

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

In the Matter of Missouri-American Water)
Company for Certificates of Convenience and)
Necessity Authorizing it to Install, Own, Acquire,) **File No. SA-2019-0183**
Construct, Operate, Control, Manage and)
Maintain a Sewer System in an area of Clinton)
County, Missouri (Timber Springs Estates))

STAFF RECOMMENDATION

COMES NOW the Public Service Commission Staff (“Staff”), by and through counsel, and recommends that the Commission grant Missouri-American Water Company (“MAWC”) a Certificate of Convenience and Necessity (“CCN”) to provide regulated sewer services in an area of Clinton County, Missouri. In support of this *Recommendation*, Staff states as follows:

1. On December 18, 2018, MAWC filed its *Application Motion for Waiver* (“Application”) seeking a CCN for authority to install, own, acquire, construct, operate, control, manage, and maintain a sewer system in an area of Clinton County, Missouri known as Timber Springs Estates.
2. On December 28, 2018, the Commission issued its *Order Directing Notice and Setting Intervention Deadline*, setting an intervention deadline of January 28, 2019, and requesting a Staff recommendation or status report by February 12, 2019. No intervention requests were received.
3. Pursuant to Section 393.170, RSMo., no water or sewer corporation shall provide service to consumers without first having obtained approval from the Commission.

4. The Commission typically applies the five “Tartan Criteria” established in *In the Matter of Tartan Energy Company, et al.*, 3 Mo. PSC 3d 173, 177 (1994) when deciding whether or not to grant a new CCN. 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. 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 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 and the Tartan Criteria.

6. As further explained in Staff’s Memorandum, a non-regulated homeowners’ association presently owns the sewer system, which serves approximately 61 residential customers. According to information given Staff by MAWC, the homeowners’ association communicates with its members primarily through a private Facebook page. A vote was solicited amongst association members on whether to sell the system to MAWC, in which 51 of the 56 eligible voting members approved the sale.

7. MAWC proposes to provide sewer service pursuant to the existing rates, rules, and regulations currently applicable to certain named service areas found in MO PSC No. 26 Sheet No. 3.1, with a monthly flat rate of \$38.75 for a single family residence.

8. Accordingly, Staff recommends approval granting the CCN, with conditions described in the Staff Memorandum, as the requested CCN would be necessary and convenient for the public service, and is not detrimental to the public interest.

WHEREFORE, Staff respectfully submits this *Staff Recommendation* for the Commission's information and consideration, and requests the Commission grant Missouri-American Water Company a Certificate of Convenience and Necessity, with conditions, to provide sewer service to the requested service area.

Respectfully Submitted,

/s/ Travis J. Pringle

Travis J. Pringle

Missouri Bar No. 71128

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Missouri Public Service Commission

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Jefferson City, Mo 65102-0360

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CERTIFICATE OF SERVICE

I hereby certify that copies of the foregoing have been mailed or hand-delivered, transmitted by facsimile or electronically mailed to all parties and or counsel of record on this 11th day of February, 2019.

/s/ Travis J. Pringle

MEMORANDUM

TO: Missouri Public Service Commission Official Case File
File No. SA-2019-0183

FROM: James A. Merciel Jr. – Water and Sewer Department
Karen Lyons – Auditing Department
Gary Bangert – Customer Experience Department
Daronn Williams – Engineering Analysis Department

/s/ James Merciel 2/11/19

Case Manager Date

/s/ Travis Pringle 2/11/19

Staff Counsel Date

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

DATE: February 11, 2019

CASE BACKGROUND

On December 18, 2018, 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 an area that includes the Timber Springs subdivision in Clinton County near the town of Trimble, MO. In the Application, MAWC states that it intends to acquire sewer utility assets that are at present owned and operated by a non-regulated homeowners association.

On December 28, 2018, the Commission issued its *Order Directing Notice and Setting Intervention Deadline*, in which it directed interested parties to intervene in this case by January 28, 2019, and also directed Staff to file either a status report or a recommendation no later than February 12, 2019. No parties have sought to intervene in this case.

BACKGROUND OF MAWC AND THE SEWER SYSTEM

MAWC is an existing regulated water and sewer utility currently providing water service to more than 465,000 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, Timber Springs Estates Homeowners Association, Inc. (the Association) owns and operates the sewage collection and treatment system, providing sewer service to approximately 61 residential customers in the subdivision. As stated in documents included with the Application, each customer is required to construct, own and maintain an electric-powered “grinder pump,” referred to generically as a “pump unit.” This type of pump unit sends all sewage from the customer’s premises to the utility-owned pressurized collecting sewer system, and on to a 32,000 gallon per day extended aeration treatment facility located within the Timber Springs subdivision. Staff estimates the current customer base utilizes about half of the facility’s hydraulic flow capacity, resulting in available capacity for additional homes in and around the subdivision.

STAFF'S INVESTIGATION

Rate Base

In its Application, MAWC does not seek a firm determination of the rate base valuation of the Timber Springs assets in this proceeding. Staff notes that plant records available from the Association may not be complete with respect to MAWC's need to keep plant records in accordance with the National Association of Regulatory Utility Commission (NARUC) Uniform System of Accounts, including detailed documentation of original cost of sewer plant components, depreciation, and depreciation reserve. Additionally, a valuation of contributions-in-aid-of-construction (CIAC) not reflected in any past financial statements needs to be made by MAWC for its record-keeping purposes. In MAWC's next general rate case in which rate treatment of the Timber Springs assets is sought, MAWC should present an analysis documenting its proposed rate base values for the Timber Springs assets, including an appropriate offset for associated CIAC. Staff will take a position regarding rate base after conducting its audit in MAWC's next rate case, including review of MAWC's Timber Springs plant rate base valuation analysis. Staff also recommends specifically that at the time of transfer, MAWC obtain from the Association any plant and asset valuation records that are available, including any and all transactions and transfers between it and the developers and vendors, in order to document original plant costs, depreciation, contributions, and capital recovery paid to developers or other parties.

In regard to the matter of whether an acquisition adjustment exists as a result of MAWC's proposal, Staff is unable at this time to determine whether or not the purchase price being paid by MAWC is above or below the net book value of the Timber Springs assets. The determination of the value of any acquisition adjustment, either positive (an "acquisition premium") or negative (an "acquisition discount") will be made in MAWC's first general rate filing in which it seeks recovery of the Timber Springs capital and expense costs. It has been Staff's consistent position going back many years that utility rates for acquired viable 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 NARUC Uniform System of Accounts. Staff will recommend the Commission specifically require such recordkeeping requirements apply to MAWC's utility plant assets of the Timber Springs Sewer System.

Plant Capacity Adjustment

Since the Timber Springs wastewater system appears to have been designed and constructed to serve approximately twice the number of residential customers being served at present, Staff intends to consider proposing, in future rate proceedings, a capacity adjustment to certain wastewater system components. Such a capacity adjustment, if applied, would reduce the plant balance level and depreciation expense to be included in rate calculations.

Service Area

In its Application, MAWC requests an approved service area that extends well beyond the Timber Springs subdivision. Staff agrees that area outside the subdivision is reasonable, because there is potential for additional development, as well as two other existing sewage treatment facilities in the area, one or both of which MAWC may purchase in the future. However, MAWC also included

some area that includes the town of Trimble, which has its own municipal sewer system. Staff does not agree that it is appropriate to include area in which Trimble provides sewer service to its citizens.

Staff and MAWC worked together to develop a proposed service area that is slightly reduced from that requested in the Application. The modified service area includes locations where additional customers could be connected to the Timber Springs system, and includes sewer systems that MAWC could potentially acquire in the future.

The proposed modified service area map is shown in Attachment A, and the modified written description is shown in Attachment B. Staff recommends that this proposed service area be approved, and that this service area be depicted in MAWC's tariff, as further discussed herein.

Tariff and Rate Matters

A map and a description of the proposed Timber Springs 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 No. 3.1, applicable to certain named service areas, be applied to Timber Springs. The monthly flat rate is \$38.75 for a single family residence. Staff recommends that MAWC submit a revised tariff Sheet No. 3.1 that is identical to the existing Sheet No. 3.1 except adding Timber Springs as a named applicable service area.

Currently, customers pay for sewer service through Association fees, and there is no specific charge for sewer service as such. Therefore, Staff is not able to express a specific rate impact upon the existing Timber Springs customers if this CCN is approved.

Since customers are required to construct, own and maintain the grinder pump units, MAWC should also include the Timber Springs service area in the heading for tariff Rule No. 13.B.2, on Sheet No. R13.4, which addresses pump unit responsibilities.

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 tariff sheets, all to reflect the addition of Timber Springs as a named service area, will be as follows:

- Index - Sheet Nos. IN 1.3, IN 1.4, IN 1.5
- Rates - Sheet No. RT 3.1
- Rules - Sheet No. 13.4.

The specific new original tariff sheets, reflecting the map and description, will be:

- Sheet No. MP 17.2
- Sheet No. CA 16.3

Staff recommends that after approval but before MAWC closes on the utility assets, MAWC submit the new or revised sewer tariff sheets such that they may become effective on or before the date MAWC closes on the Timber Springs 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 stated its position regarding 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.

It is also customary with most cases involving a new CCN for Staff to use criteria similar to that which was studied by the Commission in a past CCN case that was filed by the Tartan Energy Company to justify granting a CCN. 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 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's conclusion is that the points regarding TMF capacities and the Tartan Energy criteria are all met, for this case.

Depreciation

In Case No. WR-2015-0301, the Commission ordered water and sewer depreciation rates applicable to all divisions of MAWC. Staff recommends the use of the sewer depreciation rates for all plant in the Timber Springs service area.

Publicity and Customer Notice

According to information given Staff by MAWC, the Association communicates with its members primarily through a private Facebook page. The Association solicited a vote by its members and, according to the information given Staff, of 56 eligible voting members, 51 cast votes on this issue and all voted in favor of selling the sewer system to MAWC. Since the sewer customers are members of and have control over the Association's actions, including that related to the sewer system, Staff asserts that customers are inherently informed of this proposed transfer of assets, and as such no traditional "public" communication is necessary.

Customer Experience Department (CXD)

MAWC utilizes a nationwide billing system and nationwide call center through its affiliates. In order to incorporate the Timber Springs 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 Timber Springs

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 Timber Springs 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 Timber Springs 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 2017, as documented on the Commission’s Electronic Filing and Information System (EFIS).

MAWC is current on its annual assessment quarterly payments through the third quarter of fiscal year 2019.

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

WF-2019-0206	Finance
WO-2019-0184	ISRS
WC-2019-0178	Formal Complaint (Ghasedi)
WC-2019-0084	Formal Complaint (Fox) (Case dismissal is effective February 23 rd)
WO-2018-0373	ISRS (Case is on appeal and case file is open)

These above-noted pending cases will have no impact upon this proposed case requesting a new CCN for sewer service in this requested area, nor will approval of the 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, and applying existing MAWC rates, 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 Timber Springs service area, as modified and outlined herein;
2. Approve MAWC's monthly residential flat rate of \$38.75 to apply to Timber Springs;
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, sewer rates, pump unit rules and appropriate index modifications, applicable to sewer service in its Timber Springs service area, to be included in its EFIS 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, rates and rules applicable to the Timber Springs service area in its sewer tariff;
7. 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;
8. Adopt for the Timber Springs sewer assets the depreciation rates ordered for MAWC in Case No. WR-2015-0301;
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 Timber Springs customers
12. Require MAWC to include the Timber Springs 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 Timber Springs 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 Timber Springs 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 Revised Sewer Service Area Map
- B: Proposed Revised Sewer Service Area Description

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In the Matter of Missouri-American Water)
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Maintain a Sewer System in an area of Clinton)
County, Missouri (Timber Springs Estates))

File No. SA-2019-0183

AFFIDAVIT OF GARY BANGERT

State of Missouri)
) ss.
County of Cole)

COMES NOW Gary Bangert, and on his oath declares that he is of sound mind and lawful age; that he contributed to the attached *Staff Recommendation* in Memorandum form; and that the same is true and correct according to his best knowledge and belief.

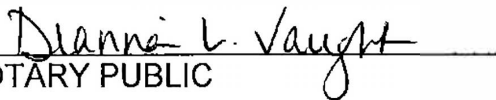
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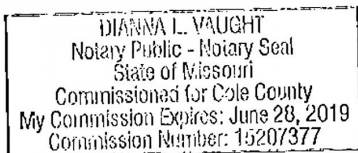
Gary Bangert

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 11th day of February, 2019.



NOTARY PUBLIC



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

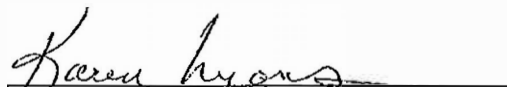
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County, Missouri (Timber Springs Estates))
File No. SA-2019-0183

AFFIDAVIT OF KAREN LYONS

State of Missouri)
) ss.
County of Jackson)

COMES NOW Karen Lyons, and on her oath declares that she is of sound mind and lawful age; that she contributed to the attached *Staff Recommendation* in Memorandum form; and that the same is true and correct according to her best knowledge and belief.

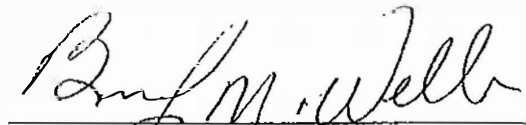
Further the Affiant sayeth not.



Karen Lyons

JURAT

Subscribed and sworn before me, a duly constituted and authorized Notary Public, in and for the County of Jackson, State of Missouri, at my office in Kansas City, on this 11th day of February, 2019.



NOTARY PUBLIC



BEVERLY M. WEBB
My Commission Expires
April 14, 2020
Clay County
Commission #12464070

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

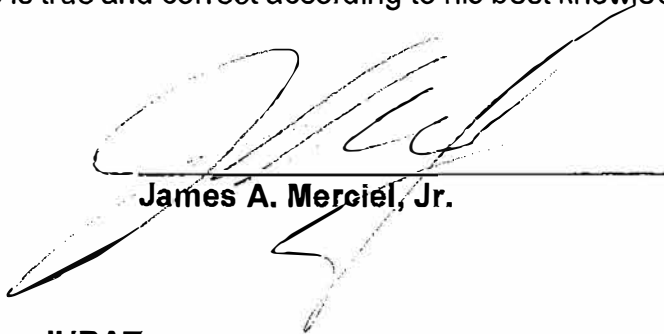
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File No. SA-2019-0183

AFFIDAVIT OF JAMES A. MERCIEL, JR.

State of Missouri)
) ss.
County of Cole)

COMES NOW James A. Merciel, Jr. and on his oath declares that he is of sound mind and lawful age; that he contributed to the attached *Staff Recommendation* in Memorandum form; and that the same is true and correct according to his best knowledge and belief.

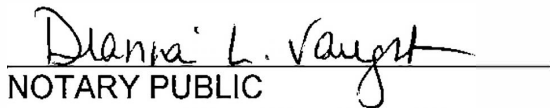
Further the Affiant sayeth not.



James A. Merciel, Jr.

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 11th day of February, 2019.



NOTARY PUBLIC

DIANNA L. VAUGHN
Notary Public - Notary Seal
State of Missouri
Commissioned for Cole County
My Commission Expires: June 28, 2019
Commission Number: 15207377

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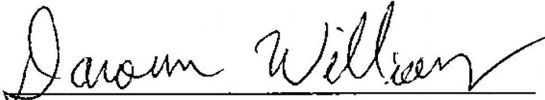
File No. SA-2019-0183

AFFIDAVIT OF DARONN WILLIAMS

State of Missouri)
) ss.
County of Cole)

COMES NOW Daronn Williams, and on his oath declares that he is of sound mind and lawful age; that he contributed to the attached *Staff Recommendation* in Memorandum form; and that the same is true and correct according to his best knowledge and belief.

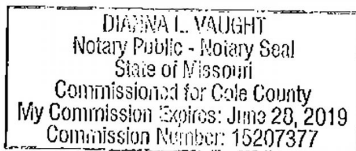
Further the Affiant sayeth not.

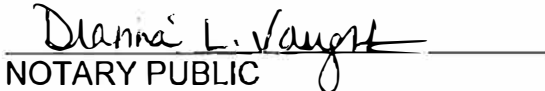


Daronn Williams

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 11th day of February, 2019.



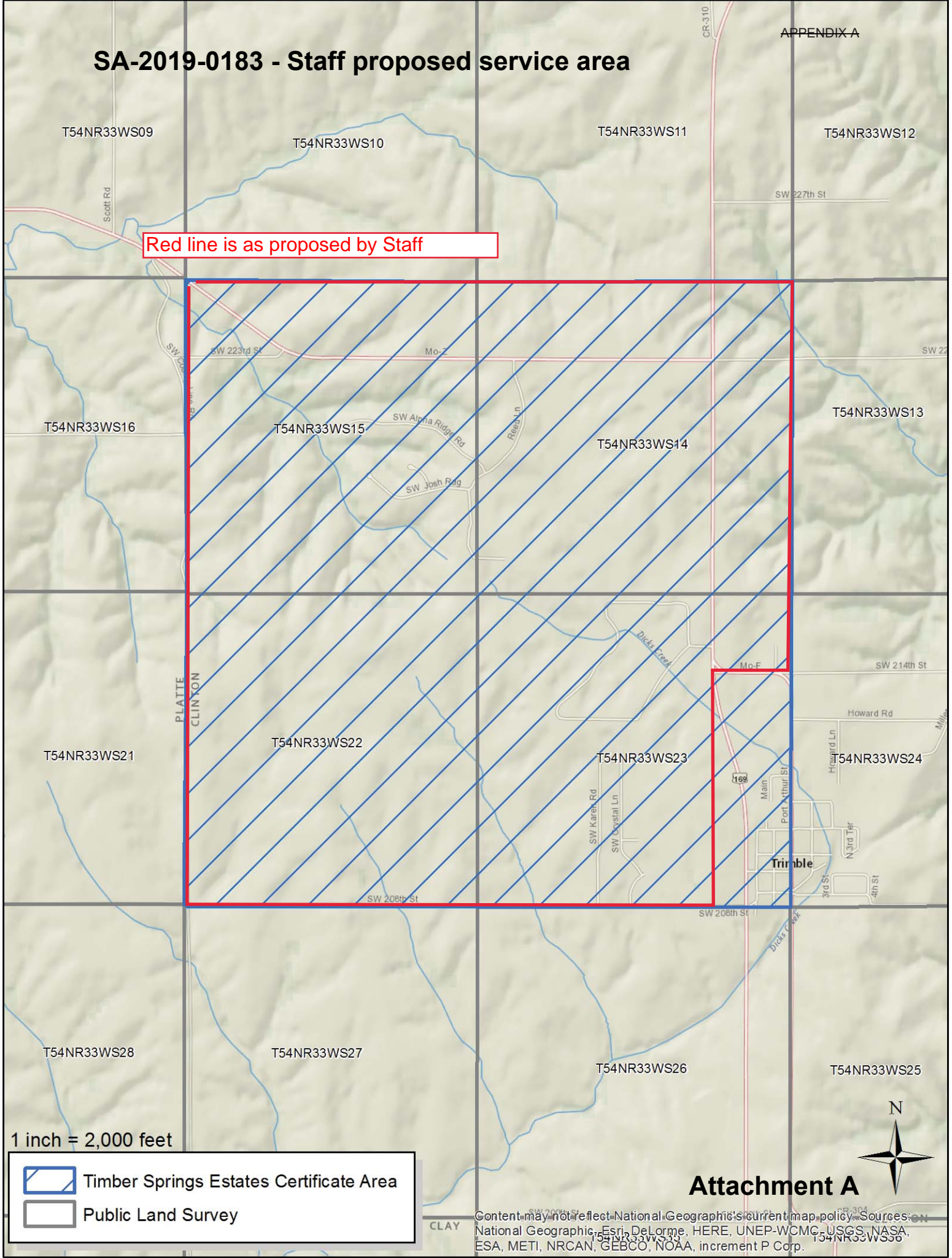


NOTARY PUBLIC

SA-2019-0183 - Staff proposed service area

APPENDIX A

Red line is as proposed by Staff



1 inch = 2,000 feet

	Timber Springs Estates Certificate Area
	Public Land Survey

Attachment A



Content may not reflect National Geographic's current map policy. Sources: National Geographic, Esri, DeLorme, HERE, UNEP-WCMC, USGS, NASA, ESA, METI, NRCAN, GEBCO, NOAA, increment P Corp.

SA-2019-0183

Staff's draft modified service area description – MAWC Timber Springs
Merciel – 1/28/19

A tract of land being located in Sections 14, 15, 22 and 23, Township 54 North, Range 33 West of the Fifth Principal Meridian, Clinton County in the State of Missouri and being more particularly described as follows:

Beginning; at the Southwest Comer of Section 22, thence North along the West line of Said Section 22 to the Northwest Comer of said Section 22, being also the Southwest corner of Section 15; thence continuing North along the West line of Section 15 to the Northwest Corner of said Section 15; thence East along the North line of said Section 15 to the Northeast comer of said Section 15, being also the Northwest Comer of Section 14; thence continuing East along the North line of Section 14 to the Northeast Comer of said Section 14; thence South along the East line of said Section 14 to the Southeast comer thereof, being also the Northeast comer of Section 23; thence continuing South, along the East line of Section 23 to the Southeast corner of the Northeast quarter of the Northeast quarter of Section 23; thence West along the South line of said Northeast quarter of the Northeast quarter to the Southwest corner thereof, also being on the East line of the West half of the East half of Section 23; thence south along the said East line of the West half of the East half of Section 23 to the South line of Section 23; thence West along the South line of said Section 23 to the Southwest comer thereof, being also the Southeast comer of Section 22; thence continuing West along the South line of said Section 22 to the Southwest comer and the point of beginning, containing approximately 114,278,416 square feet or 2,500.48 acres, more or less.