

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

In the Matter of the Application of Highway H Utilities,)	
Inc. for Authority to Sell Certain Water and Wastewater)	
System Assets to the City of Waynesville, Missouri, and)	Case No. SM-2018-0095
Pulaski County Sewer District Number 1, and in)	
Connection Therewith, Certain Other Related)	
Transactions.)	

STAFF RECOMMENDATION TO APPROVE TRANSFER OF ASSETS

COMES NOW the Staff of the Missouri Public Service Commission ("Staff"), by and through the undersigned counsel, files this *Staff Report and Recommendation* ("Report") with the Missouri Public Service Commission ("Commission"), and respectfully states:

1. On October 9, 2017, Highway H Utilities, Inc. ("Highway H" or "Applicant") filed its *Application and Request for Waiver* ("Application") seeking authorization from the Commission to sell certain water and wastewater system assets to the City of Waynesville, Missouri ("Waynesville") and Pulaski County Sewer District Number 1 ("PCSD"), and in connection therewith, certain other related transactions.

2. On October 10, 2017, the Commission issued its *Order Directing Notice and Filing*, wherein it directed Staff to file a pleading with the date it intends to file a recommendation no later than November 9, 2017. No parties have filed to intervene in this matter.

3. Staff's initial anticipated filing date was January 8, 2018. On January 8, 2018, Staff requested and was granted an extension to file a recommendation no later than February 22, 2018.

4. Pursuant to Section 393.190 RSMo, no sewer corporation shall sell or transfer its assets or franchise without having first secured authorization from the Commission.

5. Staff conducted an investigation regarding the Application and found that Highway H is in good standing with the Missouri Secretary of State. Highway H has submitted annual reports through 2015. The Applicant's third quarter assessment payment is past due as of January 15, 2018.

6. Waynesville and PCSD propose to adopt Highway H's current rates, rules and regulations and other tariffs currently on file with and approved by the Commission.

7. As explained in the Staff Memorandum, attached hereto as Appendix A, Staff conducted an investigation into the Company's request. Based upon this review, Staff has determined that the proposed sale and transfer of assets from Highway H to Waynesville and PCSD is not detrimental to the public interest. Staff requests that if the Commission authorizes this transfer of assets, that the Commission impose the following conditions:

a. Approve the transfer of water utility assets from Highway H to Waynesville, and the transfer of sewer utility assets to PCSD as requested;

b. Require Highway H to notify the Commission of closing on the assets, with each of the two buyers, within five (5) days after each closing;

c. If closing on either the water system assets or sewer system assets does not take place within thirty (30) days following the effective date of the Commission's order approving such, require Highway H 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 Highway H, Waynesville, or PCSD determine that the transfer of the assets of either or both of the systems will not occur;

d. Authorize Highway H to cease providing water and sewer service immediately after closing on the respective assets with Waynesville and PCSD;

e. After receiving notice(s) of closing, cancel the respective CCN and tariff authorizing Highway H to provide water or sewer service;

f. If Highway H and/or Waynesville and /or PCSD determine that the transfer of any of Highway H's assets will not occur, require Highway H to notify the Commission of such, along with an explanation regarding resolution of the *Agreement for Sale of Water and Wastewater System*; and,

g. Make no ratemaking determination regarding any potential future regulatory oversight, if any.

WHEREFORE, Staff recommends that the Commission approve the proposed transfer of assets; and grant such other and further relief as the Commission considers just in the circumstances.

Respectfully submitted,

/s/ Casi Aslin

Casi Aslin

Legal Counsel

Missouri Bar No. 67934

Attorney for the Staff of the

Missouri Public Service Commission

P.O. Box 360

Jefferson City, MO 65102

(573) 751-8517

casi.aslin@psc.mo.gov

CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing was either hand delivered or served electronically on this 14th day of February, 2018, to the parties of record.

/s/ Casi Aslin

MEMORANDUM

TO: Missouri Public Service Commission, Official Case, File No. SM-2018-0095
In the Matter of the Application of Highway H Utilities, Inc. for Authority to
Sell Certain Water and Wastewater System Assets to the City of Waynesville,
Missouri, and Pulaski County Sewer District Number 1, and, in Connection
Therewith, Certain Other Related Transactions

FROM: James A. Merciel, Jr., Water and Sewer Department

/s/ James A. Merciel, Jr. 2-15-18 /s/ Casi Aslin 2-15-18
Case Coordinator / Date Staff Counsel's Office / Date

SUBJECT: Staff Recommendation Approval of Transfer of Assets, and Cancellation of
Certificates of Convenience and Necessity

DATE: February 15, 2018

CASE BACKGROUND

On October 9, 2017, Highway H Utilities, Inc. (Hwy H) submitted its *Application and Request for Waiver* (Application), docketed as File Nos. WM-2018-0094 pertaining to Hwy H's water utility assets and SM-2018-0095 pertaining to Hwy H's sewer utility assets. The Commission consolidated these two matters into File No. SM-2018-0095. In the Application, Hwy H seeks authority to sell and transfer its water utility assets to the City of Waynesville (City), and to sell and transfer its sewer utility assets to Pulaski County Sewer District Number 1 (PCSD), sometimes referred together as the "buyers."

BACKGROUND OF THE UTILITIES, AND UTILITY SYSTEMS

Hwy H first obtained a Certificate of Convenience and Necessity (CCN) to provide water service in Case No. WA-90-26. In several subsequent cases filed with the Commission, Hwy H expanded its service area in several separate areas to provide water, or water and sewer service. Hwy H transferred part of its water utility assets to the City, with the Commission's approval in Case No. WO-2012-0211.

At present, Hwy H provides water and sewer service to approximately 316 residential customers, according to its 2015 annual report the most recent one on file. Hwy H presently has two service areas - the Northern Heights Estates subdivision located about a mile and a half north of the City, and the High Point Estates subdivision located about a mile south of the City. The Northern Heights and High Point water systems each consist of a single well, a storage tank, and a distribution system with meters for each customer. The sewer system in Northern Heights has a pressurized collection system with "pump units" at each of the customers' premises, consisting of a septic tank with an electric pump. The septic tank partially treats sewage, retains solids, and

the pump sends what is referred to as “grey water” to the pressure collecting sewers for transportation and final treatment at Hwy H’s recirculating sand filter (RSF) treatment facility. Solids must be removed from the septic tanks periodically, along with maintenance of the pumps and other electrical and mechanical parts of the pumping system. The sewer system in High Point has gravity collecting sewers, and an extended aeration treatment facility followed with a sand filter.

The City is located along US Interstate Highway 44 in Pulaski County. It owns and operates a municipal-owned water utility that is not subject to regulation by the Commission, providing water service to more than 2,400 customers both inside and outside the city limits. The City utilizes a series of deep wells, storage tanks, and booster pumps according to information posted by the Missouri Department of Natural Resources. According to its website, the City also provides wastewater, electric, and gas utility service.

PCSD is a public sewer district that is not subject to the jurisdiction of the Commission. It owns and operates several sewage treatment facilities, including a 1.5 million gallon per day (MGD) regional facility.

STAFF’S INVESTIGATION

Staff has reviewed the Application and its appendices, including the *Agreement for Sale of Water and Wastewater System*, Appendix B, which is an agreement between all three parties - Hwy H, the City, and PCSD. Staff agrees the Application is reasonable. The City and PCSD will initially assume operations largely with the assets that are in place at present. The City states to Staff that it proposes water system improvements that include disinfection, storage tank maintenance/improvements, an interconnection of the High Point system with the City’s existing water system, improved metering, and system mapping. PCSD states to Staff that it proposes sewer system improvements that include immediate repairs and upgrades to the existing treatment facilities to meet water pollution limits; and that it has long term plans for future connections to larger regional treatment facilities, with elimination of the existing small treatment facilities at that time.

Rate Impact

If the proposed transfer of assets is approved, and after the transfers are accomplished, there would be a rate impact to residential customers, as follows:

Water Rates

Hwy H’s current water rates consist of a monthly charge of \$6.16 which includes the first 2,000 gallons, plus \$1.13 per 1,000 gallons water use over 2,000 gallons. For a customer with 5,000 gallons monthly water usage, the water bill would be \$9.55.

The City intends to apply its existing water rates, consisting of a monthly charge of \$11.00, plus \$0.29 per 100 gallons (\$2.90 per 1,000 gallons). For a customer with 5,000 gallons monthly water usage, the water bill would be \$25.50, resulting in a 167% increase. The percentage increase varies a small amount for other water use amounts.

Sewer Rates

Hwy H's current sewer rate is a flat monthly rate, \$19.44.

PCSD intends to apply its existing sewer rates that are based on water usage. Water usage information will be provided to it by the City. The rates consist of a monthly charge of \$36.17, plus \$5.14 per 1,000 gal water use. PCSD also charges \$8.00 per month for pressure sewer pump unit maintenance, which will apply to the Northern Heights customers with the above-described pump units.

For a customer with 5,000 gallons monthly water usage, the sewer bill would be \$61.87, resulting in a 218% increase. For the Northern Heights customers, there would also be the aforementioned additional \$8.00 pump unit charge.

PCSD also would assess a one-time charge of \$500 for each existing customer, as it also assesses all of its new customers, to partially fund future capital improvements. Additionally, a one-time charge of \$250 will be applicable to existing customers in Northern Heights for inspection and evaluation of the pressure sewer pump units.

Hwy H's water and sewer rates have been in effect since 2010.

Customer Notice

Hwy H sent a notice to customers on December 29, 2018, although as Staff understands, the notices were delivered to customers' homes on February 2, 2018. Staff worked with Hwy H to prepare the draft, which outlined the difference in water and sewer rates of Hwy H, the City, and PCSD, and also PCSD's one-time assessments. Hwy H submitted a copy of the notice, and an affidavit verifying that it was sent, in the case file (EFIS item No. 9). Staff has received ten (10) public comments from customers. All of the public comments pertain to the level of monthly rates charged by the City and by PCSD, the change to City/PCSD rates from Hwy H rates, and the one-time fees charged by PCSD. Staff is aware of one newspaper article, posted September 23, 2017 by the *Waynesville Daily Guide*, which serves the City and other communities in the surrounding area that describes the City's council approval of the *Agreement for Sale of Water and Wastewater System*. Attachment A is a copy of the article from the *Waynesville Daily Guide*'s website.

OTHER ISSUES

Hwy H is a corporation that is in "Good Standing" with the Missouri Secretary of State. Hwy H has filed annual reports with the Commission through calendar year 2015, as documented on the Commission's Electronic Filing and Information System (EFIS). Its annual report for calendar year 2016 is past due as of April 15, 2017. Staff filed WC-2017-0318 against Hwy H, and the Commission issued its Order Granting Motion for Default Determination that was effective on October 19, 2017, and the case was closed. After that date, Hwy H filed a motion to stay proceedings, which the Commission granted. Hwy H has paid its annual assessments through the second quarter of fiscal year 2018, as posted on the date of this memorandum by the Commission's Budget and Financial Services Department. The third quarter is past due as of January 15, 2018, in the amount of \$187.90.

Hwy H has no other pending cases before the Commission. There are no matters before the Commission that affect or would be affected by this filing. There are no pending or final unsatisfied decisions against Hwy H from any state or federal court involving customer service or rates within the last three years that would affect or would be affected by this filing.

STAFF'S RECOMMENDATIONS AND CONCLUSIONS

Staff's position, based on its review as described herein, is that the proposal for the transfers of assets from Hwy H to the City and to PCSD is not detrimental to the public interest. Staff recognizes that customers would experience a relatively substantial rate impact if these transfers take place as proposed. However, if Hwy H were to remain in business, or if any other utility were to step in to own and operate these assets, then substantial funds would be expended for maintenance and improvements similar to what the City and PCSD are proposing, which would also likely result in rate increases. Additionally, with regard to rates, the customers of Hwy H would not be treated any differently than City and PCSD customers in neighboring areas, since those other customers presently pay the rates being proposed for Hwy H customers.

Staff further recommends, assuming the transfer of assets is approved, that Hwy H notify the Commission after closing with the City and PCSD on the respective assets, after which the Commission should cancel Hwy H's CCN for both water and sewer service, and cancel Hwy H's water tariff and sewer tariff, as was requested in the Application. Should there be any substantial delay regarding closing with either of the buyers, Staff recommends that Hwy H submit status reports describing such delay. Staff recommends approval of this matter with the conditions and actions as outlined herein.

STAFF'S RECOMMENDATIONS

Based upon the above, Staff recommends that the Commission:

1. Approve the transfer of water utility assets from Hwy H to the City, and the transfer of sewer utility assets to PCSD, as requested;
2. Require Hwy H to notify the Commission of closing on the assets, with each of the two buyers, within five (5) days after each such closing;
3. If closing on either the water system assets or sewer system assets does not take place within thirty (30) days following the effective date of the Commission's order approving such, require Hwy H 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 Hwy H, the City, or PCSD determine that the transfer of the assets of either or both of the systems will not occur;
4. Authorize Hwy H to cease providing water and sewer service immediately after closing on the respective assets with the City and PCSD;
5. After receiving notice(s) of closing, cancel the respective CCN and tariff authorizing Hwy H to provide water or sewer service;

6. If Hwy H and/or the City and/or PCSD determine that the transfer of any of Hwy H's assets will not occur, require Hwy H to notify the Commission of such, along with an explanation regarding resolution of the *Agreement for Sale of Water and Wastewater System*; and,
7. Make no ratemaking determination regarding any potential future regulatory oversight, if any.

Attachment A - Copy of News Article in the *Waynesville Daily Guide*

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Related Transactions)

File No. SM-2018-0095

AFFIDAVIT OF JAMES A. MERCIEL, JR.

STATE OF MISSOURI)
)
COUNTY OF COLE) ss.

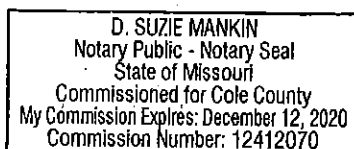
COMES NOW JAMES A. MERCIEL, JR. and on his oath declares that he is of sound mind and lawful age; that he contributed to the foregoing Staff Recommendation in Memorandum form; and that the same is true and correct according to his best knowledge and belief.

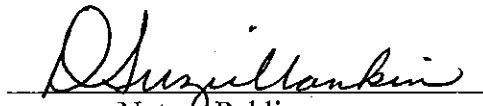
Further the Affiant sayeth not.


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 15th day of February 2018.




Notary Public

WAYNESVILLE DAILY GUIDE

3 things to know from Waynesville City Council

By Sue Davidson / Special to the Daily Guide

Posted Sep 23, 2017 at 12:00 PM

On September 21, the Waynesville City Council convened. After a closed session to discuss real estate, personnel and legal issues, the meeting continued.

Present at the meeting were Mayor Luge Hardman, Councilman Sheryl Folkert, Councilman Jerry Brown, Councilman Tim Mann, Councilman Clarence Liberty, Councilman Ed Conley, Councilman Michael Curtis, Councilman Mike Francis, Councilman Alan Clark, and Councilman Tim Mann. Several special guests were present, including Waynesville's very own W.H. Croaker.

The agenda included a donation to Little Heroes Playground by W.H. Croaker, several proclamations, committee updates, and discussion and approval of ordinances.

Dr Tina Turner, principal of Richland Elementary and Doug Smith, Richland School Superintendent came to thank Mayor Hardman and the City of Waynesville for the playground equipment. Turner and Smith presented the mayor with a photo of the elementary kids and their "new" playground equipment.

Hardman said that two communities have now benefited from the donations to the Little Hero's playground.

The weather has been good and the Mayor said, "Progress is being made on the construction of the Little Heroes Playground. We don't have an opening date yet."

Follow the Waynesville City website and facebook page for updates on the playground.

Suzanne Wilbur, representing Genesis House and Good Samaritan of the Ozarks, was present with Mayor Hardman to issue a proclamation of domestic violence awareness month. October is domestic violence awareness month and Suzanne Wilbur encouraged everyone to wear purple on Fridays in October to show support for victims and survivors of domestic violence.

Attachment A

Sep 17 is the 230th anniversary of the drafting of the constitution of the United States. In recognition of this, Mayor Hardman proclaimed constitution week Sept 17 to 23. Geni Westling, representing the Daughters of the American Revolution, was present with Mayor Hardman to sign the proclamation of Constitution Week. The City of Waynesville was the recipient of a grant check from Missouri Public Energy Pool. (MPUA) The grant money will be used toward the cost of improvements to the city's electric system.

Three more things to know from the Waynesville Council:

1. *Ordinance 2277 was approved.*

This ordinance defines, and sets zoning regulations, conditional use and construction standards for the use of shipping containers in residential and commercial development. Mr. Harrill had explained to the planning and zoning commission that the purpose of the ordinance is to "establish a certain zoning classification for container homes."

2. *No parking zone on Viren Lane*

Ordinance 2278 establishes a no parking zone on the southeast side of Viren, from the intersection of Viren Lane and Royal Oak to include the cul-de-sac. Violators will be ticketed.

3. *Agreement for sale of water and wastewater systems*

Ordinance 2279 approved an agreement for sale of a water system between Highway H Utilities Inc, Four J land and Cattle Company, and James Laughlin Jr (all sellers) and the City of Waynesville and Pulaski. County Sewer District #1 (buyers). The water and wastewater systems include the Northern Heights and High Point systems.



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