanks in 2018. In general, the contract inspector found all of the storage tanks to be in "overall good condition." However, the inspector did note delamination and flaking of the coating on the roof and blistering on the floor of the Legends 500,000 gallon tank, and blistering in the lower

levels of the sidewalls of the Forby Tank. If purchased by MAWC, these storage tanks will be placed into MAWC's storage tank inspection and maintenance program and refurbished as required.

Staff Observations of Water System

At the time of Staff's May 12, 2021, inspection, the facilities appeared to be in fair to good condition, with the equipment well maintained and exhibiting ordinary wear and tear from normal operation. At the time of the inspection, Staff found the general housekeeping, grounds maintenance and site security to be very good.

Proposed Improvements to the Water System

Based on MAWC's response to Staff Data Request No. 0004 and discussions with MAWC personnel, MAWC plans to routinely invest capital annually, similar to its practices in its existing St. Louis County District. Routine capital will include water main, service line, and valve & hydrant replacements. Major improvements anticipated in the first 3 years are as follows:

- Water System Transmission main additions: $9M - $10.5M;
- Water System Meter replacements/conversion to St Louis District: $1.1M.

Description of the Sewer System

The City sewer system operates under Missouri State Operating Permit MO-0039659, with an effective date of June 1, 2018, and an expiration date of September 30, 2022. Per the permit, the treatment facility has a design flow is 2.8 million gallons/day (MGD); actual flow is 1.6 MGD. The lagoon system design consists of a three-cell lagoon with fine bubble aeration and ultraviolet light disinfection. To further facilitate treatment beyond aeration, Aquamat® technology (Advanced Microbial Treatment System for lagoon systems) is used.[9]

The City received a new permit in 2016 that contained a five (5) year compliance schedule to meet new ammonia limits. In 2018, the City notified DNR that plans were underway to construct a new treatment facility to meet the new ammonia limits and requested an extension. Subsequently,

9 Aquamats are biomass support systems consisting of plastic ribbons suspended in the waste stream to provide surface area for bacterial growth and waste decomposition.

DNR granted a 12 month extension of the five (5) year compliance deadline of October 1, 2021, to October 1, 2022. Plans for a new plant have not been finalized by the City. While it may be possible to achieve the new ammonia limits if the current treatment system is operated and maintained in optimal condition, optimal operation and maintenance of the system has been challenging for City staff, especially in regard to the air diffusion system and sludge accumulation, resulting in letters of warning and notices of violation from DNR. The City is under DNR enforcement for exceeding effluent limits (BOD and TSS) Sanitary Sewer Overflows (SSOs) during 2019 and 2020.

DNR indicates in the current permit that a mechanical plant may be required, at an estimated cost of approximately $14,000,000 for an oxidation ditch plant option.

According to information provided by the City, the collection system consists of approximately 62 miles of gravity flow sewer lines that include PVC, clay, and steel pipe and range in size from 4-inch to 48-inch diameter. There are 3,888 service laterals, 10 lift stations and 1,453 manholes throughout the collection system. Several of the lift stations have experienced flooding during heavy rain events, and, while the magnitude may not be completely known, inflow and infiltration (I&I) of the sewer lines is also a concern.

Staff Observations of the Sewer System

During its physical inspection of the sewer system, Staff observed treatment equipment in operation with blowers delivering air to the distribution piping in the lagoon. Large areas of surface boils, indicative of broken air piping, were noted by MAWC personnel and Staff. Significant air release in the system piping is confirmation that air delivery is not reaching the fine bubble diffusers throughout the lagoon, and represents a likely cause of treatment challenges that leads to effluent parameter violations.

Proposed Improvements to the Sewer System

MAWC has the experience and expertise to restore plant operational design conditions, operate the system as designed, and evaluate whether the design will meet ammonia limits. If MAWC chooses to attempt to meet effluent limits with the existing equipment, they will need to fix the aeration system, evaluate sludge accumulation, optimize the Aquamat system, and conduct

maintenance on the recirculation pumps. MAWC will then have to operate the system for a period of time to assess its capability to meet the new ammonia limits effective October 2022. If the current system is unable to meet the limits, the data evaluation from design operation would be used to determine the scope and magnitude of further upgrades as necessary.

The Truitt lift station was recently replaced by the City at a reported cost of $350,000. MAWC has identified replacement of the Hwy 109 lift station as the highest priority, also at a cost of approximately $350,000. Other lift stations will require upgrades, but would be evaluated for priority after an evaluation period upon MAWC taking over operations.

To prevent future SSOs, several of the system's lift stations need to be upgraded or repaired, and significant repairs must be made to the collection system to reduce I&I. MAWC projects spending $2,650,000[10] to address these issues over the next eight years.

Staff understands that MAWC's planning and cost estimates are preliminary and further evaluation will be conducted if its Application is approved.

Rate Base

Plant-In-Service Balances

The Auditing Department reviewed information provided by MAWC in response to Staff's Data Requests, MAWC's Application with included sale agreement documents, on-site visits, and MAWC's workpapers. Staff has determined appropriate depreciation rates for each Uniform System of Accounts (USOA) category of plant-in-service, separately for both the water and sewer operations. Based upon the supported and estimated levels of plant in service and depreciation rates, Staff determined the appropriate balances of accumulated depreciation separately for both the water and sewer systems.

Staff determined the value of net plant investment, or "rate base," by studying documentation of the cost of constructing plant, along with annual depreciation expense, and whether or not customers or land developers contributed money or plant facilities. Based upon Staff's analysis, the net book value of assets proposed to be purchased from the City of Eureka by MAWC, as of

10 MAWC response to Staff Data Request 0004.

August 31, 2021, is approximately $7,096,878 for the sewer system, and $10,709,736 for the water system; $17,806,614 combined.

The following is a breakdown of the rate base components:

	Water	Sewer
Plant in Service	$19,244,280	$11,066,248
Accumulated Depreciation	$5,931,149	$3,969,370
CIAC	$2,901,918	$0
Net Plant minus CIAC	$10,411,214	$7,096,878
CIAC Amortization	$298,522	$0
Net Rate Base	$10,709,736	$7,096,878

Appraisal

For this case, MAWC has chosen to exercise an alternative procedure authorized by §393.320, RSMo, to establish rate base via an appraisal process. The appraisal method outlined in this statute requires an appraisal of the small water utility be performed by three (3) separate appraisers; one appointed by the small water utility, one appointed by the large water public utility, and a third chosen by the two appraisers so appointed. The three appraisers then shall perform a joint appraisal of the small water utility property and assets, coming to a common determination of the fair market value of the utility. The lesser of the purchase price or the appraised value, together with the reasonable and prudent transaction, closing, and transition costs incurred by the large water public utility, shall constitute the ratemaking rate base for the small water utility as acquired by the acquiring large water public utility. The Appraisal and the agreed upon purchase price in this case is $28,000,000.

While Staff cannot replicate the methods used in creating the Appraisal, Staff did review the Appraisal and its supporting documentation and found several facts troubling. In discussions with Staff, MAWC has stated that a significant driver of Eureka's seeking to sell their utility was to obtain a different source of drinking water from MAWC. Should MAWC's Application be

approved, MAWC intends to construct a pipe from St. Louis at a cost of between $9,000,000 and $10,500,000,[11] and the wells would only be used as emergency back-up supply. Despite this, the Appraisal does not mention that the treatment equipment for the wells is to be all but abandoned as part of the transaction. From Staff's perspective, the usability of the wells, and abandonment of much of the equipment, should be accounted for in the Appraisal.

In addition, the Appraisal was completed in reliance upon the report prepared by Flinn Engineering. Specifically, the Appraisal states it was prepared relying upon certain "special assumptions and limiting conditions," one of these assumptions pertains directly to the Flinn Engineering report. Under the "Special Assumptions and Limiting Conditions" section of the Appraisal, it states:

> The Flinn Engineering report referenced in the Scope of Work section of this report is assumed to be accurate, complete, and prepared in compliance with applicable industry standards.
>
> We reserve the right to revise all opinions and conclusions presented herein upon receiving or becoming aware of any information that is inconsistent with/or contradicts the information, analysis, opinions, and conclusions presented in the Flinn report. We also reserve the right to revise all opinions and conclusions presented herein upon receiving more detailed and complete information regarding the age and condition of the existing water and sewer mains.[12]

During Staff's investigation, it was provided two versions of the Flinn Engineering report that were prepared for this case. Neither bears the seal with signature and date of the engineer responsible for the report, indicating the reports are drafts. The first is dated January 18, 2020,[13] and the second is dated March 16, 2020.[14] The second draft added approximately $15,000,000 in book value to the combined water and sewer systems as compared to the first draft. In response to Staff's DR0035, MAWC stated that the March 16, 2020, report was a revised version of the January 18, 2020, report using additional information. But the March 16, 2020, report makes no mention of the first report, or what information was revised. This quote from the Flinn report (both versions) is particularly telling: "The high-level review of the condition of the system is

11 MAWC's response to Staff Data Request 0004.
12 MAWC's Application and Motion for Waiver, Appendix A, page 12.
13 MAWC's response to Staff Data Request 0015.
14 MAWC's response to Staff Data Request 0035.

based on the data provided by the City and photos that were taken by others during a site visit. Flinn Engineering did not visit the site."

The Flinn Report also makes assumptions about the condition and functionality of the sewer collection system. At the bottom of page 5 of the March 16, 2020 version of the Flinn report, the engineer notes that the collection system was not observed for condition, therefore, known inflow and infiltration issues were not considered. Yet, the Report states that "Overall the water and wastewater systems appear to be in good condition and well-maintained." This is clearly untrue, given that Eureka is under enforcement for SSOs caused by a collection system in significant disrepair. MAWC has acknowledged that the collection system needs major repairs[15] to eliminate SSOs by reducing I&I, and stated that one sewer lift station must be replaced (at of cost of approximately $350,000[16]). This suggests that in fact the collection system is in fair or even poor condition, which should lead to an accounting for this condition in the Appraisal. It is Staff's position that making assertions about the physical condition of the assets without actually observing the physical condition of the assets leaves the engineering report with questionable credibility.

MAWC states that Eureka's systems are in good condition "Relative to most systems[17]…". It is Staff's position that a drinking water system that needs a new source of water, and a sewer system that needs a new treatment plant and significant repairs to the collection system, are not indicative of systems in 'good condition,', regardless of how some other municipal systems may be in worse condition.

Staff's calculation of the net book value of the system assets discussed above are based on its field observations, descriptions of various assets, age of each of the assets along with rehabilitations as described by representatives from Eureka, and information from the appraisal report. The appraisal method is used to estimate a market value for the utility systems as a whole to be used as rate base for the system, in lieu of the Commission's typical practice of determining rate base using the net book value of system assets. The appraisal method provides an apparent market value for

15 MAWC's response to Staff Data Request 0033.
16 MAWC's response to Staff Data Request 0004.
17 MAWC's response to Staff Data Request 0036.

system assets, including those that are fully depreciated. As a result, by using an appraised value to establish rates, customers will be paying again for assets they have already paid for, as well as potentially paying for inflated values of assets due to other inflationary pressures. It is Staff's position that the procedures outlined in §393.320, RSMo, have not been followed, and that there is an acquisition premium based on an inflated appraisal price based on an insufficient engineering report that lacks foundation and credibility, as compared to the net book value of the utility assets. In this case, when compared to Staff's calculated net book value of assets, the appraised value for the water and sewer assets is $10,193,386 above Staff's calculated net book value, not including any transaction, closing, and transition costs.

While the citizens of Eureka voted to sell their drinking water and sewer utilities, and receive a substantial payment for them, MAWC's other customers did not have an opportunity to express their opinion on paying this price for the assets. Staff takes the position in this case that due to its concerns with the Appraisal and its supporting documents, Staff must recommend rejection of the Application for a CCN and authorization to acquire the water and sewer assets.

Depreciation

In Case No. WR-2020-0344, the Commission ordered the continued use of the depreciation rates currently ordered for all divisions of MAWC. Staff's Engineering Analysis Department recommends the use of these rates for all plant in the Eureka service area. These depreciation rates are included as Attachment A.

Publicity and Customer Notice

Eureka held town hall meetings on July 16, 23, and 30, 2021, to discuss the sale to MAWC. The town hall meetings were available in person and allowed participants to watch on-line. MAWC is unaware of how many people attended these town hall meetings. The City of Eureka also has a frequently asked questions website page, https://www.eureka.mo.us/faq.aspx?TID=23 , to answer questions concerning the MAWC proposed purchase of Eureka water and sewer.

Customer Experience

According to MAWC, a location and hours for a business office that would serve customers for the Eureka service area has not been determined. Eureka customers will be able to call the MAWC

customer service team at 866-430-0820 from 7:00 a.m. to 7:00 p.m., Monday through Friday, with 24/7 coverage for emergencies.

If its Application is approved, MAWC will offer payment options including online, by phone, and by mail. The type of payments customers will be able to make are via check, credit/debit cards and electronic funds transfer (ETF). At the time of MAWC's Application in this case, MAWC charged $1.95 for credit card payments. Since that time, the Commission approved MAWC's request not to charge a fee to the customer for paying by credit cards. Instead, the processing fee for using a credit card is added into MAWC's overall cost of service.

In order to incorporate the Eureka customers into its billing and customer service systems, if MAWC's Application is approved, it will be necessary for MAWC to properly enter the appropriate customer information into its systems and apply the Commission-approved rate. MAWC has not identified any issues with integrating Eureka customers into its billing system. MAWC will also need to provide training to its call center personnel regarding rates and rules applicable to the Eureka water and sewer system customers so that customer service matters are handled accurately and in a timely manner.

Rate and Tariff Matters

In its application, MAWC states that it proposes to adopt Eureka's existing rates for all of the Eureka customers.

	Customer Charge	Commodity Charge
Water Rates	$15.00	$2.50
Sewer Rates	$15.00	$2.50

However, in response to Staff Data Request 0010, MAWC stated that Eureka is expected to increase its rates before closing, and those rates would match MAWC's 2019 St. Louis area Rate A rates for water and MAWC's 2019 RT 2.1 rates for sewer.

	Customer Charge	Commodity Charge
Water Rates	$9.00	$4.7814
Sewer Rates	$58.13	N.A.

MAWC proposes to adopt these rates into tariff No. 13 for water customers and No. 26 for sewer customers. It should be noted, however, that MAWC's rates for water and sewer have changed since the filing of this case. MAWC's current rates St. Louis area Rate A water rates for a 5/8" meter, and its RT 2.1 residential sewer rates are as follows:

	Customer Charge	Commodity Charge
Water Rates	$9.00	$5.6290
Sewer Rates	$61.64	N.A.

Technical, Managerial, and Financial Capacity and Tartan Energy Criteria

Staff utilizes the concepts of Technical, Managerial, and Financial capabilities (TMF) in studying applications involving existing water and/or sewer systems. Staff has reviewed and stated its position on TMF in previous CCN and transfer of assets cases before the Commission. Staff's position on MAWC's ability to meet TMF criteria remains positive, and similarly takes the position that MAWC has adequate TMF capability in this case. It is Staff's position that MAWC has the ability to secure funding, to oversee construction of any necessary upgrades or repairs, and the ability to successfully manage operations of the Eureka utility systems.

When considering a request for a new CCN, the Commission applies criteria originally developed in a CCN case filed by the Tartan Energy Company and referred to now as the "Tartan Criteria" or "Tartan Factors." The Tartan Criteria contemplate 1) need for service; 2) the utility's qualifications; 3) the utility's financial ability; 4) the economic feasibility of the proposal; and, 5) promotion of the public interest. Similar to the TMF capabilities, in previous CCN cases Staff investigated these criteria and that investigation relates to this proposed acquisition. The results of Staff's investigation are outlined below:

(1) Need for Service

There is both a current and future need for water and sewer service. The existing customer base in Eureka has both a desire and need for service. In addition, there is a need for the necessary steps to be taken to bring the Eureka's sewer system into compliance, and to ensure the provision of adequate water service. Further, Eureka has made the decision to exit the

water and sewer utility business, sell the existing system to MAWC, and rely upon MAWC to properly operate and maintain the existing water and sewer system in order that customers will continue to have safe and adequate service.

(2) Applicant's Qualifications

MAWC is an existing water and sewer corporation and public utility subject to the jurisdiction of the Commission. As mentioned above, MAWC currently provides water service to approximately 470,000 customers and sewer service to 15,000 customers in several service areas throughout Missouri. MAWC is a subsidiary of American Water, and is affiliated with other companies that undertake some of the tasks associated with utility service. Staff's position is that MAWC is qualified to own and operate the Eureka systems.

(3) Applicant's Financial Ability

MAWC stated in its Application that no approval for financing was being sought as part of this Application. MAWC has demonstrated over many years that it has adequate resources to operate utility systems it owns, to acquire new systems, to undertake construction of new systems and expansions of existing systems, to plan and undertake scheduled capital improvements, and timely respond and resolve emergency issues when such situations arise. Staff finds that MAWC possesses the necessary financial ability for its proposal.

(4) Feasibility of the Proposal

MAWC's feasibility study indicates that the purchase of the City's assets will generate positive income. MAWC can draw upon the significant resources of its parent company, should any shortfall arise prior to the next rate case.

(5) Promotion of the Public Interest

As the Commission determined in Case No. GA-94-127, positive findings with respect to the other four standards above will, in most instances, support a finding that an application for a CCN will promote the public interest. Additionally, the citizens of Eureka voted to approve the sale of the utility systems, Eureka's elected officials were involved in the negotiation with MAWC and developed a subsequent Purchase Agreement between the City and MAWC.

The 393.320 RSMo requires that the rate base be determined by the appraisal, together with the reasonable and prudent transaction, closing, and transition costs. In this case, a basis of the Appraisal was an engineering report with significant deficiencies:

- The report is not signed, sealed, and dated, rendering the report improper for use in these proceedings.
- Two versions of the report have been submitted with different results, but neither report acknowledges the existence of the other. In addition, there is no mention in the second report of what was revised.
- The engineer responsible for the report stated they did not observe the assets, but makes assertions as to the physical condition and functionality of the assets.
- The engineering report fails to acknowledge the known deficiencies with the physical condition and functionality of significant portions of the assets, and instead states they are in good condition.
- The engineering report fails to acknowledge that the wells and treatment equipment are to be functionally abandoned as part of the acquisition.

Staff does not regard Eureka's water or sewer system as being "troubled."

Section 393.320, RSMo does not provide the Commission much, if any, discretion in establishing the appropriate rate base for a small system when it is purchased by a large water public utility. However, the Commission still must determine if the issuance of a CCN, regardless of what special ratemaking treatment may be attached to it, is in the public interest. In this situation, MAWC is requesting that the Commission approve a transaction with a sale price for utility assets that is substantially above the time tested regulatory valuation of those systems. MAWC is not asking to have its shareholders pay the approximately $10,193,386 difference between the appraised value of the systems and Staff's calculation of net book value of the water and sewer assets, it is asking all other customers in St. Louis County to pay this additional amount to add this system to its portfolio. Further, MAWC will ask the rest of its customers in St. Louis County to help pay for the upgrades to Eureka's system. When the entirety of the public interest is viewed from this perspective, when considering the uncertainty surrounding the Flinn Engineering Report, and

potential insufficiency of the appraisal, it is Staff's position that setting rate base for these systems based upon the appraisal that relied, at least partly, upon the Flinn Report is not in the public interest. While Eureka's drinking water may not have the best flavor, it currently meets DNR requirements and is drinkable. While improvements to Eureka's water and sewer utilities may be desirable or necessary, these can be accomplished by Eureka through taking advantage of public funding sources available to municipalities. Eureka's water and sewer systems are not troubled utilities, and no emergency would be solved simply by the acquisition of these assets by MAWC.

Staff's conclusion is that MAWC has the requisite TMF capacities to own and operate the Eureka systems. However, Staff further concludes that MAWC's proposal to acquire Eureka's water and sewer assets do not meet the Tartan Criteria, and it is Staff's position that the transaction as requested by MAWC in its Application, i.e., utilizing the appraisal method contained in §393.320, RSMo, is not in the public interest.

OTHER ISSUES

MAWC is a registered business in good standing with the Secretary of State's office, is up to date with its annual reports and PSC assessments. There are no other active PSC cases that would have an impact on this application.

STAFF RECOMMENDATION

Staff recommends the Commission reject MAWC's application for a CCN and authorization to acquire Eureka's water and sewer assets. Should the Commission approve the Application, Staff recommends, the following conditions:

1. Grant MAWC CCNs to provide water and sewer service in the proposed Eureka service areas, as modified and outlined herein;
2. Approve existing Eureka water and sewer rates applicable to customers in MAWC's Eureka sewer approved service areas;
3. Require MAWC to submit tariff sheets, to become effective before closing on the assets, to include a service area map, and service area written description to be included in its EFIS tariff P.S.C. MO No. 13 and 26, applicable to water service and sewer service in the requested service area;

4. Require MAWC to notify the Commission of closing on the assets within five (5) days after such closing;
5. If closing on the water and sewer system assets does not take place within thirty (30) days following the effective date of the Commission's order approving such, require MAWC 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 MAWC determines that the transfer of the assets will not occur;
6. If MAWC determines that a transfer of the assets will not occur, require MAWC 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 service area map, legal descriptions, and rate sheets applicable to the Eureka area in its sewer tariff;
7. Require MAWC to develop a plan to book all of the Eureka plant assets, with the concurrence of Staff and/or with the assistance of Staff, for original cost, depreciation reserve, and contributions (CIAC) for appropriate plant accounts, along with reasonable and prudent transaction, closing, and transition costs. This plan should be submitted to Staff for review within 60 days after closing on the assets;
8. Require MAWC to keep its financial books and records for plant-in-service and operating expenses in accordance with the NARUC Uniform System of Accounts;
9. Adopt for Eureka water and sewer assets the depreciation rates ordered for MAWC in Case No. WR-2020-0344;
10. Require MAWC to provide to the Customer Experience Department an example of its actual communication with the Eureka service area customers regarding its acquisition and operations of the Eureka water and sewer system assets, and how customers may reach MAWC, within ten (10) days after closing on the assets;
11. Require MAWC to obtain from Eureka, as best as possible prior to or at closing, all records and documents, including but not limited to all plant-in-service original cost documentation, along with depreciation reserve balances, documentation of contribution-in-aid-of construction transactions, and any capital recovery transactions;

12. Except as required by §393.320, RSMo, make no finding that would preclude the Commission from considering the ratemaking treatment to be afforded any matters pertaining to the granting of the CCN to MAWC, including expenditures related to the certificated service area, in any later proceeding;
13. Require MAWC to distribute to the Eureka customers an informational brochure detailing the rights and responsibilities of the utility and its customers regarding its sewer service, consistent with the requirements of Commission Rule 20 CSR 4240-13.040(3), within thirty (30) days of closing on the assets;
14. Require MAWC to provide to the CXD Staff a sample of ten (10) billing statements from the first month's billing within thirty (30) days of closing on the assets.
15. Require MAWC to provide training to its call center personnel regarding rates and rules applicable to the Eureka customers;
16. Require MAWC to include the Eureka customers in its established monthly reporting to the CXD Staff on customer service and billing issues, on an ongoing basis, after closing on the assets; and
17. Require MAWC to file notice in this case outlining completion of the above-recommended training, customer communications, and notifications within ten (10) days after such communications and notifications.

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of the Application of Missouri-American Water Company for a Certificate of Convenience and Necessity Authorizing it to Install, Own, Acquire, Construct, Operate, Control, Manage and Maintain a Water System and Sewer System in and Around the City of Eureka, Missouri	)	Case No. WA-2021-0376

AFFIDAVIT OF DAVID T. BUTTIG, PE

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

COMES NOW David T. Buttig, PE, and on his oath declares that he is of sound mind and lawful age; that he contributed to the foregoing *Staff Recommendation in Memorandum form;* and that the same is true and correct according to his best knowledge and belief, under penalty of perjury.

Further the Affiant sayeth not.

David T. Buttig, PE

JURAT

Subscribed and sworn before me, a duly constituted and authorized Notary Public, in and for the County of Cole, State of Missouri, at my office in Jefferson City, on this 1st day of October, 2021.

DIANNA L. VAUGHT
Notary Public - Notary Seal
State of Missouri
Commissioned for Cole County
My Commission Expires: July 18, 2023
Commission Number: 15207377

Notary Public

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of the Application of Missouri-American Water Company for a Certificate of Convenience and Necessity Authorizing it to Install, Own, Acquire, Construct, Operate, Control, Manage and Maintain a Water System and Sewer System in and Around the City of Eureka, Missouri	)	Case No. WA-2021-0376

AFFIDAVIT OF AMANDA COFFER

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

COMES NOW Amanda Coffer, and on her oath declares that she is of sound mind and lawful age; that she contributed to the foregoing *Staff Recommendation in Memorandum form;* and that the same is true and correct according to her best knowledge and belief, under penalty of perjury.

Further the Affiant sayeth not.

Amanda Coffer

JURAT

Subscribed and sworn before me, a duly constituted and authorized Notary Public, in and for the County of Cole, State of Missouri, at my office in Jefferson City, on this 30th day of September, 2021.

Dianna L. Vaught
Notary Public

DIANNA L. VAUGHT
Notary Public - Notary Seal
State of Missouri
Commissioned for Cole County
My Commission Expires: July 18, 2023
Commission Number: 15207377

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of the Application of Missouri-American Water Company for a Certificate of Convenience and Necessity Authorizing it to Install, Own, Acquire, Construct, Operate, Control, Manage and Maintain a Water System and Sewer System in and Around the City of Eureka, Missouri	)	Case No. WA-2021-0376

AFFIDAVIT OF SARAH FONTAINE

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

COMES NOW Sarah Fontaine, and on her oath declares that she is of sound mind and lawful age; that she contributed to the foregoing *Staff Recommendation in Memorandum form;* and that the same is true and correct according to her best knowledge and belief, under penalty of perjury.

Further the Affiant sayeth not.

Sarah Fontaine

JURAT

Subscribed and sworn before me, a duly constituted and authorized Notary Public, in and for the County of Cole, State of Missouri, at my office in Jefferson City, on this 1st day of October, 2021.

Notary Public

DIANNA L. VAUGHT
Notary Public - Notary Seal
State of Missouri
Commissioned for Cole County
My Commission Expires: July 18, 2023
Commission Number: 15207377

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of the Application of Missouri-American Water Company for a Certificate of Convenience and Necessity Authorizing it to Install, Own, Acquire, Construct, Operate, Control, Manage and Maintain a Water System and Sewer System in and Around the City of Eureka, Missouri	)	Case No. WA-2021-0376

AFFIDAVIT OF CURT B. GATELEY

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

COMES NOW Curt B. Gateley, and on his oath declares that he is of sound mind and lawful age; that he contributed to the foregoing *Staff Recommendation in Memorandum form;* and that the same is true and correct according to his best knowledge and belief, under penalty of perjury.

Further the Affiant sayeth not.

C. B. Gateley
Curt B. Gateley

JURAT

Subscribed and sworn before me, a duly constituted and authorized Notary Public, in and for the County of Cole, State of Missouri, at my office in Jefferson City, on this 30th day of September, 2021.

DIANNA L. VAUGHT
Notary Public - Notary Seal
State of Missouri
Commissioned for Cole County
My Commission Expires: July 18, 2023
Commission Number: 15207377

Dianna L. Vaught
Notary Public

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of the Application of Missouri-American Water Company for a Certificate of Convenience and Necessity Authorizing it to Install, Own, Acquire, Construct, Operate, Control, Manage and Maintain a Water System and Sewer System in and Around the City of Eureka, Missouri	)	Case No. WA-2021-0376

AFFIDAVIT OF SCOTT J. GLASGOW

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

COMES NOW Scott J. Glasgow, and on his oath declares that he is of sound mind and lawful age; that he contributed to the foregoing *Staff Recommendation in Memorandum form;* and that the same is true and correct according to his best knowledge and belief, under penalty of perjury.

Further the Affiant sayeth not.

Scott J. Glasgow

JURAT

Subscribed and sworn before me, a duly constituted and authorized Notary Public, in and for the County of Cole, State of Missouri, at my office in Jefferson City, on this 1st day of October, 2021.

DIANNA L. VAUGHT
Notary Public - Notary Seal
State of Missouri
Commissioned for Cole County
My Commission Expires: July 18, 2023
Commission Number: 15207377

Notary Public

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of the Application of Missouri-American Water Company for a Certificate of Convenience and Necessity Authorizing it to Install, Own, Acquire, Construct, Operate, Control, Manage and Maintain a Water System and Sewer System in and Around the City of Eureka, Missouri	)	Case No. WA-2021-0376

AFFIDAVIT OF ANDREW HARRIS

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

COMES NOW Andrew Harris, and on his oath declares that he is of sound mind and lawful age; that he contributed to the foregoing *Staff Recommendation in Memorandum form;* and that the same is true and correct according to his best knowledge and belief, under penalty of perjury.

Further the Affiant sayeth not.

Andrew Harris

JURAT

Subscribed and sworn before me, a duly constituted and authorized Notary Public, in and for the County of Cole, State of Missouri, at my office in Jefferson City, on this 1st day of October, 2021.

DIANNA L. VAUGHT
Notary Public - Notary Seal
State of Missouri
Commissioned for Cole County
My Commission Expires: July 18, 2023
Commission Number: 15207377

Diana L. Vaught
Notary Public

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of the Application of Missouri-American Water Company for a Certificate of Convenience and Necessity Authorizing it to Install, Own, Acquire, Construct, Operate, Control, Manage and Maintain a Water System and Sewer System in and Around the City of Eureka, Missouri	)	Case No. WA-2021-0376

AFFIDAVIT OF AMANDA C. MCMELLEN

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

COMES NOW Amanda C. McMellen, and on her oath declares that she is of sound mind and lawful age; that she contributed to the foregoing *Staff Recommendation in Memorandum form;* and that the same is true and correct according to her best knowledge and belief, under penalty of perjury.

Further the Affiant sayeth not.

Amanda C McMellen
Amanda C. McMellen

JURAT

Subscribed and sworn before me, a duly constituted and authorized Notary Public, in and for the County of Cole, State of Missouri, at my office in Jefferson City, on this 30th day of September, 2021.

DIANNA L. VAUGHT
Notary Public - Notary Seal
State of Missouri
Commissioned for Cole County
My Commission Expires: July 18, 2023
Commission Number: 15207377

Dianna L. Vaught
Notary Public

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of the Application of Missouri-American Water Company for a Certificate of Convenience and Necessity Authorizing it to Install, Own, Acquire, Construct, Operate, Control, Manage and Maintain a Water System and Sewer System in and Around the City of Eureka, Missouri	)	Case No. WA-2021-0376

AFFIDAVIT OF DAVID C. ROOS

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

COMES NOW David C. Roos, and on his oath declares that he is of sound mind and lawful age; that he contributed to the foregoing *Staff Recommendation in Memorandum form;* and that the same is true and correct according to his best knowledge and belief, under penalty of perjury.

Further the Affiant sayeth not.

David C. Roos

JURAT

Subscribed and sworn before me, a duly constituted and authorized Notary Public, in and for the County of Cole, State of Missouri, at my office in Jefferson City, on this 28th day of September, 2021.

DIANNA L. VAUGHT
Notary Public - Notary Seal
State of Missouri
Commissioned for Cole County
My Commission Expires: July 18, 2023
Commission Number: 15207377

Notary Public

MISSOURI-AMERICAN WATER COMPANY

SCHEDULE of DEPRECIATION RATES

WATER

WA-2021-0376

NARUC ACCOUNT NUMBER	ACCOUNT DESCRIPTION	DEPRECIATION RATE	AVERAGE SERVICE LIFE (YEARS)	% NET SALVAGE
	SOURCE OF SUPPLY			
311	Structures & Improvements	1.97%	60	-25%
312	Collecting & Impoundment Reservoirs	0.35%	85	0%
313	Lake, River, & Other Intakes	3.57%	70	-10%
314	Wells & Springs	2.52%	55	-5%
315	Infiltration Galleries and Tunnels	1.77%	60	0%
316	Supply Mains	1.45%	80	-25%
317	Miscellaneous Source of Supply - Other	4.97%	25	0%
	PUMPING PLANT			
321	Structures & Improvements	3.95%	75	-15%
322	Boiler Plant Equipment	3.05%	37	-5%
323	Power Generation Equipment	3.05%	37	-5%
324	Steam Pumping Equipment	1.89%	47	-10%
325	Electric Pumping Equipment	1.89%	47	-10%
326	Diesel Pumping Equipment	1.89%	47	-10%
327	Hydraulic Pumping Equipment	1.89%	47	-10%
328	Other Pumping Equipment	1.89%	47	-10%
	WATER TREATMENT PLANT			
331	Structures & Improvements	2.34%	80	-15%
332	Water Treatment Equipment	2.18%	48	-20%
333	Miscellaneous Water Treatment, Other	3.33%	30	0%
	TRANSMISSION and DISTRIBUTION			
341	Structures & Improvements	1.49%	55	-20%
341.1	Structures & Improvements - Special Crossing	1.49%	55	-20%
342	Distribution Reservoirs & Standpipes	1.70%	65	-25%
343.0,1,2,3	Transmission & Distribution Mains	1.39%	90	-30%
344	Fire Mains	1.56%	85	-30%
345	Customer Services	2.92%	65	100%
346	Customer Meters	2.40%	42	-10%
347	Customer Meter Pits & Installation	2.40%	42	-10%
348	Fire Hydrants	1.85%	65	-30%
349	Miscellaneous Transmission & Distribution - Other	2.96%	50	0%

	General Plant			
390	Structures & Improvements - Shop & Garage	3.02%	55	-20%
390.1	Structures & Improvements - Office Buildings	2.09%	47	-20%
390.3	Structures & Improvements - Miscellaneous	3.72%	5	-20%
390.9	Structures & Improvements - Leasehold	2.75%	25	0%
391	Office Furniture	3.49%	20	0%
391.1	Computer & Peripheral Equipment	19.06%	5	0%
391.2	Computer Hardware & Software	19.06%	5	0%
391.25	Computer Software	5.00%	20	0%
391.26	Personal Computer Software	10.00%	10	0%
391.3	Other Office Equipment	10.46%	15	0%
391.4	BTS Initial Investment	5.00%	20	0%
392.1	Transportation Equipment - Light Trucks	5.57%	9	15%
392.2	Transportation Equipment - Heavy Trucks	0.00%	10	15%
392.3	Transportation Equipment - Autos	0.00%	6	15%
392.4	Transportation Equipment - Other	6.15%	15	5%
393	Stores Equipment	3.88%	25	0%
394	Tools, Shop, garage Equipment	3.73%	20	0%
395	Laboratory Equipment	3.90%	15	0%
396	Power Operated Equipment	3.79%	12	20%
397.1	Communication Equipment - Non Telephone	5.76%	15	0%
397.2	Communication Equipment - Telephone	8.94%	10	0%
398	Miscellaneous Equipment	6.48%	15	0%
399	Other Tangible Equipment	2.43%	20	0%

MISSOURI-AMERICAN WATER COMPANY

SCHEDULE of DEPRECIATION RATES
SEWER
SA-2021-0377

NARUC ACCOUNT NUMBER	ACCOUNT DESCRIPTION	DEPRECIATION RATE %	AVERAGE SERVICE LIFE (YEARS)	% NET SALVAGE
	COLLECTION PLANT			
351	Structures & Improvements	2.03%	50	-5%
352.1	Collection Sewers (Force)	1.64%	60	-10%
352.2	Collection Sewers (Gravity)	1.58%	70	-20%
353	Services To Customers	2.87%	55	-40%
354	Flow Measuring Devices	3.38%	25	0%
356	Other Collection Equipment	3.15%	50	0%
357	Communication Equipment	6.67%	15	0%
	PUMPING PLANT			
361	Structures & Improvements	2.17%	45	0%
362	Receiving Wells	2.87%	30	0%
363	Electric Pumping Equip, (Includes Generators)	4.31%	15	-5%
364	Diesel Pumping Equipment	4.31%	15	-5%
365	Other Pumping Equipment	4.31%	15	-5%
	TREATMENT & DISPOSAL PLANT			
371	Structures & Improvements	1.43%	60	-5%
372	Treatment & Disposal Equipment, (Includes pumps, blowers, generators)	3.97%	30	-20%
373	Plant Sewers	1.60%	50	0%
374	Outfall Sewer Lines	3.04%	35	0%
	GENERAL PLANT			
390.0	Structures & Improve - General	3.11%	35	-5%
390.9	Structures & Improve - Leasehold	5.00%	20	0%
391.0	Office Furniture	5.00%	20	0%
391.1	Computer & Peripherial Equipment	20.00%	5	0%
391.2	Computer Hardware & Software	20.00%	5	0%
391.25	Computer Software	5.00%	20	0%
391.26	Personal Computer Software	10.00%	10	0%
391.3	Other Office Equipment	6.67%	15	0%
391.4	BTS Initial Investment	5.00%	20	0%
392.0	WW Transortation Euipment	3.45%	10	5%
392.1	Transportation Equipment - Light trucks	3.45%	10	5%
392.2	Transportation Equipment - Heavy trucks	3.45%	10	5%
392.3	Transportation Equipment - Autos	3.45%	10	5%
392.4	Transportation Equipment - Other	3.45%	10	5%
393.0	Stores Equipment	4.00%	25	0%
394.0	Tools, Shop, Garage Equipment	5.00%	20	0%
395.0	Laboratory Equipment	6.67%	15	0%
396.0	Power Operated Equipment	7.71%	15	0%
397.1	Communication Equip - Non Telephone	6.67%	15	0%
397.2	Communication Equip - Telephone	6.67%	15	0%
398.0	Miscellaneous Equip	6.43%	15	0%
399.0	Other Tangible Equipment	0.00%	30	0%