

## MEMORANDUM

TO: Missouri Public Service Commission Official Case File  
File No. SO-2013-0260  
Meramec Sewer Company and Missouri-American Water Company  
Seeking Authority to Transfer Sewer System Assets

FROM: Jim Merciel – Water & Sewer Unit  
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<u>/s/ Jim Busch</u>	<u>1/28/2013</u>
Water and Sewer Unit	Date

<u>/s/ Rachel Lewis</u>	<u>1/28/2013</u>
Staff Counsel's Office	Date

SUBJECT: Staff Recommendation Regarding Sale and Transfer of Assets

DATE: January 28, 2013

### PROCEDURAL BACKGROUND

On November 2, 2012, Missouri-American Water Company (MAWC) and Meramec Sewer Company (MSC) filed a *Joint Application and, if Necessary, Motion for Waiver* (Application) with the Missouri Public Service Commission (Commission) seeking authority for MSC to sell and transfer its sewer utility assets to MAWC, including its Certificate of Convenience and Necessity (CCN) to provide sewer service. On November 6, 2012 the Commission issued its *Order and Notice* which, among other things, set November 26, 2012, as the date by which interested parties should submit applications to intervene. No parties requested to intervene in this proceeding. On November 27, 2012, the Commission issued its *Order Directing Filing*, in which it set December 27, 2012, as the date by which Staff should file a recommendation or a status report stating when it will file a recommendation. On December 27, 2012 Staff filed its *Staff's Status Report*, stating that it would file a recommendation by January 28, 2013.

### STAFF'S INVESTIGATION, FINDINGS, AND CONCLUSIONS

#### MAWC AND MSC BACKGROUND

MAWC is a regulated water and sewer utility serving more than 450,000 customers throughout the state of Missouri. It has been in business for more than a century, and over the years it has acquired systems, both large and small, through various mergers and acquisitions. The Commission has

APPENDIX A

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approved many of those mergers and acquisitions.

MSC is a regulated sewer utility that obtained a CCN in Case No. SA-77-167. MSC's service area is located in Jefferson County, Missouri in an area generally known as Shangri-La Estates near Fenton, Missouri. MSC serves approximately 1,005 customers, including 472 residential customers, 97 mobile homes, 424 apartment units, and also currently provides wholesale treatment for approximately twelve (12) residences that are sewer customers of the Northeast Public Sewer District (NPSD). There are approximately forty-eight (48) additional lots that could be served under the wholesale agreement between MSC and NPSD. MSC has gravity collecting sewers, and an extended aeration sewage treatment facility with a design flow capacity of 209,000 gallons per day which is designed to serve a 2,450 population equivalent.

**RATES AND TARIFF**

In the Application, MAWC stated its intent to apply its existing sewer tariff, PSC MO No. 8, currently in effect for its Cedar Hill service district, including rates specified in that tariff, to the MSC service district. Staff supports MAWC adopting MSC's existing tariff as discussed further below; however, Staff would also support applying the rules of MAWC's existing Cedar Hill tariff to the MSC service district (another name may be used by MAWC for this area) after acquisition. However, Staff opposes application of existing Cedar Hill rates, service charges and depreciation rates to the MSC service district in this case. Staff contends that MAWC should be required to use the rates and depreciation schedules for MSC that were ordered by the Commission as part of MSC's recent informal rate proceeding, SR-2012-0309.

MAWC's rates for the Cedar Hill service district, and requested for the Meramec area in this matter, are as follows:

Single Family Residential	\$65.22 per month
Mobile Homes in a mobile home park	\$58.70 per month
Multi-Family Residential	\$52.19 per month
Commercial	\$65.22 minimum per month
Plus	\$6.8374 per 1,000 gallons over 6,000

Contribution-in-aid-of-Construction (CIAC) charges also apply to the Cedar Hill service district.

MSC rates, as approved in its recently completed rate case before the Commission which became effective on October 7, 2012, are as follows:

Single Family Residential	\$26.33 per month
Mobile Homes	\$23.70 per month
Apartment Units and Multi-Family Residential	\$21.07 per month



MSC's \*\* \_\_\_\_\_ \*\* net plant in service determination, and acknowledges that this balance, at January 31, 2013, would represent the purchase price, subject to change based on any changes in plant, CIAC or accumulated depreciation that may occur between now and the close of the transaction. Staff does not support MAWC receiving an acquisition premium as a result of this transaction in any future proceeding before this Commission, which is consistent with Staff's historical approach of not recognizing either acquisition premiums or discounts in water and sewer cases brought before the Commission.

The Asset Purchase Agreement (APA) filed with the *Application* contemplates the possibility of MAWC receiving transition services from MSC for a period covering one year following the closing date of this transaction. The appropriateness of the costs associated with the transition services will be addressed in the context of MAWC's next company-wide general rate proceeding.

### **DEPRECIATION**

Staff recommends MAWC adopt the existing depreciation rate schedule that is presently approved for MSC and apply it to the acquired MSC service district. A copy of the depreciation schedule Staff proposes is included as Attachment A to this Memorandum and incorporated by reference herein. These rates will address MAWC's needs on a going forward basis for this new MSC service district. These depreciation rates will have no effect on current customer rates in the MSC service district, or any other district. Depreciation rates may be studied further if desired at the time of MAWC's next company-wide general rate proceeding.

After the acquisition, MAWC should include the MSC sewer system expenses in its books and records in accordance with the NARUC Uniform System of Accounts, including recording in the Company's ledger adjustments for new capital items placed into service, and recording the cost of removal and gross salvage for all replaced or retired plant.

### **CUSTOMER SERVICE AND BILLING ISSUES**

Currently, MSC sewer customers are also MAWC water customers, with each of these companies rendering separate bills. As a result of this acquisition, MAWC will bill these customers monthly for both water and sewer service. Customers in the MSC service district will receive only one bill from MAWC, that will include both water and sewer service each month.

In recent MAWC acquisition cases, customer service and billing issues were stipulated in order to ensure: 1) transparency to the involved customers during the transition period; 2) that MAWC's billing information is accurate; 3) the involved customers are being billed properly, and 4) that MAWC adheres to applicable rules and regulations and its tariffs.

In the context of those acquisition cases, Staff has monitored customer billing statements for several months. Some of the issues noted during the monitoring of those customer billing statements include the following: 1) inaccurate customer water charge on some customers' billing statements; 2) failure to charge the customer charge for wastewater where applicable; 3) improper proration of customer charges, water usage charges and primacy fees due to customers being billed for more than 35 days or less than 26 days of service; and 4) identification of customers for whom the Company was not rendering a bill. Additionally, Staff noted that there were numerous credit and debit adjustments on the customer billing statements, and that some billing statements lacked notation of the billing period and the meter readings. Staff made MAWC aware of the errors on the billing statements and worked closely with MAWC to ensure all billing errors were corrected.

In this case, Staff wants to ensure that the MSC customers are accurately billed by MAWC, and includes its specific requests for information in "Staff's Recommendations" below. MAWC should start providing bills to the customers after closing of the assets.

Staff recommends that MAWC provide adequate training to all customer service representatives with respect to approved MAWC rates and rules applicable to the MSC service district, prior to those customers receiving their first combined water and sewer bill from MAWC. Staff recommends that MAWC provide the Engineering and Management Services Unit Staff a sample of forty-five (45) billing statements of its first month combined water and sewer bills issued to the MSC service district customers after acquisition, in order to verify their accuracy.

### **OTHER MATTERS**

MAWC has no other pending cases before the Commission at this time. MAWC does have three (3) tariff filings involving minor rule and wording changes to various water tariffs. Those tariff filings are JW-2012-0289, JW-2012-0280, and JW-2012-0281. The acquisition of the MSC sewer assets will have no impact upon those tariff filings, nor will the tariff filings have any impact on the MSC acquisition.

MAWC has no issues with respect to the submission of annual reports and assessments to the Commission. It has filed annual reports, as shown on the Commission's Electronic Filing and Information System (EFIS), through calendar year 2011, and is current on all quarterly payments for its annual assessments through the end of fiscal year 2013.

MSC has submitted annual reports through calendar year 2011. Staff understands that MAWC will be in a position and is willing to assist MSC in preparing its 2012 annual report, due to be filed by April 15, 2013. Staff therefore recommends that MAWC assist MSC in preparing and filing its 2012 PSC Annual Report by the due date. MSC has deficiencies with its annual assessments. MSC made payments for annual assessments for only two (2) quarters of fiscal year 2010, leaving a past due balance of \$10,430.61. MSC also has a past due balance for: (1) all of fiscal year 2011 in the

amount of \$17,522.13; (2) for all of fiscal year 2012 in the amount of \$18,600.73; and, (3) is past due for three (3) quarterly payments for fiscal year 2013, the total annual amount for fiscal year 2013 is \$13,658.46. The total amount due to the Commission is \$60,211.93, which includes all four quarters of fiscal year 2013. \*\* \_\_\_\_\_

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Staff has determined that there will be no tax impact for any governmental entities as a result of this transaction, since both MAWC and MSC are privately owned corporations subject to payment of personal property and real estate taxes.

After closing of the assets is accomplished, MAWC should file an adoption notice for the tariff presently in effect for MSC. Staff recommends that this be accomplished by submitting appropriate tariff sheets as a thirty (30) day filing within ten (10) days after closing, but MAWC should be authorized to utilize the rates and rules of MSC’s tariff on an interim basis after closing, but before the tariff adoption notice becomes effective.

MSC has an existing wholesale contract with NPSD that allows MSC to charge certain NPSD residential customers the single family residential rate each month. MAWC has indicated to Staff that it has re-negotiated this contract with NPSD that allows MAWC to continue to charge the specified NPSD customers the single family residential rate on a going-forward basis.

There are no compliance issues with respect to sewer quality of service for either Meramec or MAWC. MSC is past due on permit fees to be paid to the Missouri Department of Natural Resources (MDNR) in the amount of \$5,100. Staff understands that MAWC intends to pay MDNR for the entire past due amount associated with permit fees at the time of close of this transaction.

**STAFF'S RECOMMENDATIONS**

Staff recommends the Commission approve the *Application* subject to the conditions outlined in this Recommendation. Staff specifically recommends the Commission issue an order that includes the following:



1. Approves the Application and thereby: authorizes MSC to sell and transfer its sewer utility assets to MAWC; authorizes MAWC to acquire MSC's sewer utility assets; and grants MAWC the CCN presently held by MSC to provide sewer service within the authorized service area.
2. Requires MAWC to notify the Commission when it has closed on the MSC assets within five (5) business days after such closing has occurred. If closing has not occurred within thirty (30) days after the effective date of the Order approving this *Application*, MAWC should be required to file a status report on the status of the sale within five (5) days after such thirty (30) day period, and every thirty (30) days thereafter, until the closing has occurred.
3. Requires MAWC within ten (10) days after closing, to file a tariff adoption notice for the existing MSC tariff as a thirty (30) day tariff filing, and authorizes MAWC to provide service under the MSC tariff on an interim basis after closing on the assets but before the revised tariff sheets take effect.
4. Requires MAWC to record a value of \*\* \_\_\_\_\_ \*\* for the amount of the MSC acquisition plant in service, net of accumulated depreciation and CIAC, at January 31, 2013, as described within this Memorandum, and that MAWC shall not seek recovery of an acquisition premium as a result of this transaction, in any future proceeding before this Commission.
5. Requires MAWC to assist MSC in the preparation and filing of MSC's 2012 PSC Annual Report by the due date, April 15, 2013.
6. Requires MAWC to provide notice in writing to the Staff within 10 days of paying in full all outstanding amounts owed to MDNR for permit fees and to Jefferson County for past due real estate taxes.
7. Requires MAWC to adopt the depreciation schedules presently approved for MSC for MSC's existing sewer service areas, as shown in Attachment A.
8. Requires MAWC to calculate and record depreciation expense on a going forward basis after closing, using the above-mentioned depreciation schedule.
9. Requires MAWC to maintain utility plant records and customer account records, and to keep all books and records, including plant property records, in accordance with the NARUC Uniform System of Accounts, as described in this Memorandum.

10. Requires MAWC to submit in this official file an executed copy of the wholesale agreement between MAWC and the NPSD within five (5) days after the closing of this transaction.
11. Requires MAWC to provide adequate training to all customer service representatives with respect to adopted MSC rates and rules prior to the MSC customers receiving their first bill that includes sewer billing from MAWC.
12. Requires MAWC to provide the EMSU Staff with a sample of forty-five (45) combined water and sewer billing statements issued by MAWC to the MSC service district customers from its first month after closing and within ten (10) days of issuance of those bills.
13. Makes no finding that would preclude the Commission from considering the ratemaking treatment to be afforded any matters pertaining to the granting of the certificate, including future expenditures by MAWC, in any later proceeding.

Attachment: A – Sewer Depreciation Schedule



**MISSOURI-AMERICAN WATER COMPANY - Attachment A**  
**Schedule of Depreciation Rates for former Meramec Service District**  
**Sewer Class C**  
**SO-2013-0260**

<u>ACCOUNT NUMBER</u>	<u>ACCOUNT DESCRIPTION</u>	<u>DEPRECIATION RATE</u>	<u>AVERAGE SERVICE LIFE (YEARS)</u>	<u>NET SALVAGE</u>
<b>COLLECTION PLANT</b>				
352.2	Collection Sewers (Gravity)	2.0%	50	
<b>TREATMENT &amp; DISPOSAL PLANT</b>				
373	Treatment & Disposal Facilities	5.0%	20	
374	Plant Sewers	2.5%	40	
376	Other Treatment and Disposal Equip.	5.0%	20	
<b>GENERAL PLANT</b>				
391.1	Office Electronic & Computer Equip.	14.3%	7	
393	Other General Equipment (tools, shop equip., backhoes, trenchers, etc.)	10.0%	10	







