

**BEFORE THE PUBLIC SERVICE COMMISSION  
OF THE STATE OF MISSOURI**

In the Matter of Missouri-American Water Company )  
For Certificate of Convenience and Necessity )  
Authorizing It to Install, Own, Acquire, Construct, ) **File No. SA-2019-0334**  
Operate, Control, Manage and Maintain a Sewer )  
System in an area of Callaway County, Missouri )  
(Hillers Creek Association) )

**STAFF RECOMMENDATION**

**COMES NOW** the Staff of the Missouri Public Service Commission (“Commission”), by and through counsel, and recommends that the Commission approve Missouri American Water Company’s (“MAWC”) Application to obtain a certificate of convenience and necessity (“CCN”) to install, own, acquire, construct, operate, control, manage, and maintain a sewer system in Callaway County, Missouri, in a subdivision known as Hillers Creek. In support of this *Staff Recommendation*, Staff states as follows:

1. MAWC filed its *Application and Motion for Waiver* (“Application”) on May 2, 2019, requesting Commission authorization to obtain a CCN authorizing it to install, acquire, build, construct, own operate, control, manage, and maintain a sewer system in Callaway County, Missouri, in a subdivision known as Hillers Creek.
2. In its Application, MAWC also requested a waiver of the 60 day notice requirement of Commission Rule 4 CSR 240-4.017(1). MAWC verified that in the prior 150 days it had no Commission communication regarding any issue likely to be substantive in this case.
3. On May 3, 2019, the Commission set a due date of May 20, 2019, to intervene. No parties moved to intervene. On May 28, 2019, the Commission ordered Staff to file its recommendation no later than June 27, 2019.

4. Pursuant to Section 393.170, RSMo, no sewer corporation shall provide service to consumers without first obtaining Commission approval. In determining whether to grant such approval, the Commission applies the five “Tartan Energy Criteria” established in *In the Matter of Tartan Energy Company, et al.*, 3 Mo. PSC 3d 173 (1994). These criteria examine (1) the need for service; (2) the applicant’s qualifications; (3) the applicant’s financial ability; (4) the economic feasibility of the proposal; and (5) promotion of the public interest. In addition to the Tartan Criteria, when considering applications involving existing water and/or sewer systems, the Commission analyzes the Technical, Managerial, and Financial capabilities (“TMF”) of the applicant.

5. As explained in the Staff *Memorandum*, attached hereto as Appendix A, Staff investigated MAWC’s request. Based upon this review, Staff determined that MAWC possesses the necessary TMF capabilities and fulfills the requirements of the Tartan Energy Criteria. Accordingly, Staff asserts that approving MAWC’s application for the issuance of a CCN is necessary and convenient for the public service and is not detrimental to the public interest, and Staff recommends approval with conditions described in the Staff *Memorandum*.

6. Staff does not oppose MAWC’s request for a waiver of the 60 day notice requirement of Commission Rule 4 CSR 240-4.017(1).

7. The Commission need not hold a hearing if, after proper notice and opportunity to intervene, no party requests such a hearing. *State ex rel. Rex Deffenderfer Enterprises, Inc. v. Public Service Commission*, 776 S.W.2d 494 (Mo. App. W.D. 1989). Should no party or individual request a hearing in this matter, the Commission need not hold a hearing to allow the utility’s sale and issuance of a CCN to MAWC.

**WHEREFORE**, Staff respectfully submits this *Staff Recommendation* for the Commission's information and consideration. Staff requests the Commission approve the sale of the sewer utility and from the Association to MAWC and approve the issuance of a CCN to MAWC, with conditions, to provide sewer service to the requested service area.

Respectfully submitted,

**/s/ Karen E. Bretz**

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**CERTIFICATE OF SERVICE**

I hereby certify that copies of the foregoing have been electronically mailed to all parties and/or counsel of record on this 27<sup>th</sup> day of June, 2019.

**/s/ Karen E. Bretz**

## MEMORANDUM

TO: Missouri Public Service Commission Official Case File  
File No. SA-2019-0334, Missouri-American Water Company

FROM: Jarrod J. Robertson – Water and Sewer Department  
Andrew Harris – Water and Sewer Department  
James A. Merciel, Jr. – Water and Sewer Department  
Courtney Barron – Auditing Department  
Gary Bangert – Customer Experience Department  
Dana R. Parish – Customer Experience Department  
Daronn A. Williams – Engineering Analysis Department

|  |                                 |
|--|---------------------------------|
| <u>/s/Jarrod J. Robertson/ 6-27-19</u> | <u>/s/ Karen Bretz/ 6-27-19</u> |
| Case Manager                           | Staff Counsel                   |
| /Date                                  | /Date                           |

SUBJECT: Staff’s Recommendation to Approve Certificate of Convenience and Necessity

DATE: June 27, 2019

### CASE BACKGROUND

On May 2, 2019, Missouri-American Water Company (MAWC) filed an *Application and Motion for Waiver* (Application) with the Missouri Public Service Commission (Commission). MAWC seeks a Certificate of Convenience and Necessity (CCN) to provide sewer service in Callaway County, Missouri, in a subdivision known as Hillers Creek. In the Application, MAWC states that it intends to acquire sewer utility assets presently owned and operated by a non-regulated homeowners association.

On May 3, 2019, the Commission issued its *Order Directing Notice*, in which it directed interested parties to intervene in this case by May 20, 2019. No parties sought to intervene in this case.

On May 28, 2019, the Commission issued its *Order Directing Filing*, directing Staff to file a recommendation no later than June 27, 2019.

As more fully explained throughout this memorandum, Staff recommends the Commission find that MAWC’s proposal for a new CCN to provide sewer service, with the application of existing MAWC rates, is convenient and necessary for the public service, and is not detrimental to the public interest subject to the conditions outlined below.

### BACKGROUND OF MAWC AND THE SEWER SYSTEM

MAWC is an existing regulated water and sewer utility currently providing water service to more than 457,000 customers and sewer service to more than 13,000 customers in several service areas throughout Missouri. In recent years, MAWC has acquired several small existing water and sewer systems. MAWC is a subsidiary of American Water Works Company, Inc., and is affiliated with other American Water companies that undertake some of the tasks associated with utility service, such as customer billing, and technical resources.

At present, according to the Application, Hillers Creek Association Sewer System (the Association) owns and operates the sewage collection and treatment system, providing sewer service to approximately 43 residential customers<sup>1</sup> in the subdivision.

The sewage treatment facility is a four-cell lagoon, with a hydraulic design flow capacity of 16,560 gallons per day (gpd). According to the subdivision developer, current average daily flow is approximately 7,000 gpd, with higher flows on some days. A water meter installed on the lagoon effluent pipeline measures flow volume.

The sewage collection system is all gravity flow, although many customers, because of elevation in relation to the collecting sewers, construct and operate electric-powered “pump units” to pump sewage from their homes to the sewer system. There are two types of pump units in use. Currently, nine (9) customers with pump units have “septic tank effluent pumps” (STEPS), which retain solids and pump grey water to the sewer; and three (3) customers with pump units have “grinder pumps,” which pump all sewage including solids to the collecting sewer system. By the terms of MAWC’s tariff (Rule 5 Inside Piping and Customer Service Sewer, paragraph I., and Rule 13. Alternative Collection Systems, paragraph A., both of which address individual customers who must pump sewage due to elevation), customers on the Hillers Creek sewer system who have pump units are each required to construct, own and maintain their pump unit, including removing solids when necessary from their STEPs.

According to information reviewed by Staff, the system has no operational issues and is meeting water pollution regulations at the present time.

## **STAFF’S INVESTIGATION**

### **Rate Base**

The Auditing Department conducted a review of plant-in-service records and expense records for the Association. Attachment D shows information for the Association, projected plant-in-service and depreciation reserve balances as of June 30, 2019, with an estimated rate base as of that date of \$150,218.<sup>2</sup> Attachment D reflects Staff adjustments to the plant-in-service workpaper provided by the Association which shows an estimated rate base of \$121,047. In its review, Staff (1) excluded amounts for which no invoice or other supporting documentation was provided, (2) included land as part of plant instead of as contributed plant, (3) applied the depreciation rates to those for sewer as ordered in MAWC’s last rate case (Case No. WR-2017-0285), and (4) calculated depreciation reserve to June 30, 2019, rather than to December 31, 2019.

Based on Staff’s review of the Association’s information in this proceeding, the purchase price being paid by MAWC may be below the net book value of the Association’s assets. The determination of the value of any acquisition adjustment will be made in MAWC’s next general rate filing if it seeks recovery of capital and expense costs related to this sewer system.

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<sup>1</sup> The actual customer count is uncertain to Staff, based on information from different sources. The actual customer count is not critical until revised rates are determined in MAWC’s next rate case.

<sup>2</sup> This rate base number simply reflects Staff’s findings in a review, and is presented for information only. There has been no negotiation with other parties who might be interested in a rate base level and who might believe a different number is appropriate. Staff is not recommending that the Commission make any finding on rate base level in this case. If the Commission approves this CCN and MAWC acquires the Association’s sewer system, then Staff expects rate base level for this system will be established when MAWC files its next rate case.

It has been Staff's position in prior cases that utility rates for acquired properties should be based upon the net book value of such properties to the original utility owner, and not reflect the amount of any acquisition adjustment.

By Commission regulations, MAWC should keep its financial records for utility plant-in-service and operating expenses in accordance with the National Association of Regulatory Utility Commission (NARUC) Uniform System of Accounts. Staff recommends the Commission specifically require such recordkeeping apply to the Hillers Creek sewer system.

### **Service Area**

In its Application, MAWC requests an approved service area that extends well beyond the Hillers Creek subdivision. However, after discussion, Staff and MAWC worked to develop a proposed service area that only includes the Hillers Creek subdivision properties. The Hillers Creek service area is proposed to be an expansion of MAWC's current Cole-Callaway (Counties) service area. The proposed modified Hillers Creek service area map is shown on Attachment A, for purposes of this recommendation. The proposed revised Cole-Callaway service area map that will include Hillers Creek is shown on Attachment B, which would replace the existing Cole-Callaway service area map on Sheet No. MP11.1 in MAWC's tariff. The modified service area description for the Hillers Creek service area is shown in Attachment C, which would be added on to the Cole-Callaway written description that is currently shown on Sheet Nos. CA5.1 through 5.7<sup>3</sup> in MAWC's tariff. Staff recommends that this proposed service area be approved, and that the map and service area included in Attachments B and C be depicted in MAWC's tariff, as further discussed herein.

### **Tariff and Rate Matters**

A map and a description of the proposed Hillers Creek service area, similar to that as shown on the attachments to this memorandum, will need to be included as new tariff sheets in MAWC's sewer tariff MO PSC No. 26.

MAWC has proposed that its approved rates on MO PSC No. 26 Sheet RT 2.1, applicable to certain named service areas, be applied to Hillers Creek. The monthly flat rate is \$58.13 for a single family residence. Staff recommends that MAWC submit a revised tariff Sheet RT 2.1 that is identical to the existing Sheet RT 2.1 except adding Hillers Creek as a named applicable service area.

Currently, the sewer rate customers pay to the Association for sewer service is \$66 per quarter. However, according to the president of the Association, this current rate is only adequate for direct operating expenses, and does not include such expenses as return on capital investment, depreciation, and billing costs. The transfer of this sewer system to MAWC, under this proposal, would result in a substantial increase in rates. Typically, Staff does not support changing rates in a CCN application. However while undertaking the decision to sell the sewer

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<sup>3</sup> The Cole-Callaway service area is presently on Sheet No. CA5.1; MAWC's Pettis County service area is described beginning on Sheet No. CA5.1 and continues onto Sheet No. CA5.7; then, an expansion of the Cole-Callaway service area appears on Sheet No. CA5.7. Staff asserts that along with adding and including the Hillers Creek service area description with MAWC's Cole-Callaway service area, all of these tariff sheets may be revised by relocating verbiage such that all verbiage related to the Cole-Callaway service area is continuous, then verbiage related to the Pettis County service area relocated as the last portion. A new original Sheet No. CA5.8 may be needed to be a part of the tariff revision.

system, the current customers were aware of the proposal for them to be converted to MAWC's existing monthly rates for sewer service if the sale is to take place, and the amount of those rates. This is discussed further, below, in the Publicity and Customer Notice section.

The table of contents in MAWC's tariff will also need to be updated to reflect the addition of the new sheets containing the map, description, and revision of the rate sheet.

The specific revised and/or new tariff sheets, reflecting the map and description, will be:

- Sheet No. RT2.1, the applicable rate sheet, to add the Hillers Creek name for clarity of its inclusion with the Cole-Callaway service area.
- Sheet No. MP 11.1, showing the map of the Cole-Callaway service area including Hillers Creek.
- Sheet Nos. CA 5.1 through 5.7, with an additional new sheet No. 5.8 if necessary, describing the Cole-Callaway service area including Hillers Creek, and the Pettis County service area.

Staff recommends that after approval but before MAWC closes on the utility assets, MAWC submit the new and/or revised sewer tariff sheets such that they may become effective on or before the date MAWC closes on the Hillers Creek assets.

### **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 the Commission has approved, MAWC's TMF capacities in previous CCN and transfer of assets cases. MAWC has demonstrated over many years that it has adequate resources to operate utility systems that 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.

In cases involving a request for a new CCN, when reviewing whether one should be granted, Staff typically utilizes criteria similar to those outlined by the Commission in a past CCN case filed by the Tartan Energy Company. The Tartan criteria contemplate: (1) need for service; (2) the utility's qualifications; (3) the utility's financial ability; (4) the feasibility of the proposal; and, (5) promotion of the public interest. Staff also considers whether or not other utility entities are available to provide similar service. Similar to TMF, Staff has studied, and the Commission has approved, these points as they relate to MAWC abilities in previous CCN and transfer cases. As related to this specific request for a CCN for the provision of sewer service, Staff takes the position that it is feasible and in the public interest for MAWC to own, operate, and manage the existing sewer operation. Further, when considering the existing Association's desire to cease its operation of the system, there are no other entities available to provide service.

Staff recommends the Commission find that the points regarding TMF capacities and the Tartan Energy criteria are all met, for this case.

### **Depreciation**

In Case No. WR-2017-0285, the Commission ordered water and sewer depreciation rates applicable to all divisions of MAWC. Staff recommends the use of MAWC's existing sewer depreciation rates for all plant in the Hillers Creek service area.

### **Publicity and Customer Notice**

Since the current customers own the sewer system, and those customers collectively made the decision to sell this system to MAWC, Staff asserts that it is unnecessary for either the buyer or seller to send any additional informational notice to customers. MAWC provided to Staff a copy of the *Meeting Minutes for the April 28, 2019, Hillers Creek Sewer System Annual Meeting*, when the Association board members formally made the decision to enter into the Asset Purchase Agreement.<sup>4</sup> The decision was made after a petition to accept the sale proposal was circulated. The proposal to apply MAWC's existing monthly sewer rates is stated on the petition. Signatures representing 32 customers, approximately 75%, appear on the early April 2019 petition.

### **Customer Experience Department (CXD)**

MAWC utilizes a nationwide billing system and nationwide call center through its affiliates. In order to incorporate the Hillers Creek customers into its billing and customer service systems, it will be necessary for MAWC to properly enter the appropriate customer information into its systems and apply the appropriate Commission-approved rate. MAWC will also need to provide training to its call center personnel regarding rates and rules applicable to the Hillers Creek customers so that customer service matters are handled accurately and in a timely manner. Staff recommends that MAWC provide ten (10) customer billing statements to Staff from the first billing cycle to allow Staff to review billing accuracy.

Staff recommends that MAWC communicate with the new Hillers Creek customers within ten (10) days after closing on the assets, to inform them of its acquisition of the systems and methods by which customers can contact MAWC. Communications should also include an informational brochure detailing the rights and responsibilities of the utility and its customers that is required by Commission Rule 4 CSR 240-13.040(3). Staff recommends that MAWC be required to send copies of communications and the brochure to Staff along with a statement regarding when these were sent to customers.

In addition, Staff recommends that MAWC include the Hillers Creek customer data in its established monthly reporting to the CXD Staff on customer service and billing issues.

### **OTHER ISSUES**

The Association, as an unregulated sewer operation, has no obligations due to the Commission, and has no pending actions before the Commission.

MAWC is a corporation that is in "good standing" with the Missouri Secretary of State.

MAWC is current with annual report filings with the Commission through calendar year 2018, as documented on the Commission's Electronic Filing and Information System (EFIS).

MAWC is current on its annual assessment payments through fiscal year 2019.

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<sup>4</sup> Appendix E of the Application



MAWC has other pending cases before the Commission, as follows:

|              |  |
|--------------|--|
| WO-2019-0389 | In the Matter of the Petition of Missouri-American Water Company for Approval to Change an Infrastructure System Replacement Surcharge (ISRS)  |
| WA-2019-0366 | In the Matter of Missouri-American Water Company for Certificates of Convenience and Necessity Authorizing it to Install, Own, Acquire, Construct, Operate, Control, Manage and Maintain a Water System and a Sewer System in an area of Camden County, Missouri (Sunset Palms Condominium Complex)                                  |
| WA-2019-0364 | In the Matter of Missouri-American Water Company for Certificates of Convenience and Necessity Authorizing it to Install, Own, Acquire, Construct, Operate, Control, Manage and Maintain a Water System and a Sewer System in an area of Miller County, Missouri (Isla del Sol Condominium Association, Inc., f/k/a Atlantis Island) |
| WC-2019-0324 | Cordney Jack Travis, Complainant v. Missouri-American Water Company, Respondent  |
| WC-2019-0271 | George L. Eliceiri, Complainant v. Missouri-American Water Company, Respondent)  |
| WA-2019-0259 | In the Matter of the Application of Missouri-American Water Company for a Certificate of Convenience and Necessity Related to a Water Supply Reservoir in Newton County, Missouri  |
| WO-2019-0184 | In the Matter of the Petition of Missouri-American Water Company for Approval to Change an Infrastructure System Replacement Surcharge (ISRS)  |
| WC-2019-0178 | Ray Ghasedi, Complainant v. Missouri-American Water Company, Respondent  |

These above-noted pending cases will have no impact upon this case, nor will approval of this CCN impact the above-noted pending cases before the Commission.

#### **STAFF'S RECOMMENDATIONS AND CONCLUSIONS**

Staff's position, based on its review as described herein, is that the proposal for a new CCN to provide sewer service, with the application of existing MAWC rates, is convenient and necessary for the public service, and is not detrimental to the public interest. Staff therefore recommends approval with the conditions and actions as outlined herein.

### **STAFF'S RECOMMENDATIONS**

Based upon the above, Staff recommends that the Commission:

1. Grant MAWC a CCN to provide sewer service in the proposed Hillers Creek service area, as modified and outlined herein;
2. Approve MAWC's monthly residential flat rate of \$58.13 to apply to Hillers Creek;
3. Require MAWC to submit new and revised tariff sheets, to become effective before closing on the assets, that include a service area map, service area written description and sewer rates, applicable to sewer service in its Hillers Creek service area, to be included in its sewer tariff P.S.C. MO No. 26;
4. Require MAWC to notify the Commission of closing on the assets within five (5) days after such closing;
5. If closing on the 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 and necessary that would cancel service area maps, descriptions and rates applicable to the Hillers Creek service area in its sewer tariff;
7. Require MAWC to keep its financial books and records for plant-in-service and operating expenses as related to the Hillers Creek operations in accordance with the NARUC Uniform System of Accounts;
8. Adopt for the Hillers Creek sewer assets the depreciation rates ordered for MAWC in Case No. WR-2017-0285;
9. Require MAWC to obtain from the Association, prior to or at closing, all available plant-in-service related 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;
10. 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;
11. Require MAWC to provide training to its call center personnel regarding rates and rules applicable to the Hillers Creek customers;
12. Require MAWC to include the Hillers Creek 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;

13. Require MAWC to distribute to the Hillers Creek 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 4 CSR 240-13, within thirty (30) days of closing on the assets;
14. Require MAWC to provide to the CXD Staff an example of its actual communication with the Hillers Creek customers regarding its acquisition and operations of the sewer system assets, and how customers may reach MAWC, within ten (10) days after closing on the assets;
15. 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 after closing on the assets; and,
16. 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.

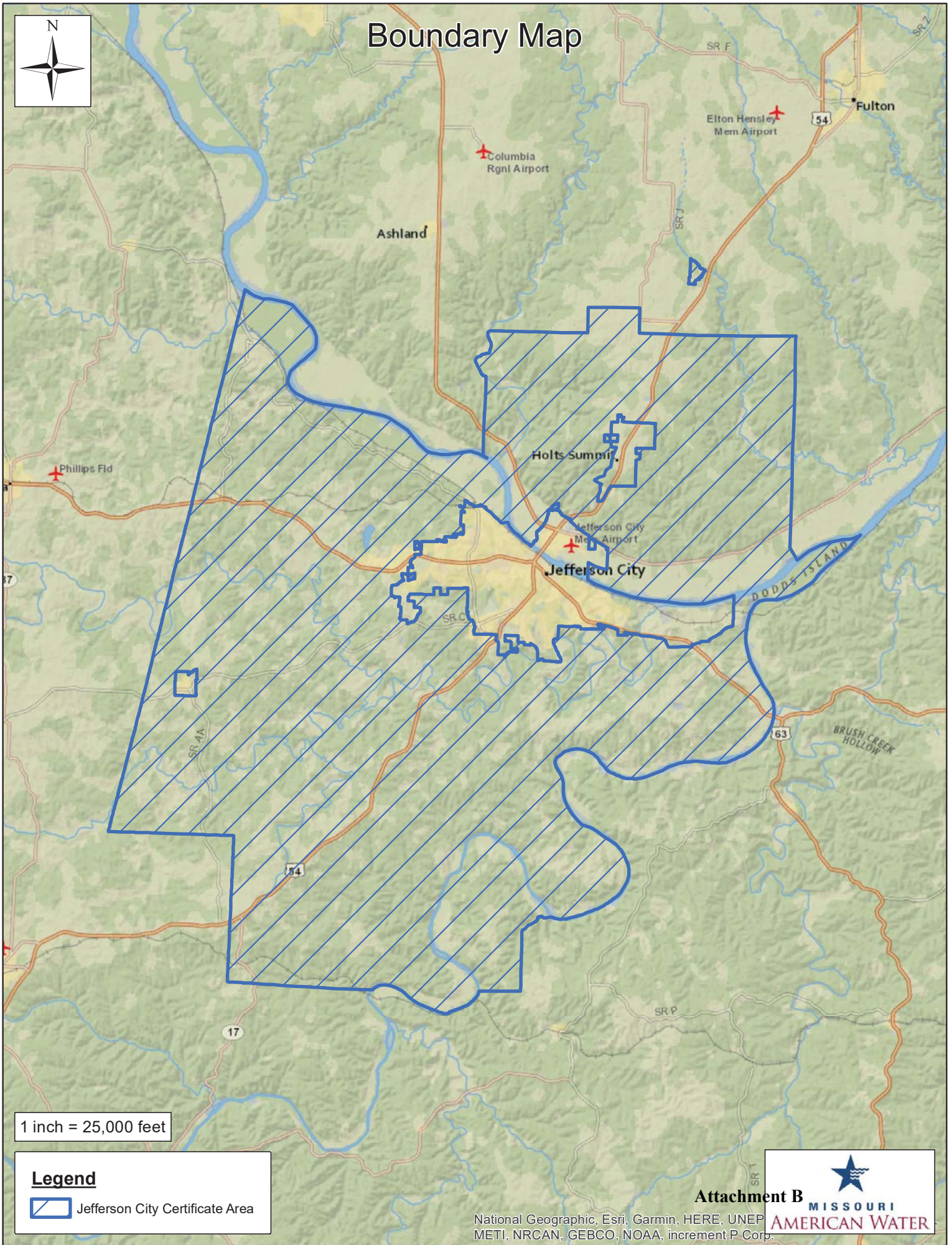
Staff will submit a further recommendation regarding tariff sheets after filing by MAWC in this matter.

Attachments:

- A: Proposed Hillers Creek Service Area Map, as Modified From the Application
- B: Proposed Revised Cole-Callaway Service Area Map, to be Included on a Tariff Sheet Revision in the MAWC Tariff
- C: Proposed Modified Service Area Description for the Hillers Creek Service Area, to be added onto MAWC's Cole-Callaway Service Area Description
- D: Staff's Determination of Plant-in-Service, Depreciation Reserve, and Rate Base




# Boundary Map



1 inch = 25,000 feet

**Legend**

 Jefferson City Certificate Area

**Attachment B**



MISSOURI  
**AMERICAN WATER**

National Geographic, Esri, Garmin, HERE, UNEP  
METI, NRCAN, GEBCO, NOAA, increment P Corp.

**MAWC - Hillers Creek Service Area – Staff Proposed Metes and Bounds Description**

**SA-2019-0334**

(Will be added on to MAWC's existing Cole-Callaway service area description)

An area encompassing Hillers Creek subdivision, Callaway County Missouri.

Beginning at the Southeast corner of Section 20 T46N R10W;

thence Northerly along the East line of said Section 20 884.4 ft to a point;

thence North 59°0'0" East 924.5 ft m/l to a point that is on the North line of the SW ¼ of the SW ¼ of Section 21 T26N R10W;

thence North 35°0'0" East 1,819.3 ft to a point of intersection with the center line of Hillers Creek as it exists on June 21, 2019;

thence following along the approximate center line of said creek, as it exists on June 21, 2019, northwesterly to the west line of said Section 21, thence continuing along the said centerline of Hillers Creek, a total distance of 4,235.3 ft m/l to the Northwest corner of the NE ¼ of the NE ¼ of the said Section 20;

thence southerly along the West line of the East ½ of the NE ¼ of Section 20, and continuing southerly along the west line of the NE ¼ of the SE ¼ of Section 20 a total distance of 3,963.9 ft m/l to the Southwest corner of the said NE ¼ of the SE ¼ of Section 20;

thence westerly 146.9 ft along the north line of the SW ¼ of the SE ¼ of Section 20 to a point:

thence southerly along a line that is parallel to the east line of the said SW ¼ of the SE ¼ of Section 20 1,385 ft m/l to a point that is on the South line of Section 20;

thence East 1,485.3 ft m/l along the South line of Section 20 to the SE corner of Section 20 and the point of beginning.

Containing 241.03 Acres m/l.

Missouri American Water Company / Hillers Creek  
Case No. SR-2019-0334  
Asset Valuation  
Ending Balance as of June 30, 2019

|                      |                         |
|----------------------|-------------------------|
| Plant in Service     | \$220,256               |
| Depreciation Reserve | <u>\$70,038</u>         |
| Net Plant in Service | <u><u>\$150,218</u></u> |















