

**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 ) **File No. SA-2021-0017**  
it to Install, Own, Acquire, Construct, )  
Operate, Control, Manage and Maintain a )  
Sewer System in and around the City of )  
Hallsville, Missouri )

**STAFF RECOMMENDATION TO GRANT  
CERTIFICATE OF CONVENIENCE AND NECESSITY**

**COMES NOW** the Staff of the Missouri Public Service Commission ("Staff"), by and through the undersigned counsel, and for its *Staff Recommendation to Grant Certificate of Convenience and Necessity*, states as follows:

1. On July 20, 2020, Missouri-American Water Company ("MAWC") filed an *Application* with the Missouri Public Service Commission ("Commission") requesting a Certificate of Convenience and Necessity ("CCN") to install, own, acquire, construct, operate, control, manage, and maintain a sewer system in and around Hallsville, Missouri, as an addition to MAWC's existing service territories.
2. On July 23, 2020, the Commission issued an *Order Directing Notice, Setting Intervention Deadline, and Directing Staff Filing*; in its Order, the Commission directed Staff to file, no later than September 4, 2020, a recommendation or a status report.
3. On August 20, 2020, the Boone County Regional Sewer District ("the District") applied to intervene in this matter. Following opposition from MAWC, the Commission granted the District's request to intervene on September 16, 2020.

4. Due to ongoing talks with MAWC, as well as the intervention of the District, Staff requested, and was granted, a series of extensions which pushed the due date of its recommendation to no later than November 18, 2020.

#### **I. MAWC'S APPLICATION FOR A CNN**

5. Pursuant to Section 393.170, RSMo (2018), no water or sewer corporation shall provide service to consumers without first having obtained approval from the Commission.

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

7. In addition to the Tartan Criteria, when considering an application involving existing water and/or sewer systems, the Commission analyzes the Technical, Managerial, and Financial capabilities ("TMF") of the applicant.

8. 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.

9. As further explained in Staff's Memorandum, the City of Hallsville's ("the City") sewer system currently serves approximately 676 total customers. Prior to the agreement between the City and MAWC, the Hallsville Board of Alderman passed

Ordinance No. 370, *An Ordinance For An Election In The City Of Hallsville, Missouri To Be Held On November 5, 2019, For The Purpose of Submitting To The Qualified Voters Of The City A Proposition To Sell Certain Assets Associated With The City's Wastewater System To Missouri American Water.*<sup>1</sup>

10. Following public meetings in which representatives of MAWC were present to discuss and answer questions from the public, an election was held on November 5, 2019 in which the voters were asked to vote on Proposition 1, which stated:

Shall the wastewater (sewer) utility owned by the City of Hallsville, Missouri be sold?<sup>2</sup>

11. Proposition 1 passed with a majority of votes cast in favor of the sale, and the City subsequently entered into a *Purchase Agreement* with MAWC on July 14, 2020.

12. MAWC proposes to adopt the existing sewer rates being charged by the City, until such time that rates and rules are changed within a general rate case before the Commission. The current monthly sewer rates charged by the City are \$19.35 for the initial 1,000 gallons used per month, and then \$5 for each additional 1,000 gallons used.

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

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<sup>1</sup> See Application and Motion for Waiver, Appendix A.

<sup>2</sup> *Id.*

## II. CONTINUING AUTHORITY AND THE COMMISSION'S LACK OF JURISDICTION

14. As part of the District's application to intervene, it has put forward its position as a Level 2 Continuing Authority for all unincorporated areas of Boone County, and MAWC's position as a Level 3 Continuing Authority, which is a lower level than the District.

15. The District's position as a Level 2 Continuing Authority could potentially prevent MAWC from receiving an operating permit from the Department of Natural Resources ("DNR"), which in turn would prevent it from serving the City.

16. Ultimately, the decision of whether to grant MAWC an operating permit for the City's system will be made, pursuant to state statute and regulation, by DNR.<sup>3</sup> Further, any application for an operating permit for MAWC to serve the City can only be made if, and only if, MAWC obtains a CCN from this Commission.<sup>4</sup>

17. If MAWC is unable to acquire an operating permit from DNR, which in turn would prevent it from exercising any CCN granted by the Commission, within two years of the effective date of this CCN, then the CCN will become "null and void" per Section 393.170(3), RSMo (2018).

**WHEREFORE**, Staff respectfully submits this *Staff Recommendation to Grant CCN* for the Commission's information and consideration and hereby requests the Commission grant MAWC a Certificate of Convenience and Necessity, with conditions, to provide sewer service in and around the City of Hallsville, Missouri.

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<sup>3</sup> See Sections 640.710 & 644.026, RSMo, and 10 CSR 20-6.010.

<sup>4</sup> 20 CSR 20-6.010(2)(B)3.

Respectfully submitted,

**/s/ Travis J. Pringle**

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Attorney for the Staff of the  
Missouri Public Service Commission

**CERTIFICATE OF SERVICE**

I hereby certify that copies of the foregoing have been mailed, hand-delivered, transmitted by facsimile, or electronically mailed to all parties and/or counsel of record on this 18th day of November 2020.

**/s/ Travis J. Pringle**

## MEMORANDUM

TO: Missouri Public Service Commission Official Case File  
File No. SA-2021-0017

FROM: Jarrod Robertson – Water and Sewer Department  
Daronn A. Williams – Water and Sewer Department  
Gary Bangert – Customer Experience Department  
Antonija Nieto – Auditing Department  
Matthew Young – Auditing Department

<u>/s/ Jarrod Robertson</u>	<u>11/18/20</u>	<u>/s/ Travis Pringle</u>	<u>11/18/20</u>
Case Manager	Date	Staff Counsel	Date

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

DATE: November 18, 2020

### EXECUTIVE SUMMARY

Staff's position, based on its review as described herein, is that the proposal for a new Certificate of Convenience and Necessity to provide sewer service, and apply existing City of Hallsville rates, is necessary and convenient for the public service.

Staff therefore recommends approval with the conditions and actions as outlined herein.

### CASE BACKGROUND

On July 20, 2020, 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 and around the city of Hallsville, Missouri (City). In the Application, MAWC states that it intends to acquire sewer utility assets that are at present owned and operated by the City.

On July 23, 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 no later than August 24, 2020, and directed Staff, no later than September 4, 2020, to file either a recommendation regarding MAWC's application or a status report of its intent to file a Staff Recommendation.

On August 20, 2020, the Boone County Regional Sewer District (District) filed its *Application to Intervene*, and the Commission granted the District's intervention request on September 16, 2020.

On September 4, 2020, Staff filed a Status Report, anticipating filing of its recommendation no later than October 5, 2020.

On October 2, 2020, Staff requested, and the Commission granted, an extension that Staff file its recommendation no later than November 4, 2020.

On November 4, 2020, the Commission issued an *Order Granting Extension to File Staff Recommendation*, no later than November 18, 2020

## **BACKGROUND OF MAWC, THE CITY, AND THE DISTRICT SEWER SYSTEMS**

MAWC is an existing water and sewer corporation and public utility subject to the jurisdiction of the Commission. MAWC is currently providing water service to approximately 470,000 customers and sewer service to more than 15,000 customers in several service areas throughout Missouri. In recent years, MAWC has acquired several existing small water and sewer systems.

MAWC is a subsidiary of American Water Works Company, Inc. (American Water), and is affiliated with other American Water companies that undertake some of the tasks associated with utility service, such as customer billing, and share technical resources. MAWC has no pending legal action or judgement from any state or federal agency or court which involves customer service or rates, nor been the recipient of a judgement in the three (3) years prior to the date of the Application.

At present, according to MAWC's Application, the City owns and operates a sewer collection system which consists of over thirteen (13) miles of pipe and 256 manholes, which provide service to approximately 664 accounts. The sewer system operates under Permit No. MO-0104990, issued by the Department of Natural Resources (DNR), and utilizes a land application process to dispose of the treated wastewater onto the surface of prearranged farmland. When irrigation is not possible, wastewater accumulates and is contained within three (3) holding cells or lagoons until conditions are once again favorable for land application. While not presently subject to the jurisdiction of the Commission, the City's wastewater system is currently subject to adhering to DNR regulations, and the system would continue to remain under DNR jurisdiction under MAWC ownership.

In the District's *Application to Intervene*, the District stated it had sought to acquire the City's wastewater treatment system.

The District is a common sewer district organized pursuant to Chapter 204, RSMo and a political subdivision of the State of Missouri. The District was approved by the Missouri Clean Water Commission as a Level 2 Continuing Authority for all unincorporated areas of Boone County as those areas existed at the date of approval, which was January 6, 2010. Level 2 Continuing Authorities have received approval by the Clean Water Commission (CWC) to serve as the regional sewer authority. This approval requires application to the CWC, presentation of a regional sewer plan, public hearings, and formal CWC approval. The District currently provides wastewater collection and/or treatment services to approximately 7,148 current customers in incorporated and unincorporated areas of Boone County and near the City.

According to DNR Rules and Regulations, as they relate to a "continuing authority," an entity may not operate a sewer system without first applying for and obtaining a construction or operating permit from DNR that designates a continuing authority with responsibility for ensuring compliance with permit conditions. Applicants must fulfill this requirement upon the initial application of the permit, each time an operating permit is up for reissuance, and upon the transfer of a permit to another entity. DNR regulations rank continuing authorities in order of preference, with Level 1 being the highest, exhibiting the greatest jurisdiction and power, and Level 5 as the

lowest. These continuing authority regulations generally prohibit the issuance of an operating permit to an applicant that is or will use a lower level continuing authority when a higher level continuing authority is available,<sup>1</sup> and such use would conflict with "any area-wide management plan" or where the applicant is unable to show that it has met one of the requirements listed in 10 CSR 20-6.010(2)(C)1.-7.<sup>2</sup> Since fewer, larger, better-staffed treatment facilities are typically better for protection of water quality, Level 1 and Level 2 authorities are given preference in the regulation over smaller, less sophisticated authorities. DNR has a stated goal of 'regionalization' of wastewater treatment, and incentivizes elimination of smaller treatment facilities through grants and loans.

Pursuant to regulation<sup>3</sup> MAWC is a Level 3 Continuing Authority, as is the City. As there is no Level 1 Continuing Authority in Boone County, the District is the highest level continuing authority in Boone County (in addition to the City of Columbia, which is also a Level 2). However, pursuant to the grant of Level 2 Continuing Authority to the District, it is not clear that the District holds that status within the corporate boundaries of the City of Hallsville.<sup>4</sup> That being said, the entirety of Hallsville's wastewater treatment facility is outside the city limits in unincorporated Boone County.<sup>5</sup>

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<sup>1</sup> 10 CSR 20-6.010(2)(B) states: (B) Continuing authorities are listed in preferential order in the following paragraphs. A level three (3), four (4), or five (5) applicant may constitute a continuing authority by showing that the authorities listed under paragraphs (B)1.-2. of this rule are not available; do not have jurisdiction; are forbidden by state statute or local ordinance from providing service to the person; or that it has met one of the requirements listed in paragraphs (2)(C)1.-7. of this rule.

<sup>2</sup> 10 CSR 20-6.010(2)(C) states: Applicants proposing use of a lower preference continuing authority, when the higher level authority is available, must submit one (1) of the following for the department's review, provided it does not conflict with any area-wide management plan approved under section 208 of the Federal Clean Water Act or by the Missouri Clean Water Commission:

1. A waiver from the existing higher authority;
2. A written statement or a demonstration of non-response from the higher authority declining the offer to accept management of the additional wastewater;
3. A to-scale map showing that all parts of the legal boundary of the property to be connected are beyond two thousand feet (2000') from the collection system operated by a higher preference authority;
4. A proposed connection or adoption charge by the higher authority that would equal or exceed what is economically feasible for the applicant, which may be in the range of one hundred twenty percent (120%) of the wastewater treatment system;
5. A proposed service fee on the users of the system by the higher authority that is above what is affordable for existing homeowners in that area;
6. Terms for connection or adoption by the higher authority that would require more than two (2) years to achieve full sewer service; or
7. A demonstration that the terms for connection or adoption by the higher authority are not viable or feasible to homeowners in the area.

<sup>3</sup> 10 CSR 20-6.010(2)(B)3.

<sup>4</sup> While the District contends in its *Reply to MAWC's Response in Opposition to District's Application to Intervene*, that, should the City sell its system, the City and its system would fall within its Level 2 Continuing Authority, this does not appear to be the case. Based upon Staff's review of the District's application to the CWC for Level 2 Authority and the transcript of the January 6, 2010, CWC meeting where the District's application was approved, it appears to be clear that the District requested, and the CWC approved, Level 2 Continuing Authority in the unincorporated areas of Boone County as they existed at the time of CWC approval. Therefore, even if the City sells its system, it does not appear that the District would hold Level 2 Authority within the corporate boundaries of the City.

<sup>5</sup> The majority of the collection system lies within Hallsville's corporate boundaries. The storage basins and land application system are outside the corporate boundaries.



Ultimately, the decision of whether to grant MAWC an operating permit for the City's system will be made, pursuant to state statute and regulation, by DNR.<sup>6</sup> Further, any application for a permit for MAWC to serve the City can only be made if, and only if, MAWC obtains a CCN from this Commission.<sup>7</sup>

### **STAFF'S INVESTIGATION**

Staff inspected the Hallsville system on September 4, 2020. The City's sewer treatment process includes a bar screen, two single-cell aerated storage basins (Cells 1 and 3), and one larger storage basin that is not aerated (Cell 2), and land application assets. The original sewer assets were put in service in the early 1970s and the land application assets were put into service in 1986. All three cells are located outside of the city limits of Hallsville. Cell 1 and Cell 3 are located next to each other and are found west of the city limits.

The system includes PVC and clay pipes of various sizes. The system contains 10,020 linear feet of force main and 63,847.13 linear feet of gravity sewer. There are a total of five lift stations with 7.5 horse power duplex pumps. The manufacturer information for these pumps is unknown.

The newer subdivisions within the City (Echo Ridge, Douglas Point, and Town Square) utilize only PVC pipes. In addition, the Meadow Lake subdivision, which is also located within the City, will utilize PVC as well, once the subdivision has finished construction. The treatment system is primarily gravity fed, with the exception of the pumps located in the plant's two pump houses. One pump house is located next to Cell 1 and the other is located near Cell 2. All homes and businesses connected to this system are currently metered for water, which is supplied by the City. Sewage consumption is based on the average water usage of January to March. Per MAWC's response to Data Request No. 0004, the City currently serves 676 customers. Most customers connected to the system are residential. Upon acquisition of this system, the City plans to share all customer water usage with MAWC, in order for MAWC to provide service to current City customers at the existing City rates.

Growth within the City has been rising steadily. The recently constructed Phase 1 of the Echo Ridge subdivision included 233 homes. The first two phases of Douglas Point added 90 homes. The construction of more phases of both subdivisions are planned, in addition to the aforementioned Meadow Lake Subdivision.

Cell 1, which has a 1.8 million gallon capacity, is supposed to be aerated per the current DNR permit, but the current operator has struggled to find aerators to work long-term. The underwater aerators that have been used in Cell 1 have continually burned out due to clogging from disposable wipes. The operator stated that he and DNR have discussed removing the requirement for aerators for this cell. At the time of Staff's inspection, the surface of Cell 1 was mostly covered with algae, which is common, and had a mild odor. The operator estimated the highest point of sludge was approximately 2 feet high near the discharge point and 1.5 feet at other areas in the cell. Upon acquisition of the Hallsville system, MAWC will need to remove the

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<sup>6</sup> See Sections 640.710 & 644.026, RSMo, and 10 CSR 20-6.010.

<sup>7</sup> 20 CSR 20-6.010(2)(B)3.

accumulated sludge at some point in the future. This process is done multiple times over the life of a lagoon cell.

Cell 3, which has a capacity of 3,586,208 gallons, was constructed in 2013 next to Cell 1. This cell had functioning aerators that were positioned above the water.

Cell 2 had considerable erosion damage along its perimeter. It would benefit from the addition of rip rap. About two-thirds of the surface was clear and the remaining one-third was covered with algae at the time of Staff's inspection.

As mentioned previously, this system utilizes land application, in which partially treated wastewater is applied by using five center field pivots (one pivot per field) that applies wastewater from the lagoon cells onto 395 acres of crop fields, per the City's Permit Application for Operation of Wastewater Irrigation System (Form I) which is a part of their overall Missouri State Operating Permit. The field located slightly North of Cells 1 and 3 uses Pivot No. 007. The remaining four fields are near Cell 2: one to the West, which uses Pivot No. 004, and three to the South, arranged horizontally, which use Pivot No. 005, Pivot No. 008, and Pivot No. 006.

Local farmers, not the City, own these fields. The City has two separate contracts with these two farmers that detail the operation of the pivots and land application process. The agreement with the farmer near Cell 1 and Cell 3 is for a ten year period (September 15, 2013 – September 15, 2023). This farmer bought and maintains Pivot No. 7 and its associated irrigation equipment, which includes, but is not limited to, the pivot, several valves, and a monitoring system, etc. The City reimburses this farmer \$1,250 per month. At the end of this contract period, the City will gain ownership of Pivot No. 7 and its associated irrigation equipment. Upon the acquisition of this system, MAWC will continue the monthly reimbursement payments.

The City installed and is responsible for a 12-inch wastewater line from Cell 1 and 3 to the south boundary of the farmer's property. In addition, the City also installed and is responsible for a 12-inch wastewater line from the previously mentioned wastewater line to the pivot. Early termination of the agreement is available for both parties if done according to the terms of the agreement. Per the agreement, the City should provide the farmer at least 48 hours prior written notice of intent to operate the irrigation equipment. The farmer can postpone land application, but cannot prevent the City from operating irrigation equipment for more than ten days in any 30 day period.

The City's contract with the farmer near Cell 2 was extended to November 30, 2020 on July 1, 2020. This farmer is not compensated and operates Pivot Nos. 4, 5, 6 and 8. Per this agreement, the farmer is to receive City approval before irrigation, provide monthly usage reports, and repair and maintain pivots and the associated irrigation equipment. Per the same agreement, the City shall keep its pumps in good operating condition and maintain electrical service. Both parties must adhere to the DNR permit. There are no warranties to water use by the farmer or water availability from the City. In 2013, the City bought Pivot Nos. 4, 5, 6 and 8 and the associated irrigation equipment. Shortly after the purchase, the City did a quick claim and released their ownership of

these assets to this farmer. There is no provision for the City to regain ownership of these assets in the future.

Land application can only be done when weather conditions are favorable and may not occur “during frost; frozen, snow-covered, or saturated soil conditions; or when precipitation is imminent or occurring”<sup>8</sup> and when the landowners of each field chooses to operate the pivots. The City has no control over when and how long the landowners operate the pivots. The City’s operator told Staff during its inspection that even though the landowners and the City have a written agreement, the landowners often do not follow its terms, including failing to notify the City before the pivots are turned on and failure to keep a monthly log of the pivots’ operation. When the use of the pivots are detected by the City, the operator has been able to gather the duration of irrigation and then calculate the volume released for permitting purposes.

The most recent DNR compliance violations for the system have been for unauthorized discharges, and inflow and infiltration (I&I) issues. The farmer near Cell 2 has constructed water ways similar to creeks on his property, which has resulted in partially treated wastewater entering the receiving stream, which is an unauthorized discharge. I&I occurs when unwanted stormwater and / or groundwater enters into the collection system. When this happens, especially from a heavy rain, the lagoon cells can surpass the maximum water elevation for emergency situations or the cells may overflow altogether, resulting in an unauthorized discharge.

The City was referred to the Water Protection Program on March 29, 2010, for repetitive discharges from its no-discharge wastewater water treatment system.

On August 24, 2011, the City entered into a Consent Judgment with the Missouri Department of Natural Resources and the Attorney General’s Office, which was amended on April 16, 2013, to give the city additional time to acquire land. As part of this Consent Judgment, the City was required to submit a Capacity, Management, Operation, and Maintenance Manual (CMOM) for the City’s land application waste disposal system. On October 28, 2015, the department received a CMOM prepared by Allstate Consultants, pursuant to the executed Consent Judgment.

In 2013, the City received a \$1.65 million loan and completed the following capital projects: construction of Cell 3 and associated equipment; Pivot Nos. 4, 5, 6 and 8 and the associated irrigation equipment; and a new pump house near Cell 1 with new pumps, valves, modern pump system, and necessary equipment. The City still owes \$1.3 million on this loan. As stated earlier, the City did a quick claim and released their ownership of Pivot Nos. 4, 5, 6 and 8 and the associated irrigation equipment to the farmer near Cell 2 and there is no provision for the City to regain ownership of these assets in the future.

Staff reviewed the Application and the Purchase Agreement. Staff is familiar with MAWC’s system operations.

The assets to be transferred at the time of closing are all assets necessary to operate the wastewater system and serve the residents of Hallsville, and current customers of the City. While some assets are essential to service many municipal run systems also own assets not dedicated to the

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<sup>8</sup> Special Condition C.(f) of the City’s DNR permit

wastewater system itself, and therefore these non-essential assets may not be part of the final transfer.

### **Rate Base**

As part of its normal scope in CCN applications, Staff attempts to review the reasonableness of a utility's purchase price for acquired assets, including a comparison of the purchase price amount to the net original cost of the assets (if known). According to its Application, MAWC has agreed to pay not less than \$2,000,000 cash, and a capital commitment of \$3,000,000 over five years, including terms that provide for future service, maintenance, capital improvements, and other terms and conditions, for substantially all of the sewer assets of the currently unregulated system of the City. However, in its Application, MAWC did not seek a determination of the rate base valuation of the assets in this proceeding. In an effort to evaluate MAWC's proposed purchase price for Hallsville sewer assets, as well as attempt to quantify the original cost of the sewer assets, Staff submitted a series of data requests to MAWC.

Regarding the net original cost of the acquired assets, MAWC's response to Staff Data Requests (DR) No. 0006 states that the purchase price is an amount negotiated by the buyer and seller and it does not exceed the value of the assets. In its response to DR 0003, MAWC provided a Financial Report for the City of Hallsville, Missouri, for the year ended June 30, 2018, and Hallsville Public Works Sewer Line Information as documentation of the value of City assets. Staff notes that the documentation provided by MAWC does not isolate a book value of the City's sewer assets, so it is unclear if MAWC will rely on the original cost of the assets when it records the purchase in accordance with the National Association of Regulatory Utility Commission (NARUC) Uniform System of Accounts, including detailed valuation of original cost of sewer plant components, depreciation, and depreciation reserve.

MAWC calculated a valuation of the City's assets to include in its feasibility study, but, as it stated in its response to DR 0019, the City did not provide detailed property records. However, MAWC was provided construction records of a 2013 project to use as original cost, but had to use alternate methods when records were not available.<sup>9</sup> To value some of the City's assets, MAWC found the cost of comparable construction and used the Handy-Whitman index to discount the original cost of the asset to its in-service date. In MAWC's next general rate case in which rate treatment of the Hallsville sewer assets is sought, MAWC should present an analysis documenting its proposed rate base values for the Hallsville sewer assets at the time of the closing. If MAWC proposes to use its purchase price for the rate base valuation of the property, MAWC should provide a detailed analysis demonstrating the reasonableness of that value for purposes of setting rates.

At this time, for the reasons discussed above, Staff is unable to present a valuation of the original cost of the City's sewer system. Staff will take a position regarding valuation of the rate base for Hallsville sewer assets after conducting its audit in MAWC's next rate case, including a review of MAWC's Hallsville sewer plant and rate base valuation analysis. Staff also recommends specifically that at the time of transfer, MAWC obtain from Hallsville any and all plant and asset valuation records that are available in order to document original plant costs, depreciation, contributions, and capital recovery paid to other parties. Without further documentation and

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<sup>9</sup> MAWC response to Staff Data Request No. 0019, SA-2020-0017

justification, Staff is unable to approximate a value for Hallsville's rate base at the date of the transaction. Historically, Staff supports the original cost rate base and generally does not support inclusion of an acquisition premium in rate base for purposes of setting rates.

Subsequent to closing, MAWC plans to invest \$3,000,000 in the sewer system over the next five years. Hallsville's current wastewater system utilizes a land application process to dispose of its wastewater with large irrigation systems and has had compliance issues with DNR. MAWC's plans to invest \$3 million would include adding some form of treatment upgrade to the sewer system and terms that provide for future service, maintenance, capital improvements and other terms and conditions. MAWC should maintain documentation for the additional investment in the sewer systems. Pursuant to 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 recommends the Commission specifically require such recordkeeping requirements apply to MAWC's utility plant assets comprising the Hallsville sewer system.

Regarding the reasonableness of the proposed purchase price, MAWC's submitted responses to Staff DR Nos. 0003 and 0006 state that the purchase price was a negotiated amount between the buyer and seller, with MAWC negotiating the lowest possible purchase price when acquiring a new system.

### **Rate Impact**

There will be no impact to customer rates for the first year as upon approval of the CCN, MAWC will adopt the current sewer rates being charged by the City, until such time that rates and rules are changed within a general rate case before the Commission. The current monthly sewer rates consist of:

- \$19.35 for the initial 1,000 gallons used per month
- \$5 for each additional 1,000 gallons beyond the initial 1,000 gallons used

### **Service Area**

In its Application, MAWC requested a service area which mirrors Hallsville's city limit boundary lines. However, the supplied map and legal description did not include all of the City's assets, such as storage basins and underground wastewater lines. Staff and MAWC have an understanding of what would constitute a proper service area map and corresponding legal description, and are working to finalize it.

Prior to the submission of revised tariff sheets in accordance with this recommendation, MAWC will file a revised service area map and corresponding legal description that includes all of the City's assets, such as storage basins and underground wastewater lines.

### **Tariff and Rate Matters**

MAWC has proposed to provide service pursuant to the rates currently being charged by the City and to utilize the rules governing rendering of sewer service currently found in MAWC's sewer tariff MO PSC No. 26, until such time as the rates and rules are modified.

A map and a legal description of the proposed 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.

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, legal description, charges and revision of the rate sheet.

The specific revised and/or new tariff sheets, which need to reflect the addition of the City as a named service area, are:

- Index - Sheet Nos. IN 1.1, IN 1.3, IN 1.4, IN 1.5, IN 1.6
- Rates - Sheet No. RT 4.1
- Charges - Sheet No. SC 3.3

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

- Sheet No. MP 19.2
- Sheet No. CA 18.2

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 City 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 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) 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. Additionally, due to involvement by the public of the City of Hallsville in voting to approve the sale of the City's system, the involvement of the City of Hallsville's elected officials in the negotiation with MAWC, and subsequent Purchase Agreement, signed by the elected Mayor of Hallsville and for the reasons outlined previously 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.

## **Impact on District Customers Outside the City Service Area**

There are two cooperative agreements with the City and the District which obligate the City to provide sewer services to existing District customers in the Sunnyslope and Silver Creek Subdivisions. Under the agreements, which commenced in 2019 and expire in 2039, the District is a customer of the City and pays the City a fee for sewer service, as well as the cost of

maintenance, repairs, and monthly reports. MAWC, in its objection to the District's application to intervene, has argued that the contracts are not binding on MAWC. MAWC responded to Staff DR 0022 and stated that it is willing to enter into negotiations with the District to form new agreements for the treatment of effluent from the District's systems that cannot treat its own effluent and remain within DNR standards. In order to ensure uninterrupted service of District customers currently served by the City system, Staff recommends that the granting of a CCN to MAWC be conditioned on MAWC, within thirty (30) days upon receiving its Operating Permit from DNR, submit documentation confirming the initiation of negotiations between MAWC and the District involving both the continuation of service for all existing District customers outside the City's service area, and the associated Cooperative Agreements between the City and the District. Once an agreement has been reached to ensure continued service, that agreement will also be submitted to Staff.

Ensuring the continued service for the customers in questions is essential for the requested CCN to be necessary and convenient for the public service. If an agreement is not submitted to Staff, or MAWC is not bound to the original contract between the City and the District, and the customers in question run the risk of interrupted service, then MAWC will fail to meet the required condition, if ordered by the Commission, and would then be in violation of a Commission order.

### **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 those approved sewer depreciation rates for all plant in the City service area. However, as noted in the Rate Base section, Staff was not able to determine a valuation for Hallsville's current plant at the time of the transaction. Staff recommends the Commission require MAWC to obtain from the City, 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.

### **Publicity and Customer Notice**

On August 26, 2019, the Hallsville Board of Aldermen passed Ordinance No. 370, *An Ordinance For An Election In The City Of Hallsville, Missouri To Be Held On November 5, 2019, For The Purpose of Submitting To The Qualified Voters Of The City A Proposition To Sell Certain Assets Associated With The City's Wastewater System To Missouri American Water* (Ordinance). There were public meetings held in Hallsville on October 10, 2019, and October 29, 2019, to discuss a proposed sale. Representatives of MAWC were present at each meeting to discuss and answer questions. The election was held November 5, 2019, and a majority of votes cast were in favor of Proposition 1; whether the wastewater utility owned by the City of Hallsville should be sold, and if a majority of the votes cast were in favor of selling, then the City may negotiate a contract of sale. The City subsequently negotiated with MAWC for a price of not less than \$2,000,000 cash and a capital commitment of \$3,300,000 over five (5) years. On July 14, 2020, the City entered into a *Purchase Agreement* with MAWC.



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

MAWC maintains a business office in Mexico, Missouri, with hours from 8:00 a.m. to 4:30 p.m., Monday through Friday, for billing and customer service inquiries. The Company also operates two nationwide call centers, which will be available for customers to contact toll-free from 7:00 a.m. to 7:00 p.m., Monday through Friday with 24/7 coverage for emergencies.

If MAWC acquires the sewer system, homeowners will continue to be charged the current rates for sewer service, which consist of \$19.35 for the initial 1,000 gallons used, and \$5 for each additional 1,000 gallons beyond the initial 1,000 gallons, until such time as the rates and rules are modified. MAWC asserts that in spite of the \$3.3 million in upgrade costs needed to achieve DNR requirements, MAWC will be able to keep customer rates lower than would be needed by the City to accomplish the upgrades. MAWC will offer payment options including check, credit/debit cards, and electronic funds transfers. In addition, customers will have the option to make payments online via check or credit/debit cards, although all credit card payments will have a \$1.95 fee.

In order to incorporate the City 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 Commission-approved rate. Missouri American will also need to provide training to its call center personnel regarding rates and rules applicable to the City customers so that customer service matters are handled accurately and in a timely manner.

### **OTHER ISSUES**

The City, 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 2020.

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

- SA-2021-0074 (Application for Certificate)
- SA-2021-0120 (Application for Certificate)
- WR-2020-0344 (Rate Case)
- WA-2019-0364 (Application for Certificate)
- WA-2021-0116 (Application for Certificate)
- WC-2020-0181 (Complaint)
- WC-2020-0407 (Complaint)

- WC-2021-0075 (Complaint)
- WC-2021-0080 (Complaint)
- WC-2021-0129 (Complaint)
- WU-2020-0417 (Accounting Authority Order)
- WW-2019-0242 (Working Group)

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 City rates, is necessary and convenient for the public service.

However, should MAWC be granted a CCN enabling it to serve the citizens of the City it must still apply for transfer of the existing operating permit for the City’s system. Upon filing application with DNR, MAWC may have to demonstrate to DNR that the District is “not available; [does] not have jurisdiction; [is] forbidden by state statute or local ordinance from providing service to the person; or that [MAWC] has met one of the requirements listed in paragraphs (2)(C)1.-7. of this rule.”<sup>10,11</sup>

Ultimately, the decision of whether to grant MAWC an operating permit for the City’s system will be made, pursuant to state statute and regulation, by DNR.<sup>12</sup> Further, any application for a permit for MAWC to serve the City can only be made if, and only if, MAWC obtains a CCN from this Commission.<sup>13</sup>

Upon the granting of a CCN from the Commission, MAWC must exercise the CCN “within a period of two years from the grant thereof.”<sup>14</sup> If MAWC is unable to transfer the existing operating permit for the City’s system within two years of the effective date of this CCN granted to it by the Commission, the CCN will become “null and void.”<sup>15</sup> If the CCN were to become null and void, MAWC will have to return to the Commission and initiate a new CCN proceeding if it still intends to provide service to the City.

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<sup>10</sup> 10 CSR 20-6.010(2)(B).

<sup>11</sup> It should be noted that, in the District’s *Reply to MAWC’s Response in Opposition to District’s Application to Intervene*, it has stated that it will not waive its authority in Boone County to allow MAWC to provide sewer services to the Hallsville community.

<sup>12</sup> See Sections 640.710 & 644.026, RSMo, and 10 CSR 20-6.010.

<sup>13</sup> 20 CSR 20-6.010(2)(B)3.

<sup>14</sup> Section 393.170(3), RSMo, 2018

<sup>15</sup> *Id.*

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;
3. Prior to the submission of revised tariff sheets, MAWC will file a revised service area map and corresponding legal description that includes all of the City's assets, such as storage bins and underground wastewater lines;
4. 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 1.3)
  - c. Index (Sheet No. IN 1.4)
  - d. Index (Sheet No. IN 1.5)
  - e. Index (Sheet No. IN 1.6)
  - f. Sewer rates (Sheet No. RT 4.1)
  - g. Sewer charges (Sheet No. SC 3.3)
  - h. Service area map (Sheet No. MP 19.2)
  - i. Service area written description (Sheet No. CA 18.2)
5. Within thirty (30) days of receiving an Operating Permit from DNR, MAWC will submit to Staff documentation confirming the initiation of negotiations between MAWC and the District involving both the continuation of service for all existing District customers outside the City's service area, and the associated Cooperative Agreements between the City and the District. Once an agreement has been reached to ensure continued service, that agreement will also be submitted to Staff;
6. Require MAWC to notify the Commission of closing on the assets within five (5) days after such closing;
7. 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;
8. 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;

9. 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;
10. Adopt for the City sewer assets the depreciation rates ordered for MAWC in Case No. WR-2017-0285;
11. Require MAWC to obtain from the City, 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;
12. Make no finding that would preclude the Commission from considering the ratemaking treatment to be afforded any matters pertaining to the granting of the CCN to MAWC, including expenditures related to the certificated service area, in any later proceeding;
13. Require MAWC to provide training to its call center personnel regarding rates and rules applicable to the City customers;
14. Require MAWC to include the City 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;
15. Require MAWC to distribute to the City 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;
16. Require MAWC to provide to the CXD Staff an example of its actual communication with the City 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;
17. 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,
18. 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 the service area map, corresponding legal description, and tariff sheets after filing by MAWC in this matter.











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

In the Matter of the Missouri-American Water )  
Company's Application for a Certificate of ) **File No. SA-2021-0017**  
Convenience and Necessity Authorizing it to )  
Install, Own, Acquire, Construct, )  
Operate, Control, Manage and Maintain a )  
Sewer System in and around the City of )  
Hallsville, Missouri )

**AFFIDAVIT OF MATTHEW R. YOUNG**

STATE OF MISSOURI )  
 ) ss.  
COUNTY OF COLE )

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

Further the Affiant sayeth not.

/s/ Matthew R. Young  
Matthew R. Young