

MEMORANDUM

TO: Missouri Public Service Commission Official Case File
File No. SA-2021-0120

FROM: Courtney Barron – Auditing Department
Deborah Ann Bernsen – Customer Experience Department
Cedric E. Cunigan – Engineering Analysis Department
Daronn A. Williams – Water and Sewer Department

<u>/s/ Matthew J. Barnes</u>	<u>4/12/21</u>	<u>/s/ Ron Irving</u>	<u>4/12/21</u>
Case Manager	Date	Staff Counsel	Date

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

DATE: April 12, 2021

EXECUTIVE SUMMARY

On October 28, 2020, Missouri-American Water Company (“MAWC”) filed an *Application and Motion for Waiver* (Application) with the Missouri Public Service Commission (“Commission”). MAWC proposes to purchase all of the sewer assets of the currently unregulated City of Taos system and requests permission, approval and a Certificate of Convenience and Necessity (“CCN”) to install, own, control, manage and maintain a sewer system in and around the city of Taos, Missouri.

On October 29, 2020, the Commission issued its *Order Directing Notice and Setting Deadlines for Intervention Applications and Staff’s Recommendation*, in which it directed interested parties to intervene in this case by November 30, 2020, and also directed Staff to file either a status report or a recommendation no later than December 10, 2020. No parties have sought to intervene in this case.

On December 10, 2020, Staff submitted its *Status Report* informing the Commission, due to the ongoing status of the discovery process, the upcoming Missouri State Holidays, and the rate case in WR-2020-0344, Staff anticipated filing its Recommendation no later than February 10, 2021. On December 11, 2020, the Commission approved Staff’s *Status Report* and request to extend the filing deadline to February 10, 2021.

On February 10, 2021, Staff requested to extend the filing deadline to April 12, 2021 due to delays of receiving information from the Missouri Department of Natural Resources (“DNR”) and the ongoing commitment of Staff in rate case WR-2020-0344. On February 10, 2021, the Commission approved Staff’s request to extend the filing deadline to April 12, 2021.

Based on its review as described herein, Staff recommends approval of MAWC’s proposal for a CCN to install, own, acquire, construct, operate, control, manage, and maintain a sewer system in and around the City of Taos, Missouri, with conditions and actions as outlined herein.

BACKGROUND OF MAWC AND THE SEWER SYSTEM

MAWC is an existing regulated water and sewer utility currently providing water service to more than 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 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 MAWC's Application and subsequent conversations with them, the city of Taos, Missouri, owns and operates the sewage collection and treatment system, providing sewer service to approximately 406 residential customers and 15 commercial customers. As stated in the Application, MAWC will purchase the Taos system from the City of Taos, Missouri. Taos is a Fourth-Class City located in Cole County, Missouri, with a current population of approximately 878.

According to MAWC's Application, the Taos system consists of approximately 1/3 pressure sewer lines and 2/3 gravity sewer lines with five lift stations, as well as 22 duplex and 5 simplex pumping stations. MAWC is committed to investing in capital improvements in the Taos system over the next five (5) years.

According to information provided to Staff by MAWC, the Mayor of Taos sent residents a letter on January 7, 2020, informing the residents of a town hall meeting on January 13, 2020, to discuss the future of the city's wastewater system. Representatives from MAWC were also in attendance at the meeting to provide information and respond to questions. Flyers were sent by MAWC to the residents to inform customers of the benefits of MAWC becoming their wastewater service provider. A vote was held on June 2, 2020, and voters approved the sale to MAWC by a vote of 151 (Yes) to 21 (No).

STAFF'S INVESTIGATION

Rate Base and Depreciation

Typically, in a case involving the acquisition of a water or sewer utility, Staff's Auditing Department would review plant-in-service records maintained by the current owner(s) of the system(s) in an effort to determine the current net book value of the assets to be acquired. However, in this case, the Auditing Department was unable to do so due to the lack of records kept by the City of Taos.

Effective August 1, 2011, Taos completed the purchase of the existing wastewater system from Aqua Missouri, Inc. (Case No. SO-2011-0331). In 2012, Taos replaced virtually the entire Aqua Missouri, Inc. system with a new wastewater system consisting of a collection system developed by Lehman Construction LLC, and a treatment facility developed by Verslues Construction Company. According to a former Taos alderman and former Taos sewer board member at a December 9, 2020 site visit, invoices and other records associated with this construction

were retained by a now former city official and were never returned to Taos. The Auditing Department also understands the original developer of the new wastewater treatment plant that went into service in 2012 utilizes a five-year record retention policy, and has since destroyed its records pertaining to the cost of developing the plant. However, Taos utilized grant funding from DNR to help pay for the new system; as part of securing this funding, Taos was required to send copies of invoices to DNR along with its funding requests. Therefore, both MAWC and Staff separately sent sunshine requests to DNR to obtain the available records, which were subsequently provided.

Cedric E. Cunigan of Staff's Engineering Analysis Department used MAWC's responses to Staff Data Request Nos. 0008, 0008.1, 0010, 0010.1, and the records DNR provided in response to the sunshine requests, to determine the current net book value of the Taos wastewater system. Where original book cost information was lacking, Staff adopted MAWC's method of valuation for the plant. These areas were the Willibrand Acres wastewater treatment plant ("WWTP"), the Dove Lake Lane WWTP, and work related to collection sewers installed prior to 2012. Cost for similarly sized projects were used to estimate the cost of this portion of the Taos plant. For the remainder of the plant installed during or after 2012, Staff used invoices and other data to calculate the value of plant-in-service. Staff then used surrogate depreciation rates for a Class A & B Sewer utility to estimate the present value of the plant to be \$3,796,816.

Using Mr. Cunigan's plant values and depreciation rates, Auditing Staff also calculated contributions in aid of construction ("CIAC") reserve balances over the same period as the depreciation reserve balances. In response to Staff Data Request No. 0008.1, MAWC explained Taos received two grants to develop the system, a 40% grant and a rural water grant. It is Auditing Staff's understanding that Taos does not have to reimburse DNR for a portion of the grants; thus those amounts are considered contributed plant. MAWC provided its calculation of the contributed plant related to the unreimbursed grant funds in its response to Staff Data Request No. 0008. Auditing Staff included this amount starting in 2012, the in-service year of the new plant, resulting in the calculation of net CIAC through December 31, 2020, in the amount of \$764,232. Applying this net CIAC to the net book value of \$3,796,816 yields an estimated rate base of \$3,032,584 as of year-end 2020. Attachment A shows Staff's estimated plant-in-service, depreciation reserve, CIAC, CIAC reserve balances, and rate base for the Taos sewer system as of December 31, 2020.

MAWC, in preparing its confidential feasibility study for this case, used comparisons of similar systems it owns, engineering assessments, due diligence visits, the Taos asset depreciation schedule, records from DNR, records from Verslues Construction Co., Lehman Construction LLC pay requests, and maps to estimate the value of the sewer system plant at today's cost. MAWC then converted this estimate to the cost at the time MAWC believes the plant was originally put in service to determine an original rate base. MAWC calculated the depreciation reserve from 1991 to 2020, which resulted in a net plant valuation of ** _____ ** as of December 31, 2020. That, along with the reduction of MAWC's calculation of net CIAC at December 31, 2020,

of ** _____ ** resulted in an estimated rate base of ** _____ **. This represents a difference of ** _____ ** over Audit Staff’s estimated rate base calculation described above.

MAWC’s proposed purchase price of ** _____ ** for the Taos sewer system assets is above Staff’s calculation of the net book value of the assets as of December 31, 2020. Staff’s estimated rate base is presented for information purposes only at this time. If the Commission approves this CCN and MAWC acquires the Taos sewer system, then Staff expects an updated rate base value for this system will be established when MAWC files its next rate case. It has been Staff’s position in prior cases that the rate base, and ultimately the utility rates charged for acquired properties, should be based upon the original net book value of such properties when first devoted to public use; rate base should not reflect the amount of any acquisition adjustment, either above or below that net book value. MAWC has not requested such an adjustment in this case.

Customer Service and Billing

MAWC utilizes a nationwide billing system and nationwide call center through its affiliates. Taos customers will be served by MAWC operations located at 320 Hoover Road, Jefferson City, Missouri. The location is open from 7:30 a.m. to 4:00 p.m., Monday through Friday. Customer service hours through the Call Center are from 7 a.m. to 7 p.m., Monday through Friday. Emergency calls are answered 24/7. In order to incorporate the Taos sewer customers into its billing and customer service systems, it will be necessary for MAWC to properly enter the 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 Taos sewer customers so that customer service matters are handled accurately and in a timely manner.

Staff’s Sewer System Investigation

Staff conducted a physical inspection of the City of Taos’ WWTPs on December 9, 2020. In 2010, the City received funding from DNR to decommission and consolidate numerous lagoons and six package plants (small WWTPs that typically provide service to a small area, such as a street, a few blocks, a neighborhood, subdivision, etc.) into one primary WWTP to serve the majority of Taos. The construction was completed at the end of 2012.

All of the older WWTPs and lagoons were decommissioned except one – Willibrand Acres WWTP, due to topographical challenges. After the plants were decommissioned, the land was covered with soil, where necessary, and grass was planted, per operating permit conditions. The City of Taos now has two WWTP: Willibrand Acres WWTP, located at 3813 Lost Valley Lane, and the primary WWTP, located 0.35 miles south of the intersection of Liberty Road and South Liberty Road. Both plants are located outside the city limits of Taos.

Willibrand Acres WWTP is a small mechanical plant that has been in operation since the 1970s. This plant includes extended aeration, one clarifier, chlorine disinfection, and dechlorination.

As needed, sludge is periodically hauled away. Per the City, 10 residential units, one commercial unit, and zero industrial units are connected to Willibrand Acres, which are located on Lost Valley Lane and on Liberty Road. The DNR permit notes that this plant has 1,100 linear feet of gravity sewer main. Willibrand Acres WWTP operates under DNR Permit MO-0097411.

The primary WWTP includes a bar screen, oxidation ditch, two clarifiers, aerobic digestion, and UV disinfection. As needed, sludge is periodically hauled off. Per the City, 411 residential units, 14 commercial units, and zero industrial units are connected to the primary WWTP. Per DNR records reviewed by Staff, this WWTP consists of approximately 53,300 linear feet of sewer main (approximately 16,700 feet of pressure sewer lines and 36,600 feet of gravity sewer lines). The main WWTP operates under DNR Permit MO- 0136611.

Service Area

The entire proposed service area, the City of Taos and surrounding area, is already in MAWC's tariffed service area for Cole & Callaway Counties. As a result, a new map and legal description is not needed for this CCN.

Tariff and Rate Matters

MAWC states in its Application that the City of Taos is moving its residents to a \$65.00 flat monthly sewer rate.¹ Through discussions with MAWC, Staff determined that the City of Taos moved its residents to a flat rate of \$65.00 beginning November 2020 for all customers, regardless of meter size. Prior to moving the residents to the flat rate of \$65.00, the City of Taos charged a customer a charge of \$65.00 plus a volumetric rate of \$1.34 for each 1,000 gallons of water used. MAWC has proposed to adopt the City of Taos' flat monthly rate of \$65.00 for all of Taos' customers regardless of meter size. This flat monthly rate is higher than MAWC's current residential sewer rate for customers using a 5/8" meter, included on its tariff Sheet No. 2.1, which is \$58.13. However, as the City of Taos charges all customers, regardless of meter size, a flat rate of \$65.00, rates currently charged by the City for commercial customers (customers with larger than 5/8" meter connections) are significantly lower than MAWC's current tariffed rates.

Staff recommends that the Commission approve MAWC's proposal to adopt the City of Taos' flat monthly rate of \$65.00 for all of its customers. MAWC provided a brochure communicating this information to the citizens of Taos at a town hall meeting held on January 13, 2020, attached as Attachment B. Any future proposal rate increases requested by MAWC will be reviewed in MAWC's next general rate case.

Staff recommends that MAWC submit a revised sewer tariff Sheet No. 5.1, that reflects a flat rate of \$65.00 for all customers in the Taos sewer service area.

¹ *Application and Motion for Waiver*, Page 4, Line 16.

Staff recommends that after approval but before MAWC closes on the utility assets, MAWC submit the new sewer tariff sheet such that they may become effective on or before the date MAWC closes on the City of Taos' 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. After completing its review in this matter, Staff continues to find that MAWC holds the requisite TMF criteria.

It is also customary with most cases involving a new CCN for Staff to utilize the Tartan Criteria when analyzing requests for a new CCN. 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 capacities, in previous CCN cases Staff investigated these criteria and that investigation relates to this proposed acquisition. Based on Staff's investigation, it is Staff's opinion that MAWC has met each point of criteria, accordingly:

(1) Need for Service

There is both a current and future need for sewer service. The existing customer base in and near the City have both a desire and need for sewer service. Further, the current owner of the existing sewer system, the City, has made the decision to exit the sewer utility business, sell the existing system to MAWC, and rely upon MAWC to properly operate and maintain the existing 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. 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. 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.

(3) Applicant's Financial Ability

MAWC anticipates no need for external financing to complete this acquisition, and 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.

(4) Economic Feasibility of the Proposal

MAWC's feasibility study indicates that the purchase of the City's sewer assets will not generate positive income. However, the effect of this transaction on MAWC's general population of ratepayers is likely to be negligible so it is not a detriment to the public interest.

(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; it is Staff's position that this is the case in this instance as well. Additionally, the citizens of the City of Taos voted to approve the sale of the City's system, and the City of Taos' elected officials negotiated with MAWC to develop a Purchase Agreement, that was signed by the Mayor of Taos. For these reasons, and those previously outlined in this memorandum, Staff asserts that MAWC's request for a CCN and related acquisition of the City sewer assets is not detrimental to the public interest.

Staff's conclusion is that the points regarding TMF capacities and the Tartan Energy criteria are all met for this case.

OTHER ISSUES

The City of Taos, 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 2019, 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 2021.

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

- | | |
|--------------|--|
| SA-2021-0017 | Acquisition of sewer systems located in Hallsville, Missouri |
| SA-2021-0074 | Acquisition of sewer systems located in and around Trimble, Missouri |
| WA-2019-0364 | Acquisition of Isla del Sol Condominium Association water system |
| WA-2021-0116 | Acquisition of Table Rock Estates Subdivision water system |
| WC-2021-0129 | Willie J. Harris Jr. Complaint |

WC-2021-0227 Sarah Nangle Complaint
WC-2021-0251 William B. Rilenge Complaint
WR-2020-0344 General Rate Case

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 adoption of the existing City of Taos rates, is necessary and convenient for the public service. Staff therefore recommends approval with the following conditions and actions listed below:

1. Grant MAWC a CCN to provide sewer service in the proposed City service area, as modified and outlined herein;
2. Approve MAWC’s adoption of existing sewer rates for the City of Taos;
3. Require MAWC to submit new and revised tariff sheets, to become effective before closing on the assets, that include:
 - a. Index (Sheet No. IN 1.1)
 - b. Index (Sheet No. IN 1.5)
 - c. Index (Sheet No. IN 1.6)
 - d. Sewer rates (Sheet No. RT 5.1)
 - e. Sewer charges (Sheet No. SC 3.4)
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 City service area in its sewer tariff;

7. 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;
8. Adopt for the City sewer assets the depreciation rates ordered for MAWC in Case No. WR-2020-0344;
9. Pursuant to Commission Regulations, require MAWC to keep its financial records for all utility capital related plant-in-service and operating expenses in accordance with NARUC Uniform System of Accounts. Staff recommends the Commission specifically require such recordkeeping apply to the Taos sewer system;
10. Require MAWC to provide training to its call center personnel regarding rates and rules applicable to the Taos sewer customers;
11. Require MAWC to include the Taos customers in its established monthly reporting to the Customer Experience Department (“CXD”) Staff on customer service and billing issues, on an ongoing basis, after closing on the assets;
12. Require MAWC to distribute to the Taos 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, within thirty (30) days of closing on the assets;
13. Require MAWC to provide to the CXD Staff an example of its actual communication with the Taos sewer 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;
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 after closing on the assets; and,
15. Require MAWC to file notice in this case outlining completion of the above-recommended training, distribution of customer brochure, customer communications, and billing within the specified time periods.

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

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of Missouri-American Water)
Company's Application for a Certificate of)
Convenience and Necessity Authorizing it to)
Install, Own, Acquire, Construct, Operate,)
Control, Manage and Maintain a Sewer System)
in and around the City of Taos, Missouri)

File No. SA-2021-0120

**AFFIDAVIT OF COURTNEY BARRON, DEBORAH ANN BERNSEN,
CEDRIC E. CUNIGAN, DARONN A. WILLIAMS**

STATE OF MISSOURI)
)
COUNTY OF COLE) ss.

COME NOW Courtney Barron, Deborah Ann Bernsen, Cedric E. Cunigan, Daronn A. Williams, and on their oath declares that they are of sound mind and lawful age; that they contributed to the foregoing *Staff Recommendation* in memorandum form; and that the same is true and correct according to their best knowledge and belief, under penalty of perjury.

Further the Affiants sayeth not.

/s/ Courtney Barron
Courtney Barron

/s/ Deborah Ann Bernsen
Deborah Ann Bernsen

/s/ Cedric E. Cunigan
Cedric E. Cunigan

/s/ Daronn A. Williams
Daronn A. Williams

Missouri-American Water Company-(Sewer) / City of Taos Sewer
File No. SA-2021-0120









Asset Valuation
Ending Balance as of December 31, 2020

Plant in Service	\$5,940,138
Accumulated Reserve	\$2,143,323
Net Plant in Service	\$3,796,816
CIAC	\$1,090,934
CIAC Amortization	\$326,703
Net CIAC	\$764,232
Rate Base	\$3,032,584



SEWER SOLUTIONS FOR TAOS

ABOUT US

-  **PEOPLE SERVED:**
About 1.5 million
-  **COMMUNITIES SERVED:** 200
across the state
-  **WATER SYSTEMS:**
35
-  **SEWER SYSTEMS:**
73
-  **MILES OF PIPELINE:**
6,800
-  **FIRE HYDRANTS:**
44,000
-  **EMPLOYEES:**
Nearly 700
-  **ESTABLISHED:**
1879 in St. Joseph

MORE THAN A CENTURY OF SERVICE

Missouri American Water’s history dates back to 1879 in St. Joseph. We have grown considerably since then and are now proud to serve about 1.5 million people in more than 200 communities throughout the state.

We have provided communities in Mid-Missouri with exceptional water and sewer service for decades. Our locally based team in Jefferson City is equipped to quickly address issues and provide quality service.



We are a subsidiary of American Water, the largest investor-owned water and wastewater services provider in the country. Our customers benefit from the efficiencies and capabilities that come with our size, such as leveraging our purchasing power and economies of scale to keep costs low.

Water and wastewater is all we do. Our team of professionals has the operational experience and technical expertise needed to tackle water and sewer challenges, from ever-increasing regulations to the repair and replacement of aging infrastructure.



FREQUENTLY ASKED QUESTIONS

WHAT WILL HAPPEN TO OUR SEWER RATES IF THE SYSTEM IS SOLD?

If the sale is approved, we will ask the city to decrease sewer bills to a flat monthly rate of \$65 a month. Once the sale is complete, any future changes to sewer bills would need to be reviewed and approved by an independent commission (the Missouri Public Service Commission). The rate review process typically occurs every few years and always includes an opportunity for public comment.

QUESTIONS?

BRENT HAAS

OPERATIONS MANAGER

906 W. High St.

Jefferson City, MO 65109

(573) 635-6113

Brent.Haas@amwater.com

WHAT IS MISSOURI AMERICAN WATER OFFERING THE CITY?

Missouri American Water is offering Taos \$4.1 million for its sewer system. After system debt is paid off, the city will have \$600,000 in net proceeds. The city will determine how this money should be used to benefit the community. Examples of how other cities have used their sale proceeds include attracting federal and state grants that require a local match, street and sidewalk improvements, and local parks.

In addition to the purchase price, Missouri American Water has also committed to investing \$700,000 over the next 5 years in sewer system improvements, and the company will assume all future liabilities and maintenance costs.

WHAT IS THE NEXT STEP IN THIS PROCESS?

If the City Council decides to sell the sewer system, the measure will be placed on the April 7th ballot. A majority of Taos voters must vote in favor of the sale for it to proceed. The Missouri Public Service Commission would also need to review and approve the sale before final completion.

