

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

In the Matter of Missouri-American Water            )  
Company for Certificate of Convenience and        )  
Necessity Authorizing it to Install, Own, Acquire,   )  
Construct, Operate, Control, Manage and            )  
Maintain a Sewer System in an area of St. Louis    )  
County, Missouri (Radcliffe Place)                    )  
**File No. SA-2018-0068**

**STAFF RECOMMENDATION**

**COMES NOW** the Public Service Commission Staff (“Staff”), by and through counsel, and recommends that the Commission grant to Missouri-American Water Company (“MAWC”) a Certificate of Convenience and Necessity (“CCN”) to provide regulated sewer services in an area of St. Louis County, Missouri. In support of this *Recommendation*, Staff states as follows:

1. On September 7, 2017 MAWC filed its *Application and Motion for Waiver* (“Application”) seeking a Certificate of Convenience and Necessity (“CCN”) for authority to install, own, acquire, construct, operate, control, manage, and maintain a sewer system in an area of St. Louis County, Missouri known as Radcliffe Place.

2. On September 8, 2017, the Commission issued its *Order Directing Notice and Setting Dates for Submission of Intervention Requests and Staff Recommendation*, setting an intervention deadline of September 28, 2017 and requesting a Staff recommendation or status report by November 9, 2017. No intervention requests were received.

3. Pursuant to Section 393.170, RSMo, no water or sewer corporation shall provide service to consumers without first having obtained approval from the Commission. In determining whether or not to grant such approval, the Commission has traditionally applied the five “Tartan Criteria” established in *In the Matter of Tartan Energy Company, et al.*, 3 Mo. PSC 3d 173, 177 (1994): (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.

4. As explained in the *Staff 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 of the Tartan Criteria.

5. MAWC proposes to provide sewer service pursuant to the existing rates, rules, and regulations currently applicable to MAWC’s Cedar Hill service area found in MO PSC No. 26. However, Staff recommends that the “Connection Charges” and “Capacity Charges” that are specified on the Schedule of Service Charges for Cedar Hill and applicable to customers making new sewer connections in the Cedar Hill service area, should not apply to the new service area of Radcliffe Place.

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

7. The Commission need not hold a hearing if, after proper notice and opportunity to intervene, no party requests such a hearing. *State ex rel. Rex Deffenderfer Enterprises, Inc. v. Public Service Commission*, 776 S.W.2d 494 (Mo. App. W.D. 1989). No party or individual has requested a hearing, so the Commission need not hold a hearing to grant a CCN to the Company.

**WHEREFORE**, Staff respectfully submits this Staff Recommendation for the Commission's information and consideration, and requests the Commission grant Missouri-American Water Company a Certificate of Convenience and Necessity, with conditions, to provide sewer service to the requested service area.

Respectfully submitted,

**/s/ Casi Aslin**

Casi Aslin  
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Missouri Bar No. 67934  
Attorney for the Staff of the  
Missouri Public Service Commission  
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**CERTIFICATE OF SERVICE**

I hereby certify that copies of the foregoing have been mailed or hand-delivered, transmitted by facsimile or electronically mailed to all parties and or counsel of record on this 9th day of November, 2017.

**/s/ Casi Aslin**

## MEMORANDUM

TO: Missouri Public Service Commission Official Case File  
File No. SA-2018-0068  
Missouri-American Water Company (Radcliffe Place)

FROM: James A. Merciel, Jr - Water and Sewer Department  
Amanda McMellen - Auditing Department  
Stephen Moilanen – Engineering Analysis Unit  
Scott Glasgow - Consumer and Management Analysis Unit

/s/ James A. Merciel, Jr.                      November 9, 2017  
Case Coordinator                                      Date

/s/ Casi Aslin                                      November 9, 2017  
Staff Counsel    Date

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

DATE: November 9, 2017

### CASE BACKGROUND

On September 7, 2017, Missouri-American Water Company (MAWC) filed an *Application and Motion for Waiver* (Application) with the Public Service Commission (Commission). MAWC seeks a Certificate of Convenience and Necessity (CCN) to provide sewer service to customers in a development known as Radcliffe Place, in St. Louis County, Missouri. In the Application, MAWC states that it intends to acquire sewer utility assets that are at present owned and operated by Radcliffe Place Community Services Association, Inc. (the Association) which is an entity that is not subject to the jurisdiction of the Commission.

On September 8, 2017, the Commission issued its *Order Directing Notice and Setting Dates for Submission of Intervention Requests and Staff Recommendation*. In this Order, the Commission directed a copy of the Order be provided to the County Commission of St. Louis County, Missouri, and the Missouri Department of Natural Resources; that notice of the Order be available to members of the Missouri General Assembly representing the area and to the media serving the area; That MAWC and the Association file suggestions on how to provide notice to customers; that any person or entity wishing to intervene shall file an application to intervene no later than September 28, 2017; and that Staff shall file a recommendation regarding the Application no later than November 9, 2017.

No person or party has sought to intervene in this case.

On September 13, 2017, MAWC submitted its *Suggestions as to Notice to Customers*, in response to the Commission’s Order.

### BACKGROUND OF MAWC AND THE RADCLIFFE PLACE SEWER SYSTEM

MAWC is an existing regulated water and sewer utility currently providing water service to more than 450,000 customers and sewer service to more than 11,000 customers in several service areas throughout Missouri. In recent years, MAWC has acquired several small existing water and sewer

systems. MAWC is a subsidiary of American Water Works Company, Inc., and is affiliated with other companies that undertake some of the tasks associated with utility service, such as customer billing, and technical resources.

The Radcliffe Place sewer system dates to approximately 1989. It includes a 58,200 gallon per day extended aeration treatment facility, with design capacity for a population of 700, according to the Missouri Department of Natural Resources (DNR) operating permit. This flow capacity and stated design population represents approximately 190 residential sewer customers, by Staff's estimation. The pipelines are primarily pressure collecting sewers, utilizing electric-powered grinder pump units located at each of the customers' premises. There is also one electric-powered lift station as a part of the collecting sewer system. There are 128 customers at present according to the Application. The subdivision is largely built out with residences on most lots, and no additional growth is anticipated.

### **STAFF'S INVESTIGATION**

#### **Service Area and Tariff**

Staff reviewed the Application and its appendices including an Asset Purchase Agreement. Radcliffe Place is located within MAWC's St. Louis Metro water service area; the sewer customers are presently water customers of MAWC. MAWC will need a new CCN to provide sewer service in the proposed service area and include the Radcliffe Place service area in its sewer tariff, PSC MO NO. 26. Staff reviewed MAWC's map and metes and bounds description of the proposed Radcliffe Place service area that was included in the Application. Staff agrees the service area is reasonable and should be included in MAWC's sewer tariff assuming the Commission grants MAWC approval of this proposed sewer service area.

#### **TECHNICAL, MANAGERIAL, AND FINANCIAL CAPACITY; TARTAN ENERGY CRITERIA**

DNR reviews new proposed water system operations using, among other criteria, determination of technical, managerial and financial capacities of the operation, or "TMF." Staff utilizes these concepts of TMF in studying some situations involving existing water systems, and sewer systems as well. Staff has reviewed and stated its position regarding MAWC's TMF capacities in previous CCN and transfer of assets cases, and Staff's position on this matter remains positive in this case involving Radcliffe Place.

Additionally, 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 to justify granting a CCN. Staff's criteria contemplate 1) the 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. Another important consideration, as part of the need for the service, is whether or not other utility entities are available to provide similar service. Similar to TMF, Staff has studied these points as they relate to MAWC abilities in previous CCN and transfer cases. MAWC has demonstrated over many years that it has financial 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 to and resolve emergency issues when such situations arise. Further, as related to this specific proposed CCN request for the new Radcliffe Place sewer service area, Staff takes the position that it is feasible

for MAWC to own, operate and manage the existing sewer system, and it is in the public interest for it to do so.

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

### **Tariff and Rate Impact**

MAWC proposes to provide sewer service pursuant to the existing rates, rules, and regulations currently applicable to MAWC's Cedar Hill service area found in its sewer tariff MO PSC No. 26. However, Staff proposes that the "Connection Charges" and "Capacity Charges" that are specified on the Schedule of Service Charges and applicable to customers making new sewer connections in the Cedar Hill service area, not apply to Radcliffe Place, because Staff's position is they are not necessary nor justified for the Radcliffe Place operation. Staff agrees that, with the exception of the above-mentioned sewer service charges, MAWC's proposal for rates is reasonable. According to one of the subdivision trustees, who is working with MAWC on the sewer system sale and who accompanied MAWC and Staff during a field visit on October 31, 2017, the Association charges its members \$700 per year specifically for sewer service. This is the equivalent of \$58.33 per month, which is comparable to MAWC's proposed monthly flat rate charge of \$66.93.

MAWC will also need to file the map and description of the service area in the tariff, and include Radcliffe Place in Rule 13.B.1., to address ownership and maintenance of the pump units.

### **Rate Base**

It is Staff's understanding that MAWC is not seeking a determination of the rate base valuation of the Radcliffe Place assets in this proceeding. Staff notes that the Association does not have any original plant records that would be adequate for MAWC's plant records kept in accordance with the National Association of Regulatory Utility Commission (NARUC) Uniform System of Accounts. If rate treatment of the current Radcliffe Place property is sought, MAWC should present an analysis documenting its proposed net rate base values for all of the Association's assets, which would include an appropriate offset for associated CIAC, depreciation and system capacity adjustment, if any. Staff will take a position regarding the appropriate rate base valuation of the Radcliffe Place plant assets after conducting its audit in MAWC's next rate case, including review of MAWC's rate base valuation. Staff also recommends specifically that prior to the time of transfer, MAWC request any and all plant and asset valuation records from the Association that are not already in MAWC's possession, including all available documentation concerning transactions and transfers between the Association and its developers and vendors, and properly enter those amounts in its plant account property records in order to quantify original plant costs, subsequent plant additions, depreciation, contributions, and capital recovery paid to developers or other parties.

Based on Staff's review of the limited information in this proceeding, the purchase price being paid by MAWC may be below the net book value of the Association's assets. The determination of the value of any acquisition adjustment will be made in MAWC's next general rate filing if it seeks recovery of Radcliffe Place capital and expense costs. It has been Staff's position in prior cases that utility rates for acquired properties should be based upon the net book value of such properties to the original utility owner, and not reflect the amount of any acquisition adjustment.

By 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 will recommend the Commission specifically require such recordkeeping requirements apply to MAWC's Radcliffe Place operations.

### **Plant Capacity Adjustment**

The Radcliffe Place wastewater system appears to have been originally designed and constructed to serve approximately 190 residential customers, and at present there are only 128 residential customers. However, the apparent excess capacity may be of value in meeting recently enacted DNR-required discharge limits for ammonia, which were not in place when the treatment facility was designed and constructed. Additionally, MAWC is acquiring this system "as is," and with no apparent growth potential. For these reasons, Staff does not consider a plant capacity adjustment appropriate at this time. Staff will hold itself out to re-review plant capacities in later proceedings, if deemed necessary.

### **Depreciation**

In Case No. WR-2015-0301, the Commission ordered sewer depreciation rates applicable to all divisions of MAWC. Staff recommends the use of these rates for all sewer plant accounts in the Radcliffe Place service area.

### **Customer Notice/Customer Service**

Although MAWC has not provided specific notice to customers, MAWC states, in its September 13, 2017 pleading *Suggestions as to Notice to Customers*, that the Association has communicated extensively with its members. Through the Association, virtually all homeowners were involved with the decision to enter into the Asset Purchase Agreement between the Association and MAWC. The Association also has a meeting scheduled for November 14, 2017, for the purpose of updating its members of the status of the sale of the sewer system. Staff had the opportunity to discuss the sewer system and the sale with the above-mentioned subdivision trustee on site on October 31, 2017. It appears to Staff that customers have been adequately informed of this proposal.

In previous CCN or transfer cases where MAWC acquired systems and additional customers, Staff recommended that MAWC undertake actions and submit reports to the Consumer & Management Analysis Unit (CMAU) Staff that address a variety of customer service and billing issues. These actions and reports were stipulated or recommended in Case Nos. WM-2001-0309, WR-2003-0500, WR-2007-0216, WA-2015-0019 and SA-2015-0150. The same information regarding the customers MAWC is acquiring from Radcliffe Place should be included within these reports.

MAWC utilizes a nationwide billing system and nationwide call centers through its affiliates. In order to incorporate Radcliffe Place customers as sewer customers into its billing and customer service systems, along with their existing inclusions as water customers, it will be necessary for MAWC to properly enter the Radcliffe Place customer information and apply the appropriate Commission ordered rate. MAWC will also need to provide training to its call center personnel regarding rates and rules applicable to Radcliffe Place customers so that customer service matters are handled accurately and in a timely manner.

### **OTHER ISSUES**

MAWC is a corporation that is in “good standing” status with the Missouri Secretary of State.

MAWC is current with annual report filings with the Commission through calendar year 2016, as documented on the Commission’s Electronic Filing and Information System (EFIS).

MAWC is current on its annual assessment quarterly payments through the second quarter of fiscal year 2018.

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

WC-2018-0124	Formal Complaint (Harter)
WC-2018-0110	Formal Complaint (Jones)
WM-2018-0104	Transfer of Assets (Spokane Highlands)
WC-2018-0099	Formal Complaint (Lander)
WO-2018-0059	ISRS
WU-2017-0351	AAO Property Taxes
WU-2017-0296	AAO Lead Service Line Replacement Program
WR-2017-0285	Rate Case
WA-2017-0278	CCN (Pevely Farms)
WO-2017-0191	Territorial Agreement

These above-noted pending cases will have no impact upon this proposed case requesting a new CCN for sewer service, 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 MAWC’s proposal for a new CCN to provide sewer service in the proposed Radcliffe Place service area is not detrimental to the public interest. MAWC’s proposal to apply MAWC’s existing sewer rates and service charges, except the Connection Charges and Capacity Charges, currently in effect for its Cedar Hill service area is also reasonable. MAWC’s sewer tariff MO PSC No. 26 should apply to Radcliffe Place with modifications to the Cedar Hill rate sheet, service charges sheets, and that portion of Rule 13 about Alternative Collection Systems and pump unit ownership/maintenance, as appropriate, reflecting applicability to Radcliffe Place, and with the inclusion of new tariff sheets with the Radcliffe Place map and metes and bounds description. Staff therefore recommends approval with the conditions and actions as outlined herein.



## **STAFF'S RECOMMENDATIONS**

Based upon the above, Staff recommends that the Commission:

1. Grant MAWC a CCN to provide sewer service in the proposed Radcliffe Place service area, as requested;
2. Approve the application of MAWC's existing sewer rates and service charges that currently apply to its Cedar Hill service area, except that Connection Charges and Capacity Charges included on the Schedule of Service Charges applicable to MAWC's Cedar Hill service area not apply to the Radcliffe Place service area;
3. Require MAWC to submit new tariff sheets, to become effective before closing on the assets, to include new sheets with the service area map and service area metes and bounds description, revised tariff sheets with notations showing approved rates and service charges, and a revised tariff sheet to include Rule 13.B.1. applicable to Radcliffe Place, all to be included in its sewer tariff PSC MO No. 26;
4. Approve MAWC's existing approved depreciation rates for sewer assets to apply to the Radcliffe Place service area assets;
5. If closing on the sewer system assets does not take place within thirty (30) days following the effective date of the Commission's order approving such, require MAWC to submit a status report within five (5) days after this thirty (30) day period regarding the status of closing, and additional status reports within five (5) days after each additional thirty (30) day period, until closing takes place, or until MAWC determines that the transfer of the assets will not occur;
6. If MAWC determines that a transfer of the assets will not occur, require MAWC to notify the Commission of such no later than the date of the next status report, as addressed above, after such determination is made, and require MAWC to submit tariff sheets as appropriate that would cancel service area maps and descriptions, and rates and service charges applicable to the Radcliffe Place service area in its sewer tariffs;
7. Require MAWC to keep its financial books and records for Radcliffe Place plant-in-service and operating expenses in accordance with the NARUC Uniform System of Accounts;
8. Require MAWC to provide an example of its actual communication with the Radcliffe Place service area sewer customers regarding its acquisition and operations of the Radcliffe Place sewer system assets, and how customers may reach MAWC regarding sewer matters, within ten (10) days after closing on the assets;
9. Require MAWC to obtain from the Association, as best as possible prior to or at closing, all 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;
10. Require MAWC to provide in a general rate case an analysis documenting its proposed rate base values for Radcliffe Place sewer system assets, including an appropriate offset for associated CIAC;
11. 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 Radcliffe Place certificated service area and capacity adjustments, in any later proceeding;

12. Require MAWC to ensure adherence to Commission Rule 4 CSR-13 with respect to Radcliffe Place customers;
13. Require MAWC to include the Radcliffe Place customers in its established monthly reporting to the CMAU staff on customer service and billing issues;
14. Require MAWC to distribute to the Radcliffe Place 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 240-13.040 (2) (A-L), within ten (10) days of closing on the assets;
15. Require MAWC to provide adequate training for the correct application of rates and rules to all customer service representatives prior to Radcliffe Place customers receiving their first bill from MAWC that include sewer charges; and,
16. Require MAWC to provide to the CMAU staff a sample of ten (10) billing statements from the first month's billing within thirty (30) days of such billing.

Staff will submit a further recommendation regarding tariff sheets to be filed by MAWC in this matter.

**BEFORE THE PUBLIC SERVICE COMMISSION  
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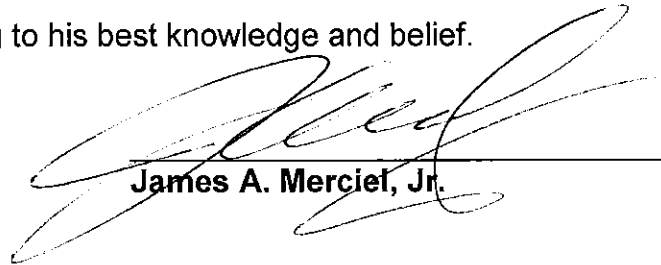
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in an Area of St. Louis County, Missouri (Radcliffe Place) )

**AFFIDAVIT OF JAMES A. MERCIEL, JR.**

State of Missouri    )  
                                  ) ss.  
County of Cole        )

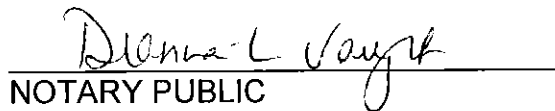
**COMES NOW** James A. Merciel, Jr. and on his oath declares that he is of sound mind and lawful age; that he contributed to the attached Staff Memorandum; and that the same is true and correct according to his best knowledge and belief.

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 8<sup>th</sup> day of November, 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

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**File No. SA-2018-0068**

**AFFIDAVIT OF AMANDA C. MCMELLEN**

State of Missouri        )  
                                  ) ss.  
County of Cole         )


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

Further the Affiant sayeth not.

  
\_\_\_\_\_  
**Amanda C. McMellen**

**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 November, 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
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**AFFIDAVIT OF STEPHEN MOILANEN**

State of Missouri    )  
                                  ) ss.  
County of Cole        )

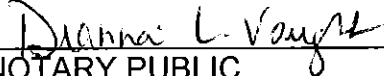
**COMES NOW** Stephen Moilanen, and on his oath declares that he is of sound mind and lawful age; that he contributed to the attached Staff Memorandum; and that the same is true and correct according to his best knowledge and belief,

Further the Affiant sayeth not.

  
\_\_\_\_\_  
Stephen Moilanen

**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 9th day of November, 2017.

  
\_\_\_\_\_  
NOTARY PUBLIC

DIANNA L. VAUGHT  
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**AFFIDAVIT OF SCOTT J. GLASGOW**

State of Missouri    )  
                                  ) ss.  
County of Cole        )

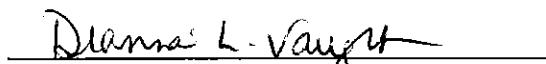
**COMES NOW** Scott J. Glasgow, and on his oath declares that he is of sound mind and lawful age; that he contributed to the attached Staff Memorandum; and that the same is true and correct according to his best knowledge and belief.

Further the Affiant sayeth not.

  
\_\_\_\_\_  
Scott J. Glasgow

**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 9th day of November, 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
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