

MEMORANDUM

TO: Missouri Public Service Commission Official Case File
Case No. SM-2017-0150
Elm Hills Utility Operating Company, Inc.
Missouri Utilities Co. (Transfer of Assets)
State Park Village Service Area (CCN)

FROM: James A. Merciel, Jr. – Water and Sewer Department; Case Coordinator
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/s/ Jim Merciel June 8, 2017
Case Coordinator Date

/s/ Jacob Westen June 8, 2017
Staff Counsel Date

SUBJECT: Staff’s Recommendation for Conditional Approval Transfer of Assets, Issuance of a Certificate of Convenience and Necessity, and Approval to Encumber Assets

DATE: June 8, 2017

CASE BACKGROUND

On November 22, 2016, Elm Hills Utility Operating Company, Inc. (Elm Hills) and Missouri Utilities Company (MUC) filed an *Application and, if Necessary, Motion for Waiver* (Application) with the Commission. The Application created two dockets, File Nos. SM-2017-0150 and WM-2017-0151. In the Application, MUC, a regulated water and sewer utility, seeks authority from the Commission to sell and transfer its water and sewer utility assets, including its Certificate of Convenience and Necessity (CCN), to provide water and sewer service in what is referred to herein as the MUC service area. Along with this requested approval to transfer assets of MUC, Elm Hills seeks a new CCN for authority to provide sewer service in a subdivision development known as State Park Village, by acquiring an existing sewer system in that service area that is presently owned and operated by an entity controlled by the homeowners and not regulated by the Commission. In addition to these matters, Elm Hills is requesting Commission authority to allow it to collateralize the system assets for the purpose of obtaining up to \$1,450,000 in funds through a term loan.

** Denotes Highly Confidential Information **

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APPENDIX A

On December 1, 2016, the Commission issued its *Order Directing Notice, Setting Deadline for Intervention and Directing Staff to File a Recommendation*, in which it directed Staff to submit a recommendation or a status report no later than January 31, 2017, along with a statement regarding efforts Elm Hills and/or MUC have undertaken to inform current customers of the proposed transfers. In this order, the Commission also directed that notice be provided to the County Commissions of Pettis and Johnson Counties, the General Counsel of the Missouri Department of Natural Resources (DNR), members of the General Assembly representing the areas, to media serving the areas, and to the current owner of the State Park Village sewer system. The Commission also set January 18, 2017, as the date by which applications to intervene should be filed in this case. As of this filing no party has sought to intervene.

In response to a *Motion to Consolidate* filed by Elm Hills on December 1, 2016, seeking to consolidate the two docketed files into one, the Commission issued its *Order Granting Motion to Consolidate* on December 7, 2016, directing that all filings pertaining to this matter shall be made in File No. SM-2017-0150.

BACKGROUND OF THE UTILITY SYSTEMS

MUC obtained a CCN from the Commission in Case No. WA-92-291, to provide water and sewer service in an area known generally as Elm Hills Park (the MUC service area) in Pettis County near Sedalia, MO. MUC is in receivership, as a result of the Commission's order in Case No. WC-2006-0029, and Circuit Court (Cole County) Case No. 06ACCC00337 in which the court appointed a permanent receiver on August 14, 2006. According to information found by Staff, MUC presently provides water service to approximately 120 customers and sewer service to approximately 115 customers.

The source of supply for the water system is a single well. A pneumatic pressure tank is used to normalize pressure for the distribution system. There are no water meters for residential customers at present.

The sewer system consists of a gravity collection system and a three (3) cell lagoon treatment facility with a design flow of 24,425 gallons per day, and actual flow of 39,300 gallons per day, as stated on MUC's operating and discharge permit issued by DNR. MUC has received notices of violation from DNR for exceeding permitted discharge limits, failure to maintain facilities, and failure to submit required reports. By the terms of the current operating and discharge permit, on October 1, 2019 MUC's sewage treatment facility will be required to meet additional prescribed discharge limits for Escherichia coliform (E. Coli) bacteria and ammonia, in addition to other limits that are presently required by DNR. It is likely that additional treatment capability will be needed to meet the new discharge limits. The current system is unable to meet the increased limits.

State Park Village is located in Johnson County near Warrensburg, MO. Elm Hills' purchase agreement for that sewer system is with a company named State Park Village Sewer, Inc. which according to documents on file with the office of the Missouri Secretary of State is a "nonprofit sewer company" organized under state statutes, specifically §393.825 to §393.861 RSMo. Nonprofit sewer companies organized in this manner are not subject to the jurisdiction of the

Commission. According to the Secretary of State's website, State Park Village Sewer, Inc. is administratively dissolved as of January 3, 2017. The State Park Village Sewer, Inc. wastewater system serves approximately 180 customers in State Park Village, according to information given to Staff by Elm Hills. The sewage treatment facility is an extended aeration type mechanical plant with design capacity of 20,000 gallons per day. The collection system consists of gravity sewers that also utilize three (3) electric-powered lift stations.

The State Park Village wastewater system is currently under a DNR schedule of compliance and has DNR violations pending against it.

EXECUTIVE SUMMARY AND STAFF'S POLICY OVERVIEW

In its investigation of this case, Staff studied the rate base levels and expenses related to the involved utility systems, and the technical, managerial, and financial abilities of Elm Hills.

It is customary, with most cases involving a new CCN, for Staff to use criteria similar to that which was studied by the Commission in a past CCN case that was filed by the Tartan Energy Company. 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; 5) promotion of the public interest; and 6) whether or not other utility entities are available to provide similar service. Staff in the course of its investigation has considered these points and Elm Hills' ability to meet them in the contexts of previous transfer cases filed by affiliates. Additionally, similar to DNR's reviews of new proposed water system operations using, among other criteria, determination of the technical, managerial and financial capacities of the operation, or "TMF," Staff utilizes the concepts of TMF in studying some situations involving existing water and/or sewer systems. The current financial structure for the affiliated operating companies, including Elm Hills, is consistent with the structure reviewed in the most recent affiliated acquisition cases. Elm Hills' president, Josiah Cox, is president of the affiliated operating companies Hillcrest Utility Operating Company, Inc. (Hillcrest), Raccoon Creek Utility Operating Company, Inc., (Raccoon Creek) and Indian Hills Utility Operating Company, Inc. (Indian Hills) and the Board of Directors for all affiliates are Robert Glarner, Jr., David Glarner and Josiah Cox. As more fully explained below, Hillcrest, Raccoon Creek and Indian Hills have a financing agreement with a 14% interest rate with Fresh Start Venture, LLC. In a recent Agenda, the Commission indicated it would continue to review the 14% interest rate for purposes of setting the allowed rate of return (ROR) in subsequent rate cases. Similarly, Staff recognizes the concerns raised by customers of the various Elm Hills' affiliates related to the financing terms and the rate shock those customers are experiencing driven by the significant capital investment, and as a result, continues to review the appropriateness of the financing arrangement. While the instant Application is an acquisition and CCN case, Staff is of the opinion that it can provide guidance on not only future acquisition cases of similar scope, but also future rate cases related to previous and future acquisitions of additional affiliates.

As discussed, MUC is an administratively dissolved Missouri corporation that has been in receivership for approximately 10 years. MUC is currently under a Missouri Attorney General enforcement action for pollution related to the wastewater system not meeting DNR's regulations. On the drinking water side, MUC is currently out of compliance for emergency

backup and service stability. In addition, at the local public hearing held in Sedalia on May 9, 2017, the Commissioners heard from several Elm Hills residents about service-related issues.

Also as stated, the State Park Village wastewater system has DNR violations for discharge requirements, and is under a schedule of compliance.

In its Application, Elm Hills states that it has examined the water and sewer systems and provides its plans for improvements with an estimated cost of \$1.45 million.

While concerns remain about the financing structure and plans of the affiliated companies, the affiliated companies have demonstrated the willingness and ability to invest the resources necessary to return distressed systems to compliance. Staff, and ultimately the Commission, when reviewing company investments must consider the benefits (the need for safe and adequate service) compared to the costs (the \$1.45 million investment and the financing structure). In addition to Staff's technical review, Staff Counsel reviewed statutory requirements related to financing and limited liability corporate structures. Staff Counsel advises that, without addressing the merits of the transaction, to the best of counsels' knowledge, the financing and operating structures of the affiliated operating companies comply with known legal limitations. Further, the Commission has previously acknowledged that it can, as part of its analysis and decision, consider factors outside its normal scope of review related to such things as the effects of financing and rate design impacts, particularly as those items affect the public interest and rate payers.¹ Based on its technical and legal review, Staff recommends the Commission find the acquisition and CCN are in the public interest.

Finally, in acknowledgment and consideration of future rate shock to customers, Staff is recommending that the Commission, should it issue an order authorizing the transfer of assets and granting a CCN and include a rate change; order the use of an interim rate process at the beginning of the first subsequent rate case filed by Elm Hills. Staff's proposal is that interim rates, be filed as proposed tariffs along with the notice or letter starting a subsequent case, would allow recovery, subject to refund, of capital investments that have become used in useful in the intervening time during the pending rate case. The interim rates, approved with an order from the Commission, would go into effect not less than thirty (30) days from the filing of the rate case. The interim rates would then remain in place until the final rates would become effective as a result from a Commission order from the pending rate case. Staff has reached out to Elm Hills and OPC to propose a more detailed process and parameters of such an interim rate adoption process.

STAFF'S INVESTIGATION

Technical Capacity and Proposed Plant Additions

Elm Hills' president, Josiah Cox, has experience in the design and operation of water and sewer systems. Elm Hills intends to utilize one or more contract operators for plant operations,

¹ See the Report and Order in Case No. ER-2014-0258, beginning at page 129 related to financing and the Report and Order in Case No. EC-2014-0223, beginning at page 20 related to rate design issues.

utilizing the services of appropriately qualified and licensed utility system operators, ultimately supervised by Mr. Cox. The contract operators will undertake routine day-to-day inspections, checks, sampling and reporting for the water and sewer systems, as well as handle most system repairs and extraordinary operations tasks as the need arises, to address proper facility operations and customer service matters. Elm Hills may not have an operations contract executed for the MUC and State Park Village utility systems until after the transfer of assets has been approved and the parties are ready to close on the transfers. Thus Staff recommends that Elm Hills not close on the assets involved in this matter until respective applicable operations contracts can be in place when service is provided to customers by Elm Hills.

For the MUC water system, Elm Hills is contemplating replacement of the existing well and pressure tank with a connection to the City of Sedalia water system to obtain wholesale water service. The existing wellhouse, tank, controls and other components are degraded due to age, and Elm Hills states that it has determined a wholesale connection is more economical and dependable than an upgrade and continued operation using the existing source of supply. Elm Hills also intends to install water meters for all customers.

For the MUC sewer system, Elm Hills states that it plans to undertake repairs to and modifications of the existing lagoon facility, and supplement it with mechanical treatment, in order to meet DNR requirements for discharge. The improvements will also increase capacity.

For the State Park Village sewer system, Elm Hills states that it intends to implement modifications and improvements to the treatment facility, repair some deficiencies that exist within the collection system, and undertake upgrades and improvements to lift stations. The existing sewer provider has received notices of violation from DNR for exceeding permit limits, and in fact the sewage treatment facility has caused sludge deposits in the stream to which it discharges to the point that DNR has required remediation.

Although Staff agrees that substantial water and sewer system improvements are necessary, it takes no position in the context of this case regarding specific plant improvements or future rates. Rather, the prudence and actual costs of such improvements will be studied and are subject to become issues in a future rate case.

Financial Capacity and Rates

The Auditing Department reviewed information provided by MUC and Elm Hills in response to Staff's data requests, as well as Elm Hills' work papers, and MUC's current effective tariff.

Per the *Agreement For Sale of Water and Sewer Systems* for MUC ("Agreement," attached as Exhibit C in the Application) the purchase price shall be \$50,000 for purchase of the MUC assets, to include approximately three and a half acres of real estate. Because of limited cash flow for MUC, MUC's Receiver, Mr. Gary Cover, has not been able to fully recover all of his court approved fees to date. Staff's understanding is that the purchase price for MUC was set to allow Mr. Cover to recover a portion of his outstanding receivership costs. Staff generally supports receivers being reasonably compensated for their services whenever possible and concludes that recovery of a portion of outstanding receiver fees through the purchase price of

these properties is appropriate. Accordingly, under the specific facts and circumstances present in this case, Staff is recommending that Elm Hills establish a regulatory asset (“Deferred Receivership Cost”) on its balance sheet in the approximate amount of \$50,000, split equally between water and sewer, with those amounts to be amortized to expense over a five-year period. This amortization would begin the month after the closing of the sale. This regulatory asset represents the amount of the purchase price, which will be used to satisfy a portion of the outstanding receivership fees owed to MUC’s current receiver.

Per the *Agreement for Sale of Utility System* for State Park Village Sewer, Inc. (“Agreement” attached as Exhibit J-HC in the Application) the purchase price shall be:

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As of today, State Park Village Sewer, Inc. has satisfied all liens against the Assets.

Rate Base

Because of a lack of any available information concerning the original cost of State Park Village sewer plant in service, as well as the amount of ongoing depreciation charged against those plant assets and any contributed amounts associated with State Park Village plant, Staff was unable to determine a rate base value for the State Park Village sewer system. Given the lack of information, the most reasonable assumption is that the current rate base value of State Park Village’s assets is zero.

By Commission regulations, Elm Hills should keep its financial records for utility plant-in-service and operating expenses in accordance with the NARUC Uniform System of Accounts. Staff will recommend the Commission specifically require such recordkeeping requirements apply to Elm Hills’ utility plant assets of the State Park Village sewer system and Elm Hills Park water and sewer systems.

Staff has determined that the plant in service for both MUC’s water and sewer systems have been fully depreciated; thus, there is no rate base at this time for MUC.

Rates

State Park Village Sewer, Inc. Sewer Rates

State Park Village Sewer, Inc. currently has a flat rate for sewer service of \$45 per month. Elm Hills proposes to adopt this rate, and Staff agrees it is reasonable for Elm Hills to apply this rate to its State Park Village customers.

MUC Water Rates

The current approved water rates² for MUC are as follows:

\$6.34 per month flat rate, or customer charge if metered, for mobile homes in parks and apartment customers

\$7.92 per month flat rate, or customer charge if metered, for single family residential customers

\$14.24 per month flat rate, or customer charge if metered, for commercial customers

Plus \$1.05 commodity charge, per thousand gallons, for customers with water meters

Elm Hills has proposed a flat water rate of \$30.51 per month for the Elm Hills Park service area. This would result in a 381% increase for MUC mobile home and apartment customers, a 285% increase for MUC single family residential customers, and a 114% increase for commercial customers, over MUC's existing flat rates.

Staff proposes that existing flat water rates remain the same as the existing MUC rates, but that the Commission approve a commodity charge of \$2.47 per thousand gallons for customers with water meters. This commodity charge reflects the expected wholesale cost that Elm Hills would pay to the City of Sedalia after the above-noted connection is constructed and utilized, which Elm Hills would be able to recover when water meters are installed for customers. This would result in a 135% increase from MUC's existing commodity charge. MUC's existing approved metered rates, though not being applied to any customer at this time, include a substantial amount of water – 4,500 gallons for residential customers, and more water for customers with larger meter sizes. Staff proposes that the customer charge portion of metered rates for Elm Hills remain the same dollar amounts as exist now, but that the customer charges do not include any water. The reason for this is that the cost of purchased water that is included in the existing customer charges would exceed the charges themselves.

² MUC currently utilizes only flat rates because there are no water meters installed or being read at present.

MUC Sewer Rates

The current approved sewer rates for MUC are as follows:

\$8.80 per month flat rate per month for mobile homes in parks and apartment customers

\$10.93 per month flat rate for single family residential customers

\$19.40 per month flat rate for commercial customers

Or, for customers on metered water rates,

\$8.80 per month customer charge

Plus \$1.41 commodity charge per thousand gallons

Elm Hills proposes a charge of \$45 per month flat sewer rate for the Elm Hills Park service area, the same rate as it proposes to apply to the State Park Village service area. This would result in a 411% increase for MUC mobile home and apartment customers, a 312% increase for single family residential customers, and a 132% increase for commercial customers.

Staff made an analysis of available expense information for both the MUC and State Park Village operations, expected expenses of Elm Hills, and an assumed customer level of 115 in the MUC service area. Staff proposes to increase the sewer rate for MUC to allow Elm Hills to recover its current cost of service based upon the available expense information. This would result in monthly rates of \$19.21, a 118% increase in rates for residential customers.

Future Interim Rate (Subject to Refund)

To help alleviate rate shock, Staff proposes that when Elm Hills files its next rate case, rates should be increased on an interim basis, to become effective no earlier than thirty (30) days after Elm Hills' rate case filing, to reflect the incremental plant additions that are verified to be in service at that point of time. If, after the full rate case audit of all components of Elm Hills' revenue requirement shows that the interim rate granted earlier was excessive, then the difference between the permanent rate and the interim rate would be refunded to customers.

Depreciation

The Engineering Analysis Unit (EAU) performed a review of the depreciation rates for water and sewer utility assets, plant-in-service, and the accumulated depreciation reserves for MUC. MUC's prescribed depreciation schedule is very limited. In addition, State Park Village Sewer, Inc. has no previously approved depreciation rates. Elm Hills plans to place new plant into service that would not be included in MUC's prescribed depreciation schedule. Staff therefore recommends new depreciation schedules for Elm Hills, and that the Commission order Elm Hills to use the depreciation accrual rates for water plant that are included with this memo as Attachment A, and accrual rates for sewer plant that are included as Attachment B, and

incorporated herein by reference. The Audit Department used these depreciation rates in calculating the recommended rate base discussed above.

Managerial Capacity

Elm Hills intends to utilize the contract billing agent and the emergency answering service that its three other affiliated regulated utilities use for such services, Nitor Billing. The three other utilities owned by First Round and regulated by the Commission are Raccoon Creek Utility Operating Company, Inc., Hillcrest Utility Operating Company, Inc., and Indian Hills Utility Operating Company, Inc. The billing agent will be responsible for computing, printing, and sending monthly bills to customers, and then processing payments. The billing agent will also have responsibility for handling customer calls pertaining to billing, bill adjustments, payment plans, and the opening and closing of customers' accounts. In addition, the billing agent will interact with Elm Hills' Staff in working with customer complaints. The contract billing agent and the answering service will be available to route service complaints and inquiries. The president of Elm Hills, Josiah Cox, will also be available by telephone when severe emergencies arise. Similar to an operations contract as discussed above, Elm Hills may not have specific billing and answering service contracts in place until after the proposed transfer and CCN issuance are approved by the Commission. Staff recommends that Elm Hills not close on respective assets until such contracts can be in place when service is provided to customers by Elm Hills.

Elm Hills will need to comply with the Commission's rules that pertain to the provision of customer service for companies regulated by the Commission. These rules are the Service and Billing Practices for Residential Customers of Electric, Gas, Sewer and Water Utilities and are found in the Code of State Regulations at 4 CSR 240-13. These rules are sometimes simply referred to as the "Billing Rules" or as "Chapter 13." These rules include requirements in the areas of customer billing, customer complaints/inquiries, credit and collections, and recordkeeping.

In addition to the Billing Rules and the aforementioned rules regarding financial records, Elm Hills will need to undertake and keep records of certain other aspects of utility operations generally outlined within 4 CSR 240 Chapters 10 and 60. References to regulations that are noted in this memorandum are intended to point out some of those regulations that Elm Hills will need to follow on a day-to-day basis, and are not intended to be all-inclusive with respect to compliance with regulations. There are also other operations records necessary to document activity and expenses, including facility operations observations and testing, vehicle use, equipment use, and telephone use.

Elm Hills' affiliates have begun operation after approval of their respective acquisitions, and have implemented system improvements and procedures to comply with the above. Staff is willing to assist Elm Hills in determining the needs for any improvements to MUC's and State Park Village's present practices and procedures related to customer service area.

In order to ensure that Elm Hills adequately communicates with the customer regarding the change in ownership after closing, the CMAU Staff recommends that Elm Hills provide it with

copies of future communications with customers. This should include any change in procedures as well as items such as office hours and telephone numbers. This communication should also include the informational brochure detailing the rights and responsibilities of the utility and its customers that is required by Commission Rule 4 CSR 240-13.040(3). CMAU Staff also recommends that Elm Hills provide ten customer bills to Staff from the first billing cycle to allow Staff to review for billing accuracy.

PROPOSED FINANCING AUTHORITY

Overview

Elm Hills is proposing to enter into a financing agreement with Fresh Start Venture, LLC (“Fresh Start”). The request is to authorize Elm Hills to issue up to \$1,450,000 of secured indebtedness to Fresh Start Venture LLC, the stated purpose of which is for the purchase of the assets identified above and to fund the construction necessary to bring the systems into regulatory compliance.³ The terms of the proposed financing agreement are consistent with the terms Elm Hills’ affiliated companies (Hillcrest Utility Operating Company, Raccoon Creek Utility Operating Company, and Indian Hills Utility Operating Company) executed with Fresh Start.⁴ Those terms include, like the affiliated companies’ own financing requests, an interest rate of 14% and a make-whole prepayment penalty.⁵

During a recent agenda, several Commissioners expressed concern about continuing to allow the 14% Fresh Start rate when setting the allowed rate of return for utility companies bound by this contract.⁶ Some Commissioners have also inquired as to how the utility companies may be able to refinance the Fresh Start contracts.⁷ As a result of the Commissioner’s comments and inquiries, Financial Analysis’ Staff performed additional discovery, research, and analysis.

When deciding whether to authorize a regulated entity to incur indebtedness through a financing agreement, the Commission must decide if the financing agreement is “not detrimental to the public interest.”⁸ As a part of that consideration, a “detriment [to the public interest] is determined by performing a balancing test where attendant benefits are weighed against direct or indirect effects of the transaction that would diminish the provision of safe or adequate service or that would tend to make rates less just or less reasonable.”⁹

³ See *Application, and if necessary, Motion for Waiver*, p. 10, EFIS Item 1, SM-2017-0150.

⁴ See response to Staff DR No. 14.1 in Case No. SM-2017-0150.

⁵ *Application*, Appendix L - HC

⁶ See October 26, 2016 agenda.

⁷ See transcripts in Case No. SR-2016-0202, p. 34, ll 11-22.

⁸ *State ex rel. Fee Fee Trunk Sewer, Inc. v. Litz*, 596 S.W.2d 466, 468 (Mo. App. E.D. 1980); *State ex rel. City of St. Louis v. P.S.C.*, 335 Mo. 448, 459-460, 73 S.W.2d 393, 400 (Mo. banc 1934).

⁹ *In the Matter of Union Electric Company, d/b/a AmerenUE*, 13 Mo. P.S.C.3d 266, 293 (2005); and see *In the Matter of Great Plains Energy, Inc., Kansas City Power & Light Company and Aquila, Inc.*, 17 Mo.P.S.C.3d 338, 541 (2008).

Investment/Organizational Structure

An overview of the investment and organizational structure of Elm Hills’s affiliate and parent companies helps illustrate Staff’s concern regarding the Fresh Start transaction. Although Elm Hills is the named Applicant requesting Commission authority to execute the Fresh Start financing agreement, many other entities have been created to execute the business/strategic plan to acquire and rehabilitate small water and sewer utility systems.

Attachment C, included with this memorandum and incorporated by reference herein, shows the current investment structure, described as follows. Hillcrest, Raccoon Creek, and Indian Hills directly own the utility systems. Each of these entities is wholly-owned by intermediate holding companies,¹⁰ which are wholly-owned by First Round CSWR, LLC (First Round). Another entity, GWSD, LLC (GWSD), owns approximately 87% of the membership interest¹¹ in First Round, Mr. Josiah Cox, individually, owns 13% of the membership interest in First Round, and finally Central States Water Resources, Inc. (CSWR) has .00001% membership interest and is the named Manager of First Round. CSWR does not have any value because it holds minimal assets, and does not receive any income or incur any expenses.¹² CSWR files tax returns, but reports no financial information on its returns.¹³ CSWR is designated as the “Manager” of First Round, under the terms of the “First Round Amended and Restated Operating Agreement” (First Round Operating Agreement) as of March 5, 2015.¹⁴

In March 2015, two individuals, Mr. Robert B. Glarner, Jr. and Mr. P. David Glarner (the Investors or Messrs. Glarner), through various investment entities, acquired all investment interests in the utility systems by acquiring ownership of First Round. The Investors formed GWSD, holding the 87% membership interest, and became a 49% owner of CSWR’s stock (the remaining 51% assigned to Mr. Cox). The Investors further serve in official capacities at First Round and the utility companies on the board of directors (BOD). Robert Glarner is the Secretary of each utility company, the intermediate holding companies and CSWR. David Glarner is the Treasurer of each utility company, the intermediate holding companies and CSWR. Mr. Cox is the third and final member of each BOD. Moreover, Messrs. Glarner also became owners of Fresh Start through Water Fund, LLC (Water Fund). Another entity, Swiss, LLC manages both GWSD and Water Fund. After the formation of these companies and their acquisitions, Fresh Start executed financing agreements with Hillcrest, Raccoon Creek and Indian Hills.

¹⁰ Hillcrest Holding Company, Raccoon Creek Holding Company, and Indian Hills Holding Company, respectively.

¹¹ GWSD’s ownership interest in First Round is 86.9999%.

¹² See response to DR No. 5.1 in this case. Documents provided in responses to Staff’s Data Requests in the Indian Hills rate case shows Central States Water Company has two bank accounts in its name and that of Messrs. Glarner. **

** There has not been any activity in these accounts for at least a year.

¹³ See response to DR No. 5.2.

¹⁴ See Article 6 (p. 10) of the “Amended and Restated Operating Agreement of First Round CSWR, LLC, Dated as of March 5, 2015 (attached as Highly Confidential Attachment D).

First Round is the primary investment vehicle for the equity capital contributed to the operating utility companies. First Round pays Mr. Cox an annual salary of \$220,000. The First Round Operating Agreement assigns Mr. Cox a 13% economic interest in First Round, with the potential of up to an additional 4% if certain goals are met. Mr. Cox's 13% economic interest is subordinated to Messrs. Glarner's financial interests through Fresh Start and First Round. Pursuant to the terms of the First Round Operating Agreement, Messrs. Glarner's are to receive cumulative 14% returns on their First Round investments and returns of their capital before Mr. Cox can receive any First Round distributions. As of December 31, 2016, Staff estimates the Investors, through First Round and Fresh Start, have invested approximately ** _____ ** of capital.

The addition of Elm Hills to the investment structure will not change the overall investment structure. Elm Hills will be added as an additional company owned indirectly by First Round through Elm Hills Holding Company.

Third-Party Banking Options

In response to Staff Data Request No. 0016, Elm Hills provided correspondence it had with three traditional banks: US Bank, Commerce Bank and Bank of America. The correspondence regarding Mr. Cox's inquiry with Bank of America was very limited. Staff did not see any official denial correspondence from Bank of America, but Mr. Cox confirmed denial by sending an email to Bank of America.¹⁵ The correspondence from Commerce Bank was also fairly limited.¹⁶ Mr. Cox communicated that he understood that Commerce Bank cannot act in the same capacity as a mezzanine financing or a private equity group. Staff does not know whether or not Commerce Bank would have been willing to participate as a traditional lender providing secured debt that has first priority and liens on the utility assets. The correspondence Mr. Cox had with US Bank intimates that US Bank was still open to the possibility of providing debt financing if there was a guarantor, but they were going to look at waiving this requirement.¹⁷

As a part of its review, Staff analyzed the general ledgers (GLs) of First Round and each of the utility companies currently in the First Round family. In comparing the GLs to bank statements, Staff learned that American Bank is the financial institution where First Round and each of the affiliated utility companies maintain their accounts. Moreover, the capital contributions to First Round, and the initial funds provided pursuant to the Fresh Start loan agreements came from separate American Bank accounts.¹⁸ As all of the First Round entities already have a relationship

¹⁵ See attached Highly Confidential correspondence provided in response to Staff Data Request No. 0016 (Attachment E).

¹⁶ See attached Highly Confidential correspondence provided in response to Staff Data Request No. 0016 (Attachment F).

¹⁷ See attached Highly Confidential correspondence provided in response to Staff Data Request No. 0016 (Attachment G).

¹⁸ In order to verify some of the entries in the GLs, Staff reviewed the bank statements supporting some of the entries. Staff discovered the capital contributions made to First Round were accomplished by transfers from another business account within American Bank (see attached highly confidential Attachment D for an example). First Round then transfers funds to and from the utility companies' business bank accounts at American Bank. In the case of Hillcrest and Raccoon Creek, the initial funds provided pursuant to the Fresh Start financing agreement were

with American Bank, that particular financial institution may be a possible source of third-party debt financing. However, Staff has not observed any evidence of such solicitation.

Strategy for Lowering Requested Capital Costs

In response to Commission questions during the hearings for the Hillcrest rate case and the on-the-record presentation for the Raccoon Creek rate case, Mr. Cox provided oral testimony to generally explain how he anticipates being able to request lower rates of return for these utility systems.¹⁹ Staff issued Data Request Nos. 0015 and 0015.1 to request more specific examples of how Mr. Cox believes this can be achieved. Mr. Cox's responses do not provide a clear vision on how this could be achieved. Please see the attached Highly Confidential DR responses (Attachment H, Schedules 8-1 to 8-2).

Staff takes issue with the amount of prepayment penalties assigned to the Fresh Start agreement. The make-whole penalty guarantees Fresh Start will receive a 14% compound annual return on its investment for the full 20-year period of the agreement. Staff performed calculations to find the rate the utility companies would have to receive in order for refinancing to be beneficial to the utility and its ratepayers, given the prepayment penalties, which make Fresh Start whole. Based on Staff's calculations, the make-whole premium precludes the utility company from achieving lower cost third-party debt.

As a test of reasonableness, Staff reviewed an example of a similar affiliate loan transaction, which was also used to subordinate the minority partner/member.²⁰ In that situation the financing instrument only had a prepayment penalty of 2% of the principal outstanding. Ultimately, this 2% prepayment penalty was not charged because when this financing agreement was replaced with third-party debt, the minority equity investors no longer had any ownership interest. Therefore, there was no financial reason to require the equity investors to pay a penalty to the debt investors since they were the same entity.

Based on Staff's analysis of Mr. Cox's correspondence with banks, the current relationship with American Bank, and Staff's knowledge of options for similarly situated small water and sewer utilities, Staff continues to express concern regarding the terms of the financing agreement. Even if the Commission continues to find the Fresh Start 14% rate reasonable for ratemaking purposes, Staff suggests the Commission order the Applicants to submit a financing agreement with a reasonable prepayment penalty, if any, that allows for refinancing at a rate lower than 14%.

executed by transfers from another business account at American Bank. In the case of Indian Hills, the initial funds provided pursuant to the Fresh Start loan agreement was executed through a wire transfer from Fresh Start. For each of the entities in which Mr. Cox provided American Bank statements (First Round, Hillcrest, Raccoon Creek, Indian Hills and CSWR) the bank accounts name each respective entity as well as the Investors individually on the accounts. Mr. Cox is not named on any of the accounts.

¹⁹ See transcripts in Case Nos. WR-2016-0064, p. 116, ll 8-25 and p. 117, ll 1-15 and SR-2016-0202, p. 34, ll 11-22.

²⁰ See Case No. GF-2007-0215, In the Matter of the Application of Southern Missouri Gas Company, L.P. d/b/a Southern Missouri Natural Gas for Authority to Issue Case No. GF-2007-0215 Approximately \$10 Million in Equity Capital and Approximately \$50 Million In Notes and Other Forms of Indebtedness.

OTHER ISSUES

According to information on the Missouri Secretary of State's website, MUC is Administratively Dissolved as of January 5, 2015 for Failure to File a Registration Report. MUC has paid its annual assessments through fiscal year 2017. MUC is past due for filing its annual reports for calendar years 2013 through 2016. Staff filed formal complaints against MUC for failure to file annual reports, docketed as Case Nos. WC-2017-0007 and SC-2017-0008. The cases currently are stayed pending the outcome of this transfer/CCN case.

State Park Village Sewer, Inc. is not regulated, and thus is not subject to annual report or assessment requirements.

Elm Hills is not currently a regulated utility, and thus it does not yet have any annual report or assessment payment responsibilities.

The map of Elm Hills' proposed State Park Village service areas, submitted with the Application as Appendix F, does not appear accurate because it is not consistent with the written description, submitted with the Application as Appendix G. Elm Hills sent Staff a revised map, and Staff agrees it is consistent with Appendix G and is reasonable. A copy of the map sent to Staff by Elm Hills is included with this memorandum as Attachment K and incorporated by reference herein.

PUBLICITY OF THE PROPOSED TRANSFER OF ASSETS

Elm Hills sent a notice of the proposed transfer of assets and new CCN to customers of MUC and State Park Village Sewer, Inc. on January 24, 2017. Staff reviewed a draft of the notice. Staff has received public comments from four (4) individuals regarding the future of rates and some issues regarding sewer service. The Commission held two local public hearings in Sedalia and Warrensburg on May 9, 2017. A total of ten (10) customers testified regarding rates and service issues.

CERTIFICATE OF CONVENIENCE AND NECESSITY

In the Application, Elm Hills requests the Commission transfer MUC's CCN to it, to operate as a water and sewer utility in the MUC service area; and requests the Commission grant it a new CCN to operate as a sewer utility in the State Park Village service area. Staff agrees Elm Hills should be granted such CCNs in the context of this case, subject to Staff's proposed conditions. Further, Elm Hills will need to hold a CCN when it closes and acquires the involved utility assets and actually begins providing service to customers. MUC should be relieved of its obligations to provide water and sewer service upon closing and transferring the assets in its Elm Hills Park service area. Staff therefore recommends that the Commission, if the proposed transfer is approved, immediately grant MUC authority to transfer to Elm Hills its CCN for both water and sewer service along with the assets, such CCN transfer to occur at the time of closing on the assets. Additionally, Staff recommends the Commission grant Elm Hills a CCN to provide sewer service, the exercise of which Elm Hills may begin upon its acquisition of the State Park Village assets. Staff recommends that for each system Elm Hills notify the Commission within

five (5) business days after closing takes place. If the transfer of any involved system does not take place within thirty (30) days after the effective date of a Commission order authorizing the transfer and granting Elm Hills a CCN, then Elm Hills should submit a status report within five (5) days following that period of time regarding the proposed transfer, as well as further status reports within five (5) days of each thirty (30) day period following that, as necessary. In the event that Elm Hills determines that the transfer of assets of MUC or the acquisition of the State Park Village assets will not take place at all, then Elm Hills should notify the Commission of such, at which time the CCN issued to Elm Hills may need to be modified, or either canceled or deemed null and void, as appropriate.

TARIFF MATTERS

Staff recommends that Elm Hills adopt the water and sewer tariffs that are presently approved and on file for MUC, by filing adoption notices. Staff also recommends that Elm Hills be authorized to submit tariff sheets in the MUC sewer tariff that include the State Park Village service area, sewer rates applicable to the State Park Village service area as requested in this case, and sewer rates applicable to the Elm Hills Park service area as described and recommended by Staff herein. Staff also recommends Elm Hills submit a revised tariff sheet for the water tariff to revise the water commodity charge, as described and recommended herein. Drafts of tariff rate sheets prepared by Staff are included with this memorandum, the water rate sheet as Attachment L and the sewer rate sheet as Attachment M, and incorporated herein by reference. All of the tariff sheets to be filed by Elm Hills need to be in effect by the time Elm Hills closes on the assets, in order that it may provide service to its customers.

STAFF'S FINDINGS & CONCLUSIONS

Staff takes the position that the transfer of assets and CCN from MUC to Elm Hills is in the public interest, and the issuance of a CCN to Elm Hills for the State Park Village service area is in the public interest, assuming Staff's recommended conditions are imposed. Elm Hills has adequate technical, managerial, and financial capacity to operate, maintain, and improve the facilities and provide service to customers. Staff recommends the Commission conditionally approve the transfer of assets and issuance of a CCN as requested, with the conditions as described herein and as specifically recommended below.

STAFF'S RECOMMENDATIONS

Based upon the above, Staff recommends that the Commission:

1. Approve the sale of MUC's water and sewer assets and CCN transfer to Elm Hills, authorizing Elm Hills to begin providing water and sewer service and authorizing MUC to cease providing water and sewer service effective at the time of closing on the assets, under the conditions as described within this memorandum and following;
2. Immediately grant Elm Hills a CCN to provide sewer service in the proposed State Park Village service area, as described in Appendix G of the Application and by the map included herein as Attachment K;

3. Require Elm Hills to file tariff adoption notice sheets for MUC's water and sewer tariffs, to become effective prior to Elm Hills closing on the assets;
4. Authorize Elm Hills to file a revised rate sheet in the MUC water tariff, to reflect an increase of MUC's existing water commodity charge from \$1.05 per 1,000 gallons to \$2.47 per 1,000 gallons, and to retain existing flat rates, and to retain existing customer charge amount but include no water with the customer charges, as described and recommended within this memorandum and as shown on the draft tariff sheet included as Attachment L, to become effective prior to Elm Hills closing on the MUC assets;
5. Authorize Elm Hills to file revised rate sheets in the MUC sewer tariff, to reflect a change to rates applying to all customers in the Elm Hills Park service area to \$19.21 flat rate per month, and to create new rates applying to all customers in the State Park Village service area of \$45.00 flat rate per month, as described and recommended within this memorandum and as shown on the draft tariff sheet included as Attachment M, to become effective prior to Elm Hills closing on either the MUC or State Park Village Sewer, Inc. assets, whichever occurs first;
6. Authorize Elm Hills to file revised or new tariff sheets in the MUC sewer tariff containing a service area map and written description for the State Park Village service area, to become effective prior to Elm Hills closing on the assets;
7. Prohibit Elm Hills from closing on any assets or operating as a water or sewer utility with associated assets until valid operation, billing, and emergency answering arrangements (contracts) can be in place and exercised immediately upon closing of assets;
8. Require Elm Hills to notify the Commission of closing of the MUC and State Park assets within five (5) days after such closing on any of the respective assets;
9. Authorize MUC to cease providing service immediately after closing of the respective assets, then after closing and notifications of such as contemplated in 4., above, remove MUC as an active water and sewer utility;
10. If closing on any of the respective MUC or State Park assets does not take place within thirty (30) days following the effective date of the Commission's order, require Elm Hills to submit a status report within five (5) days after this thirty (30) day period regarding the status of closing on the respective assets, and additional status reports within five (5) days after each additional thirty (30) day period, until closing takes place, or until Elm Hills determines that a sale of the respective assets will not occur;
11. If Elm Hills determines that a sale of any of the respective assets will not occur, require Elm Hills to notify the Commission of such, after which time the Commission

may modify, cancel, or deem null and void, the CCN issued to Elm Hills for the specific service area;

12. Authorize Elm Hills to utilize depreciation rates as shown in Attachments A and B;
13. Require Elm Hills to keep its financial books and records for plant-in-service and operating expenses in accordance with the NARUC Uniform System of Accounts;
14. Require Elm Hills to keep operations records identifiable for its Elm Hills Park water and sewer and its State Park Village sewer systems, including those for customer complaints/inquiries, vehicle mileage, equipment and telephone use records, and customer account records;
15. Require Elm Hills to maintain time sheets for all employees and officers, including Josiah Cox, to document time spent on Elm Hills matters; and for Elm Hills to maintain mileage logs to document transportation expense associated with the Elm Hills operations; time sheets and mileage logs should specifically identify time and mileage by individual system, the amount of time spent on construction projects and time spent on other activities such as non-regulated activities, including acquisition and/or merger activities, etc.;
16. Require Elm Hills to track outside contractor expense (for customer billing, customer calls, plant operator, etc.) for the Elm Hills systems, and for any other systems owned by First Round CSWR, LLC, Inc. or by entities it owns, in a manner that would allow identification of costs that were incurred for Elm Hills' business only; Elm Hills to track contractor expenses such as mileage, equipment, labor telephone and other office expenses that are specific to Elm Hills only;
17. Require Elm Hills to comply with all Commission Rules including the filing of the annual reports and keeping current on payments of the Commission's annual assessments;
18. Authorize Elm Hills to collateralize its assets for purposes of the proposed financing arrangement;
19. Require Elm Hills to file with the Commission within ten (10) days of the issuance of any financing authorized pursuant to a Commission order in this proceeding, a report including the amount of financing issued, date of issuance, stated return required, maturity date, redemption schedules or special terms, if any, use of proceeds, estimated expenses, and the final executed financing agreement;
20. Require Elm Hills ** _____

_____ ** to provide Staff access, upon reasonable written notice during normal working hours, to all books and records related to investments in Missouri regulated utility assets. The access to information shall include, but not be limited to, information provided to or

- received from the proposed debt investor, ** _____ **;
21. Require Elm Hills to submit to file with the Missouri Public Service Commission all documentation required pursuant to the terms of the financing agreement. In the event that Elm Hills is in violation of any of the terms and/or covenants of the financing agreement, Elm Hills shall file a report with the Missouri Public Service Commission indicating Elm Hills' plan to cure such violation. If such violation is waived, then Elm Hills shall indicate why the violation was waived and how long the waiver shall be effective;
 22. Require that Elm Hills and any successors or assigns shall bear the burden of proof, in subsequent rate cases where such financing is at issue, to show that it sought the least cost option available to it as to the proposed financing and ownership structure. If the Commission determines that Elm Hills has not carried this burden, then the Commission should order a hypothetical capital structure and cost of capital consistent with similarly situated small water companies in Missouri, or such other capital structure and/or cost of capital that the Commission may find to be appropriate;
 23. Require that the proceeds from the proposed financing shall be used only for the acquisition of the MUC and State Park Village Sewer, Inc. water and sewer utility assets, and the proposed tangible improvements to those water and sewer systems that can be booked to plant in service for purposes of ratemaking;
 24. Elm Hills shall notify the Commission immediately if there are any changes to the current investment structure or investors in Elm Hills ** _____
_____ ** this notice shall include all documents executed to complete such investment structure and/or ownership changes;
 25. In the event of default on the Elm Hills loan, require ** _____
_____ ** to file a written plan with the Commission on how it will ensure continued funding necessary to maintain safe and adequate service for the Elm Hills customers;
 26. Require Elm Hills to provide the CMAU Staff a sample of ten (10) billing statements issued to its customers. These should be submitted within thirty (30) days of the first billing sent to customers;
 27. Require Elm Hills to distribute to Elm Hills' customers an informational brochure detailing the rights and responsibilities of the utility and its customers, consistent with the requirements of Commission Rule 4 CSR 240-13.040(3), within ten (10) days of closing on the assets;
 28. Require Elm Hills to ensure adherence to Commission Rule 4 CSR Chapter 13 with respect to Elm Hills Park and State Park Village Customers;

29. Require Elm Hills to provide an example of its communication efforts with the Elm Hills Park and State Park Village customers regarding its acquisition of the systems and methods by which customers can contact Elm Hills, within ten (10) days after closing on the assets; and,
30. Make no finding of the value of this transaction for ratemaking purposes, and make no finding that would preclude the Commission from considering the ratemaking treatment to be afforded these financing transactions or any other matters pertaining to approval of this transfer of assets and the granting of a CCN to Elm Hills, including expenditures incurred related to water systems in the certificated service area, in any later proceeding.

Staff will file a further recommendation regarding approval of the tariff adoption notice and tariff sheets that Elm Hills will be submitting in accordance with the Commission's order should it grant approval of the transfer of assets and a new CCN.

List of Attachments:

- Attachment A – Depreciation Accrual Rates for Water Plant Accounts
- Attachment B – Depreciation Accrual Rates for Sewer Plant Accounts
- Attachment C – DR 5.1 Response, Investment Structure
- Attachment D – First Round CSWR, LLC Amended and Restated Operating Agreement - HC
- Attachment E – Correspondence with Bank of America - HC
- Attachment F – Correspondence with Commerce Bank - HC
- Attachment G – Correspondence with US Bank - HC
- Attachment H – DR 15 and 15.1 Responses - HC
- Attachment I – Revised Map of State Park Village Service Area
- Attachment J – Draft water tariff rate sheet
- Attachment K – Draft sewer tariff rate sheet

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

In the Matter of the Application of Elm Hills)
 Utility Operating Company, Inc. and)
 Missouri Utilities Company for Elm Hills to)
 Acquire Certain Water and Sewer Assets of)
 Missouri Utilities Company, for a Certificate of)
 Convenience and Necessity, and, in)
 Connection therewith, to Issue Indebtedness and)
 Encumber Assets)

File No. SM-2017-0150

AFFIDAVIT OF KIMBERLY K. BOLIN

State of Missouri)
) ss
 County of Cole)

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

Further the Affiant sayeth not.

Kimberly K. Bolin
 Kimberly K. Bolin

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 7th day of June, 2017.

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

Dianna L. Vaught
 NOTARY PUBLIC

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

In the Matter of the Application of Elm Hills)
Utility Operating Company, Inc. and)
Missouri Utilities Company for Elm Hills to)
Acquire Certain Water and Sewer Assets of)
Missouri Utilities Company, for a Certificate of)
Convenience and Necessity, and, in)
Connection therewith, to Issue Indebtedness and)
Encumber Assets

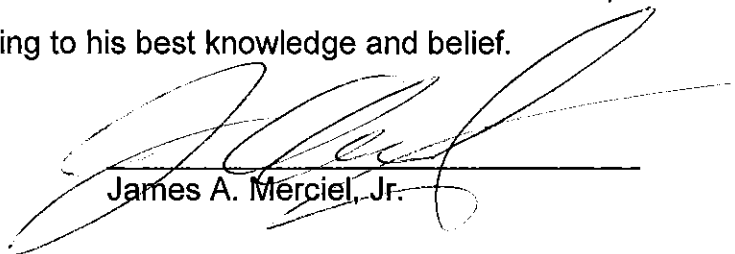
File No. SM-2017-0150

AFFIDAVIT OF JAMES A. MERCIEL, JR.

State of Missouri)
) ss
County of Cole)

COMES NOW James A. Merciel, Jr., and on his oath declares that he is of sound mind and lawful age; that he contributed to the attached *Staff Recommendation*; 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 7th day of June, 2017.


_____ NOTARY PUBLIC

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

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

In the Matter of the Application of Elm Hills)
Utility Operating Company, Inc. and)
Missouri Utilities Company for Elm Hills to)
Acquire Certain Water and Sewer Assets of)
Missouri Utilities Company, for a Certificate of)
Convenience and Necessity, and, in)
Connection therewith, to Issue Indebtedness and)
Encumber Assets

File No. SM-2017-0150

AFFIDAVIT OF DAVID MURRAY

State of Missouri)
) ss
County of Cole)

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

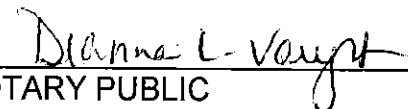
Further the Affiant sayeth not.



David Murray

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 8th day of June, 2017.



NOTARY PUBLIC

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

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

In the Matter of the Application of Elm Hills)
Utility Operating Company, Inc. and)
Missouri Utilities Company for Elm Hills to)
Acquire Certain Water and Sewer Assets of)
Missouri Utilities Company, for a Certificate of)
Convenience and Necessity, and, in)
Connection therewith, to Issue Indebtedness and)
Encumber Assets

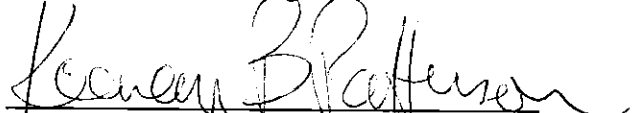
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AFFIDAVIT OF KEENAN B. PATTERSON, P.E.

State of Missouri)
) ss
County of Cole)

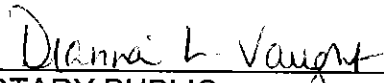
COMES NOW Keenan B. Patterson, P.E., and on his oath declares that he is of sound mind and lawful age; that he contributed to the attached *Staff Recommendation*; and that the same is true and correct according to his best knowledge and belief.

Further the Affiant sayeth not.


Keenan B. Patterson, P.E.

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 7th day of June, 2017.


NOTARY PUBLIC

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

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

In the Matter of the Application of Elm Hills)
 Utility Operating Company, Inc. and)
 Missouri Utilities Company for Elm Hills to)
 Acquire Certain Water and Sewer Assets of)
 Missouri Utilities Company, for a Certificate of)
 Convenience and Necessity, and, in)
 Connection therewith, to Issue Indebtedness and)
 Encumber Assets)

File No. SM-2017-0150

AFFIDAVIT OF BROOKE RICHTER

State of Missouri)
) ss
 County of Cole)

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

Further the Affiant sayeth not.

Brooke Richter

 Brooke Richter

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 8th day of June, 2017.

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

Dianna L. Vaught

 NOTARY PUBLIC

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

In the Matter of the Application of Elm Hills Utility Operating Company, Inc. and Missouri Utilities Company for Elm Hills to Acquire Certain Water and Sewer Assets of Missouri Utilities Company, for a Certificate of Convenience and Necessity, and, in Connection therewith, to Issue Indebtedness and Encumber Assets)
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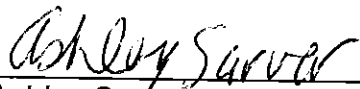
File No. SM-2017-0150

AFFIDAVIT OF ASHLEY SARVER

State of Missouri)
) ss
County of Cole)

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

Further the Affiant sayeth not.

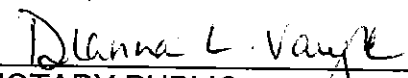


Ashley Sarver

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 8th day of June, 2017.

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



NOTARY PUBLIC

ELM HILLS UTILITY OPERATING COMPANY
SCHEDULE of DEPRECIATION RATES
SM-2017-0150

Water Depreciation Rates

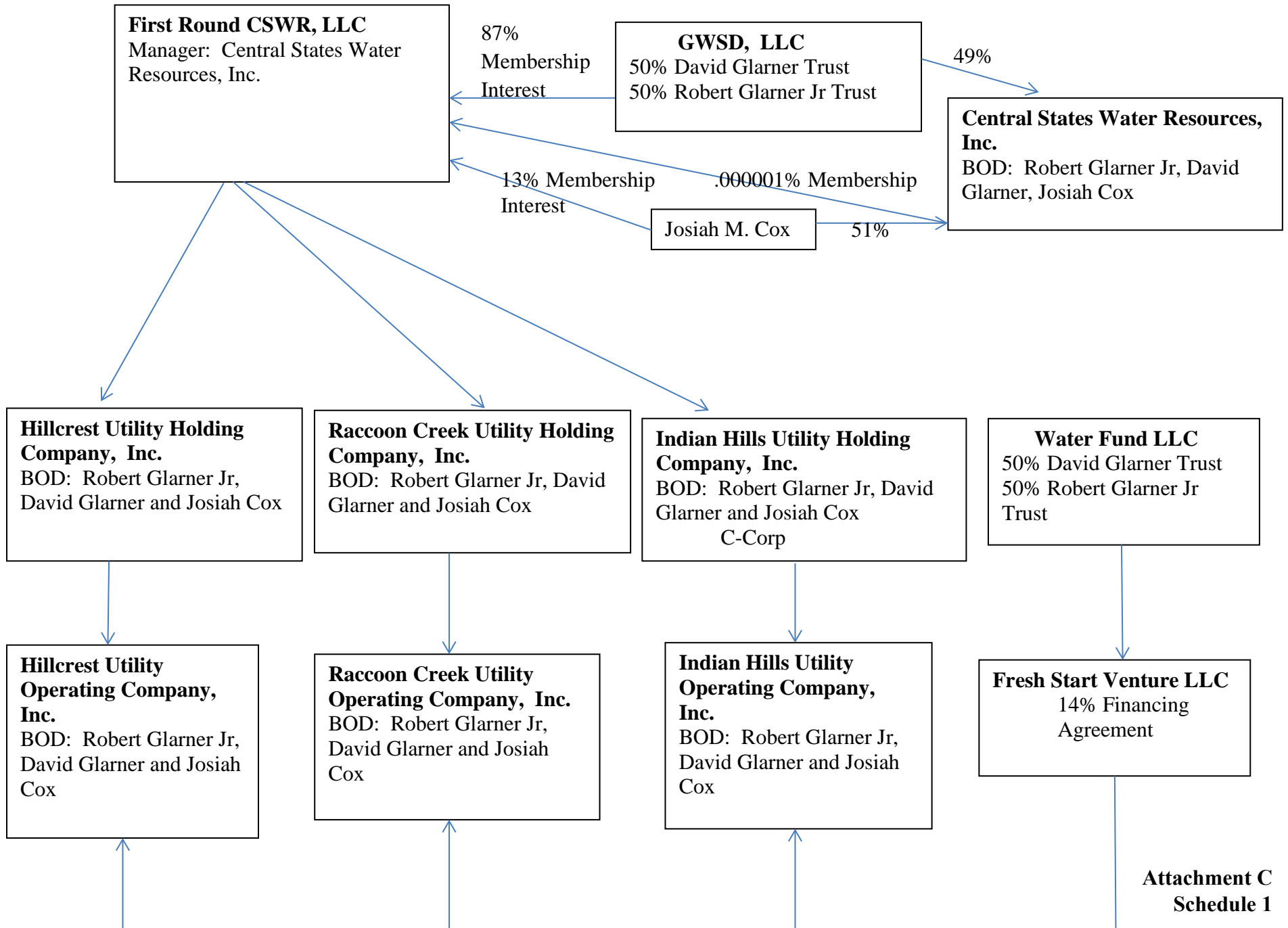
ACCOUNT NUMBER	ACCOUNT DESCRIPTION	DEPRECIATIO N RATE	AVERAGE SERVICE LIFE (YEARS)	NET SALVAGE
Source of Supply				
311	Structures & Improvements	2.5%	44	-10%
314	Wells & Springs	2.0%	55	-8%
Pumping Plant				
321	Structures & Improvements	2.5%	44	-10%
325	Submersible Pumping Equipment	10.0%	12	-20%
Transmission and Distribution				
342	Distribution Reservoirs & Standpipes	2.5%	42	-5%
343	Transmission & Distribution Mains	2.0%	50	0%
345	Customer Services	2.5%	40	0%
346	Customer Meters, Plastic (Throw Aways)	10.0%	10	0%
347	Customer Meter Pits & Installation	2.5%	40	0%
348	Hydrants	2.0%	50	0%
General Plant				
390	Structures & Improvements	2.5%	44	-10%
391	Office Furniture & Equipment	5.0%	20	0%
391.1	Office Electronic & Computer Equip.	14.3%	7	0%
392	Transportation Equipment	13.0%	7	9%
393	Stores Equipment	4.0%	25	0%
394	Tools, Shop, Garage Equipment	5.0%	18	10%
395	Laboratory Equipment	5.0%	20	0%
396	Power Operated Equipment	6.7%	13	13%
397	Communication Equipment	6.7%	15	0%

ELM HILLS UTILITY OPERATING COMPANY
SCHEDULE of DEPRECIATION RATES
SM-2017-0150

Sewer Depreciation Rates

ACCOUNT NUMBER	ACCOUNT DESCRIPTION	DEPRECIATIO N RATE	AVERAGE SERVICE LIFE (YEARS)	NET SALVAGE
COLLECTION PLANT				
311	Structures & Improvements	4.0%	27.5	-10%
352	Collection Sewers	2.0%	50	0%
354	Services	2.0%	50	0%
PUMPING PLANT				
362	Receiving Wells	4.0%	26	-5%
363	Electric Pumping Equipment	10.0%	10	0%
TREATMENT & DISPOSAL PLANT				
372	Oxidation Lagoons	4.0%	40	-60%
373	Treatment & Disposal Facilities	5.0%	22	-10%
374	Plant Sewers	2.5%	40	0%
375	Outfall Sewer Lines	2.0%	50	0%
GENERAL PLANT				
391	Office Furniture & Equipment	5.0%	20	0%
391.1	Office Electronic & Computer Equip.	14.3%	7	0%
392	Transportation Equipment	13.0%	7	9%
393	Other General Equipment (tools, shop equip., backhoes, trenchers, etc.)	10.0%	8.7	13%

Investment Structure for First Round's Utility Operating Companies



ATTACHMENTs

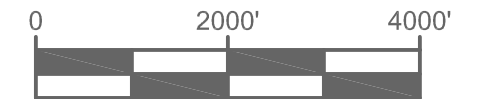
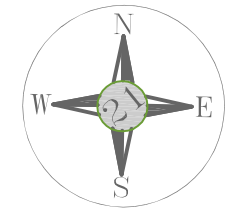
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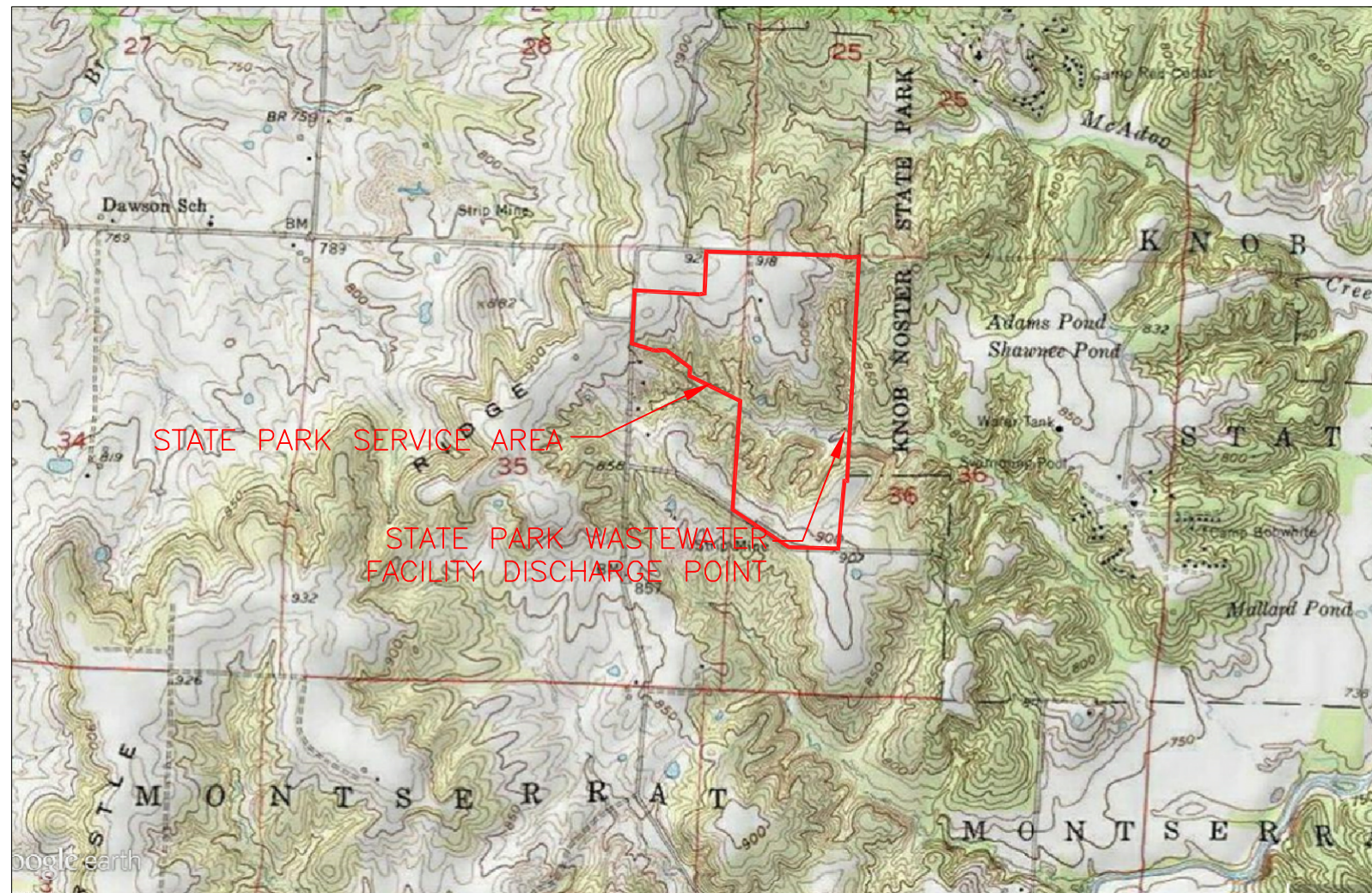
HIGHLY CONFIDENTIAL

IN ITS ENTIRETY

USGS QUAD MAP
FOR STATE PARK WWTF
WARRENSBURG, MO
(CORNELIA QUAD MAP)



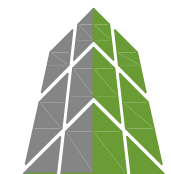
SCALE: 1" = 2000'



PRELIMINARY

THIS DRAWING IS FOR REVIEW ONLY AND
SHALL NOT BE USED FOR CONSTRUCTION

SURVEY CERTIFICATE OF AUTHORITY NO. LS-2013008264
ENGINEERING CERTIFICATE OF AUTHORITY NO. E-2013005879



21 DESIGN GROUP
ENGINEERING AND SURVEYING

1351 Jefferson St., Suite 301 mail@21designgroup.net
Washington, MO 63090 636-283-0621 (tel.)

Name of Utility: Elm Hills Utility Operating Company, Inc.
 Service Area: Elm Hills Park, Pettis County

Rules Governing Rendering of Water Service			
SCHEDULE OF RATES			
<p>Availability - Water service is available to customers adjacent to the Company's mains, where the mains are suitable for providing the service requested.</p>			
<p>Water – Flat Rates</p>			
mobile homes in parks, and apartments	\$6.34/month		
single family units	\$7.92/month		
commercial	\$14.24/month		
<p>Water – Metered rates</p>			
Minimum (customer charge)			
5/8 inch meter	\$6.34/month		+
3/4 inch meter	\$7.92/month		+
1 inch meter	\$14.24/month		+
Plus, usage charge (commodity charge)	\$2.47/1,000 gallons		+
<p>* Indicates new rate or text + Indicates change</p>			

DATE OF ISSUE on or after Order eff date DATE EFFECTIVE on or before closing on assets
 Month Day Year Month Day Year

ISSUED BY _____
 name of officer title address

Name of Utility: Elm Hills Utility Operating Company, Inc.
Service Area: Elm Hills Park, Pettis County

Rules Governing Rendering of Sewer Service			
SCHEDULE OF RATES			
Availability - Sewer service is available to customers adjacent to the Company's collecting sewers			
<u>Elm Hills Park, Pettis County</u>			
Flat Rate, all customer classes	\$19.21/month		+
<u>State Park Village, Johnson County</u>			
Flat Rate, all customer classes	\$45.00/month		*
<p>* Indicates new rate or text + Indicates change</p>			

DATE OF ISSUE on or after Order eff date DATE EFFECTIVE on or before closing on assets
Month Day Year Month Day Year

ISSUED BY _____
name of officer title address