

MEMORANDUM

TO: Missouri Public Service Commission
Official Case File, Case No. WA-2020-0397,
Liberty Utilities (Missouri Water) LLC, d/b/a Liberty Utilities

FROM: Curt B. Gateley – Water and Sewer Department
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/s/ Curt B. Gateley 4/16/2021 /s/ Travis Pringle 4/16/2021
Case Manager / Date Staff Counsel's Office / Date

SUBJECT: Staff's Recommendation to Approve Certificates of Convenience and Necessity, or in the Alternative, Deny

DATE: April 16, 2021

EXECUTIVE SUMMARY

In its Application for Certificates of Convenience and Necessity (CCNs) authorizing it to install, own, acquire, construct, operate, control, manage, and maintain a water and sewer system in Bolivar, Missouri, Liberty Utilities (Missouri Water), LLC (Liberty) has elected to exercise an option provided by §393.320, RSMo. The procedures outlined in this statute may be applied when a “large water public utility” as defined by the statute¹ acquires a “small water utility,” also as defined.² §393.320, RSMo, provides large water public utilities an alternative procedure to value acquisitions of small water utilities for ratemaking purposes (appraisal method). If a large water

¹ §393.320.1, RSMo, defines “Large water public utility” as, “a public utility that regularly provides water service or sewer service to more than eight thousand customer connections and that provides safe and adequate service but shall not include a sewer district established under Section 30(a), Article VI of the Missouri Constitution, sewer districts established under the provisions of chapter 204, 249, or 250, public water supply districts established under the provisions of chapter 247, or municipalities that own water or sewer systems[.]”

² §393.320.2, RSMo, defines “Small water utility” as, “a public utility that regularly provides water service or sewer service to eight thousand or fewer customer connections; a water district established under the provisions of chapter 247 that regularly provides water or sewer service to eight thousand or fewer customer connections; a sewer district established under the provisions of chapter 204, 249, or 250 that regularly provides sewer service to eight thousand or fewer customer connections; or a water system or sewer system owned by a municipality that regularly provides water service or sewer service to eight thousand or fewer customer connections; and all other entities that regularly provide water service or sewer service to eight thousand or fewer customer connections.”

public utility chooses to use these procedures, the Commission, should it grant the large water public utility's application, must use the appraisal method to establish the ratemaking rate base of the small water utility being acquired. As more thoroughly explained in the pleading attached to this Memorandum, it is Staff Counsel's position that Liberty does not currently meet the statutory definition of a large water public utility, as provided in 393.320, RSMo. Therefore, on this basis, it is Staff's position that the Commission is not bound to use the appraisal method to establish the ratemaking rate base for the acquired system. As explained herein, Staff asserts that utilizing the appraisal method for calculating rate base in this case will effectively create an acquisition premium of more than 50% of Staff's estimated net book value of the Bolivar water and sewer system assets, and inclusion of that value in rates would be contrary to the public interest. Therefore, Staff recommends rate base for the Bolivar systems be determined utilizing the net book value of water and sewer assets. With this condition, and others outlined herein, Staff recommends approval of Liberty's Application for CCNs authorizing it to install, own, acquire, construct, operate, control, manage, and maintain a water system and a sewer system in Bolivar, Missouri.

That being said, should the Commission find that Liberty does in fact meet the statutory definition of a large water public utility, Staff's position would be that the Commission deny Liberty's Application. While the City of Bolivar's wastewater treatment facilities have significant environmental compliance issues, and it is Staff's position that Liberty has the requisite technical, managerial, and financial qualifications to adequately address them, an acquisition premium of approximately \$7,000,000 would nonetheless be contrary to the public interest, and thus, Liberty's request for a CCN is not convenient or necessary for the public service. Therefore, it is Staff's position that, should the Commission find that Liberty meets the statutory definition of a large water public utility, the Application should be denied. Further discussion of these positions and a thorough review of the Application are provided below.

CASE BACKGROUND

On October 15, 2020, Liberty filed an Application with the Missouri Public Service Commission (Commission) for CCNs authorizing it to install, own, acquire, construct, operate, control, manage, and maintain a water and sewer system in Bolivar, Missouri, which is located in Polk County (Application). In its Application, Liberty states that it intends to acquire the water and sewer utility

assets that are presently owned and operated by the City of Bolivar (Bolivar or City). The Bolivar systems, as municipal utilities, are not presently subject to the jurisdiction of the Commission. The Application was docketed in two separate cases, Case Nos. WA-2020-0397 and SA-2020-0396, which were consolidated by the Commission, with Case No. WA-2020-0397 being designated the lead case.

On October 16, 2020, the Commission issued its *Order Directing Notice, Setting Date for Intervention, Consolidating Files, and Ordering Staff Recommendation*. The Commission established an initial date of November 15, 2020, by which Staff would suggest a date by which it could file a recommendation. Staff filed status reports on November 15, 2020, and February 8, 2021. The Commission established a final date for the Staff Recommendation of April 16, 2021. No parties sought to intervene in the case.

BACKGROUND OF LIBERTY

Liberty is an existing regulated water and sewer utility currently providing water service to more than 7,636 customers and sewer service to more than 638 customers in several service areas throughout Missouri. In recent years, Liberty has acquired several small existing water and sewer systems. Liberty is a subsidiary of Algonquin Power & Utilities Corporation (APUC), and is affiliated with other companies that undertake some of the tasks associated with utility service, such as customer billing, and technical resources.

BACKGROUND OF BOLIVAR

The City of Bolivar is a fourth class city with a population of approximately 11,000 located approximately 30 miles north of Springfield, Missouri. Construction of the water and sewer systems in Bolivar began in the 1940s and build out has continued over time to accommodate growth. The City's drinking water system requires relatively minor upgrades. However, the wastewater system is in noncompliance due to inflow and infiltration (I&I) causing the treatment plant to violate permit limits, and causing bypassing, which is a discharge of partially treated wastewater. The U.S. EPA first issued an enforcement order against the City on September 18, 2007. On June 2, 2020, the citizens of Bolivar voted 743 to 448 in favor of selling the City's water and sewer systems to Liberty. Additional details are provided below.

STAFF'S INVESTIGATION

Water and Sewer Systems

Staff from the Water and Sewer Department investigated the water and sewer systems, including compliance with drinking water and environmental regulations. As part of this investigation, Staff also reviewed information from Missouri Department of Natural Resources (DNR) records, including operating permits, inspections, notices of violations, sampling results, and correspondence with the owner/operator via formal sunshine requests. Additionally, physical inspections of the condition of the water and sewer systems occurred on November 4 and December 11, 2020.

This memorandum provides system descriptions, Staff observations, and system improvements under evaluation by Liberty. Included in Liberty's proposed improvements are cost estimates for the proposed improvements. Staff considers Liberty's proposals as conceptual, and the cost estimates as preliminary. Staff has included these proposals and cost estimates in this memorandum only to inform the Commission, and their inclusion is in no way an indication of Staff's support or adoption. Should Liberty's Application be approved by the Commission, Staff suggests that Liberty regularly update Staff on the design, construction, and startup of the improvements to the systems.

Service Area

In its Application, Liberty submitted a service area map and legal description that includes the City of Bolivar, the Bolivar airport, the Prairie Heights subdivision on the southern edge of Bolivar, and a separate system, Southtown, which is discussed further below. The service area map in the Application was missing some identifying features and required clarification of an easement boundary that extended to the Bolivar airport. Liberty subsequently prepared a modified water and sewer service area map incorporating the area that was initially separated between the city limits and the airport where Liberty will offer service, and adding clarifying detail for the Prairie Heights subdivision that receives sewer service only. A matching legal description was also created by Liberty for the modified service area. As indicated on the map and legal description, if the CCNs are approved, the Prairie Heights subdivision will continue to receive only sewer service from Liberty, as it has from the City. Water service for Prairie Heights is provided by Confluence

Rivers under a CCN approved in Case No. WM-2020-0282. Staff recommends that the modified service area map and legal description filed in response to Staff Data Request 0027 be utilized, and that this service area be depicted in Liberty's tariff; Staff understands the revised map and legal description will be submitted with the compliance tariffs, should Liberty's Application be approved.

According to the Application, the Bolivar systems provide service to approximately 4,690 water connections and 4,786 sewer connections.

Description of the Water System

As mentioned above, Liberty is proposing to acquire two systems currently owned by Bolivar, the original system serving Bolivar and a separate system known as Southtown, which was acquired by Bolivar in 2016.

The source of supply for Bolivar's water systems is groundwater. The primary Bolivar supply consists of six groundwater wells that are identified as Well #2 through Well #6, and an additional well located at the airport that is not connected to the main Bolivar system. Two of the wells, Well #5 and the airport well, are requested for conveyance by easement, where Liberty requests to purchase the wells but not the small parcels of land where these wells are located. DNR Permit No. 5000176-18 for this system indicates that wells 2 through 6 may not meet current construction standards. The permit explains, however, that the system is in compliance with the permitting requirements of the Missouri Safe Drinking Water Law and Regulations as long as the system continues to be properly operated and maintained and the wells do not develop contamination problems. If these conditions change, the installation of new wells would become a requirement. The Bolivar system provides sufficient storage capacity with three elevated storage tanks at a combined capacity of 1.45 million gallons. Chlorination is provided by gaseous chlorine cylinders for disinfection. Distribution piping includes various materials and vintages with the City reporting average annual water loss of less than fifteen percent.

Southtown (a system previously regulated by the Commission with CCN approval in Case No. WA-2005-0268 as Southtown Utilities Company, Inc.; subsequently sold to City of Bolivar effective January 20, 2016) is also supplied by ground water. It operates separately from the Bolivar system, with two smaller wells and storage tanks and chlorine disinfection. While

Southtown operates separately, there is a connection to the primary City system for backup supply. Both water systems appear to be well maintained and are generally in good condition. SCADA operational monitoring and control is in place for the water systems.

Proposed Improvements to the Water System

Short-term improvements under consideration by Liberty include upgrades to the SCADA system and replacement of the current gaseous chlorine cylinder supplied disinfection with a chlorine solution supplied alternative.³ This kind of upgrade is routine and has been done at many water systems in Missouri over the past several years.

Description of the Sewer System

Separate sewer systems also exist for Bolivar and Southtown, although some flow is currently diverted from the Southtown wastewater treatment plant (WWTP) to the Bolivar WWTP. Liberty intends at some point to eliminate the Southtown WWTP and divert all flow from this collection system to the Bolivar WWTP via a lift station.

The City sewer system operates under expired Missouri State Operating Permit MO-0022373, a permit that has not been renewed since last amended in 2013; the permit expired April 3, 2013. The Bolivar collection system utilizes gravity flow for sewage conveyance, with nine lift stations throughout the system. The WWTP is generally comprised of two oxidation ditch activated sludge biological reactors operating in parallel for removal of biodegradable organics, followed by final clarification basins and disinfection prior to effluent discharge. This plant's design flow is 2.5 million gallons per day (MGD) with a peak flow of 6.5 MGD. Due to I&I issues, the collection system experiences flows significantly in excess of 6.5 MGD during periods of wet weather, resulting in bypasses of treatment processes and effluent being discharged from the plant that does not meet permitted conditions. While a permit effluent limitation exceedance may range from significant to relatively minor, a bypass of partially treated wastewater poses a threat to human health and the environment in nearly all cases. The receiving stream, Town Branch, and Piper Creek, to which it flows, are on Missouri's list of impaired waters.⁴ On September 18, 2007, the U.S. EPA issued an Administrative Order for Compliance (AOC) requiring the city to reduce

³ Disinfection with a chlorine solution is less of a safety hazard than chlorine gas.

⁴ DNR 303(d) list.

inflow and infiltration by submitting a plan of action for elimination of sanitary sewer overflows, bypasses and backups. While the City has made some limited progress, and the City continues to report progress to EPA annually, the system remains in noncompliance. In addition to eliminating the bypasses, the WWTP must be upgraded to meet new effluent limitations for solids, total phosphorus, and total nitrogen, to allow for the recovery of Piper Creek.⁵

Additionally, as sludge is removed from the WWTP and disposed by land application with availability that is currently limited, sludge management for removal and disposal is difficult to achieve during wet weather periods, resulting in further operational compliance challenges. While land application is the most economical sludge disposal method, and the method most preferred method by U.S. EPA and DNR, Liberty may need to gain access to more acreage for land application.

The sewer system for Southtown operates under Missouri State Operating Permit MO-0121924, last issued August 1, 2020, with an expiration of June 30, 2025. This smaller WWTP uses recirculating sand filter beds with a design flow of 51,000 gpd to treat an actual flow of 54,530 gpd, per the permit. Some of the load to the sand filter plant is currently pumped through a recently constructed interconnection to the Bolivar plant for treatment. Rather than investing in the sand filter plant that is in need of maintenance, Liberty states that it plans to continue to operate the plant at a reduced load while evaluating replacement of the entire plant with a lift station. After improvements have been completed for the Bolivar plant, the option to convey all of the Southtown wastewater to the Bolivar plant will become available. The collection system for Southtown utilizes gravity flow for sewage conveyance, with four lift stations throughout the system.

Proposed Improvements to the Sewer System

Liberty's long-term plan for the Bolivar sewer system is to reduce the significant I&I problems within the collection system. The specific tasks for tackling this problem vary by equipment type, age, and various engineering challenges, and would need to be determined by Liberty as it continues examining the collection system. Tools could include slip lining of sewer lines, replacement of sewer lines, removal of illegal connections such as roof drains, lining or reconstruction of manholes, etc. Liberty has evaluated the timeframe for achievement and

⁵ Total Maximum Daily Load, U.S. EPA, November 1, 2010.

determined that the effort may take several years to accomplish and, based on that determination, capital improvement options for short-term solutions have been developed. Generally, the short-term plan includes installation and utilization of an earthen berm (or lagoon) to provide wastewater holding capacity for diversion and containment during periodic wet weather event flows. As these events subside, the ability to release wastewater gradually into the plant for treatment would be realized. Other plant upgrades Liberty is considering include additional pumping capacity, modification of clarifier feed design, and the installation of filter press dewatering equipment. Sludge is dewatered and mixed with lime to reach a high pH and thereby eliminate pathogens.⁶ The resulting product, called alkaline stabilized biosolids, is desirable to the agricultural community as a soil amendment for providing organic matter and nutrients. The biosolids are land applied based on nitrogen content, so as to avoid applying more nitrogen than will be utilized by the crops produced. According to the Feasibility Study included with Liberty's Application, if the CCNs are approved, upgrades totaling approximately ** _____ ** are planned for year one in order to achieve environmental compliance. As discussed above, these preliminary plans will be adapted as Liberty learns more about the system; should the Commission approve its Application, Liberty should provide regular updates to Staff.

Staff understands that Liberty's planning is preliminary and further evaluation will be conducted if the CCNs are approved.

Rate Base

Plant-In-Service Balances

The Auditing Department reviewed information provided by Liberty in response to Staff's data requests, Liberty's Application with included sale agreement documents, and Liberty's work papers. The plant-in-service records have been maintained by Bolivar for the water system and sewer system and were used to determine the current net book value of Bolivar assets. Staff has determined appropriate depreciation rates for each Uniform System of Accounts (USOA) category of plant-in-service, separately for both the water and sewer operations. Based upon the supported and estimated levels of plant in service and depreciation rates, Staff determined the appropriate balances of accumulated depreciation separately for both the water and sewer systems. In addition,

⁶ EPA fact sheet EPA 832-F-00-052, September 2000.

Staff determined that no assets should be treated as contribution in aid of construction (CIAC) based on Liberty’s response to Staff Data Request No. 0028. Liberty stated in its response that all of the assets in the asset purchase list are appropriate rate base items.

Staff determined the value of net plant investment, or “rate base,” by studying documentation of the cost of constructing plant, along with annual depreciation expense, and whether or not plant facilities or money was contributed by customers or land developers. Based upon Staff’s analysis, the net book value of assets proposed to be purchased from the City of Bolivar by Liberty as of March 31, 2021 is approximately \$7,745,104 for the sewer system, and \$5,273,511 for the water system; \$13,018,615 combined. Several of the assets date back to the 1950s and have been fully depreciated, resulting in a net zero rate base value for those assets. Staff recommends that the above amounts it calculated in this case should be used by Liberty to record the rate base value of the acquired assets on its books and records if the sale is approved by the Commission.

The following is a breakdown of the rate base components:

	Water	Sewer
Plant in Service	\$8,528,604	\$11,739,660
Accumulated Depreciation	\$3,255,093	\$3,994,556
CIAC	0	0
Net Plant minus CIAC	\$5,273,511	\$7,745,104
CIAC Amortization	0	0
Net Rate Base	\$5,273,511	\$7,745,104

Appraisal

For this case, Liberty has chosen to exercise an option provided by §393.320, RSMo. This statute may be applied when a large water public utility as defined by the statute acquires a small water utility also as defined. However, it is Staff Counsel’s position that Liberty does not currently meet the definition of a “large water public utility” as set out in statute, which is discussed further in the cover pleading accompanying this Memorandum. Liberty currently serves only 7,636 water

customers and 638 sewer customers.⁷ That being said, for the purposes of providing the Commission with a complete investigation, the appraisal is discussed below.

§393.320, RSMo, provides large water public utilities an alternative procedure to value acquisitions of small water utilities, for ratemaking purposes (appraisal method). On advice of Counsel, if a large water public utility chooses to use these procedures, the Commission, should it grant the large water public utility's application, must use the appraisal method to establish the ratemaking rate base of the small water utility being acquired.

The appraisal method outlined in statute requires an appraisal of the small water utility be performed by three (3) separate appraisers; one appointed by the small water utility, one appointed by the large water public utility, and a third chosen by the two appraisers so appointed. The three appraisers then shall perform a joint appraisal of the small water utility property and assets, coming to a common determination of the fair market value of the utility. The lesser of the purchase price or the appraised value, together with the reasonable and prudent transaction, closing, and transition costs incurred by the large water public utility, shall constitute the ratemaking rate base for the small water utility as acquired by the acquiring large water public utility.

The appraisal method described in §393.320, RSMo, has only been utilized once before, so there is little precedent to guide Staff's recommendation in this matter. Staff reviewed the appraisal report Liberty filed with the Application, which included the methods and assumptions used to establish the value of the systems. Staff obtained via data request an engineering report describing plant facilities. Staff also conducted an on-site investigation of assets in service, described in this memorandum, and created its own estimate of plant values as a tool that it used to evaluate the reasonableness of the conclusions reached in the Company's appraisal report. Staff's estimated plant values discussed above are based on its field observations, descriptions of various assets, age of each of the assets along with rehabilitations as described by representatives from Bolivar accompanying Staff during the field investigation, and information from the appraisal report. The appraisal report assigns a market value for the systems of \$20,000,000, which is less than the agreed to purchase price of ** _____ **. Thus, if the Commission determines Liberty is a

⁷ Liberty response to Staff Data Request 0004.

large water public utility for purposes of 393.320, RSMo the Commission must use the appraised value of \$20,000,000 to establish rate base. Staff's conclusion is that the use of the appraisal value of \$20,000,000 as rate base is not in the public interest.

The appraisal method is used to estimate a market value for the utility systems as a whole to be used as rate base for the system, in lieu of the Commission's typical practice of determining rate base using the net book value of system assets. The appraisal method provides a market value for system assets, including those that are fully depreciated. As a result, by using an appraised value to establish rates, customers will be paying again for assets they have already paid for. It is Staff's position that the procedure outlined in §393.320, RSMo, effectively creates an acquisition premium when the appraisal price is greater than the net book value of the utility assets. In this case, when compared to Staff's calculated net book value of assets, the effective acquisition premium is approximately \$7,000,000.

Should the Commission approve Liberty's Application, rate base for the Bolivar system must still be reflected on its utility plant account records. These records must be kept in accordance with the USOA, as required by Commission regulations 20 CSR 4240-50.030 for water utilities and 20 CSR 4240-61.020 for sewer utilities. The cost of individual plant assets must be booked into the appropriate plant account with original cost, along with information regarding the year constructed. Liberty will be tasked with making determinations, based on rate base as determined by the appraisal, of values for original cost, depreciation reserve, and CIAC amounts that can be booked in its plant records.

Depreciation

Staff's Engineering Analysis Department recommends the depreciation rates included in Attachment A. These rates are similar to those prescribed for most regulated water and sewer systems and those already prescribed to other Liberty systems.

Publicity and Customer Notice

According to Liberty, Bolivar held town hall meetings on February 25, 2020, and March 17, 2020, to discuss the sale and granting of franchise status to Liberty. Prior to the June 2, 2020, vote, Liberty contacted potential voters via phone to determine if they had reached a decision and to inform customers of the date of the vote and encouraging a "yes" vote for the sale to Liberty.

In addition, Liberty sent one mailing informing customers of the original date of the vote, April 7, 2020, being postponed due to COVID-19. Liberty also created an informational website, <https://betterwaterbolivar.com>, and sent five mailings detailing the history and answers to frequently asked questions concerning the acquisition and the vote.

Customer Experience

Liberty uses a customer information system (CIS) called Customer Watch. For Bolivar residents that are current electric customers of Liberty,⁸ an account already exists and could be updated to reflect receipt of water and sewer service, should Liberty's Application be approved. Liberty's IT team has developed a process to pull customer information into the CIS. For current Liberty customers, all commodities will be billed on one monthly statement.

Bolivar currently bills its customers on the last day of the month, and the delinquent date is the 10th of the month. Should Liberty acquire the system, for customers that are currently Liberty electric customers, statements will be the same as the customers' current electric statement and will have 21 days after rendition of the billing statement to pay. All other acquired customers will also have 21 days to pay after the rendition of the billing statement.

Liberty's normal customer care hours are Monday through Friday from 7:00 a.m. to 7:00 p.m. at 1-800-206-2300. In case of emergencies, the same number will be available 24/7. In addition, customers will be able to contact Liberty 24/7 by email at customer.service@libertyutilities.com, or via Facebook @LibertyUtilitiesCentral from 8:00 a.m. to 5:00 p.m., Monday through Friday. Currently, Bolivar customers have access to a local office; Liberty has not made a decision regarding opening an office in Bolivar for customers to connect with Customer Service Representatives. New customers will be able to apply for service by phone, in person and online. Payment options for customers will be by phone, mail, over the counter at a Liberty office or a collector location, auto pay or online through a third party processor. Customers will be able to pay with cash, check, or credit card.

⁸ According to Liberty's Application in this case the following entities provide utilities service in the area: The Empire District Electric Company, Southwest Electric Cooperative, P.A.G. LLC d/b/a Prairie Heights Water Company, Prairie Heights Area Reorganized Common Sewer District, Red Cedar RV Park and Motel, and Red Cupola Childcare.

Rate and Tariff Matters

In response to Staff Data Request 0001, Liberty states that it proposes to adopt Bolivar’s existing rates for all of the Bolivar customers. Liberty proposes to adopt these rates into tariff No. 14 for water customers and No. 15 for sewer customers.

	Customer Charge*	Commodity Charge
Water Rates	\$18.07	\$3.72
Sewer Rates	\$30.03	\$5.32

*includes the first 2,000 gallons of usage, for both water and sewer

Because of the significant acquisition premium created through use of the appraisal process, if the Commission finds that Liberty meets the statutory definition of a large water public utility, and approves its Application, it is Staff’s recommendation that Bolivar’s future rates not be consolidated with Liberty’s other customers for a period of at least ten years.

If approved, Staff recommends that the Commission order Liberty to file tariff sheets adopting Bolivar’s existing water tariff and sewer tariff, along with sheets for the map and legal description of the Bolivar service area, within ten (10) days after closing on the Bolivar assets. Staff recommends the Commission authorize Liberty to provide water and sewer service by the terms of tariff Nos. 14 and 15 on an interim basis until the effective date of such Adoption Notices.

Technical, Managerial, and Financial Capacity and Tartan Energy Criteria

Staff utilizes the concepts of Technical, Managerial, and Financial capabilities (TMF) in studying applications involving existing water and/or sewer systems. Staff has reviewed and stated its position on TMF regarding each of Liberty’s affiliates in previous CCN and transfer of assets cases before the Commission. Staff’s position on Liberty’s ability to meet TMF criteria remains positive regarding those affiliates, and similarly takes the position that Liberty has adequate TMF capability in this case. It is Staff’s position that Liberty has the ability to secure funding, to oversee construction of any necessary upgrades or repairs, and the ability to successfully manage operations of the Bolivar utility systems.

When considering a request for a new CCN, the Commission applies criteria originally developed in a CCN case filed by the Tartan Energy Company and referred to now as the “Tartan criteria.” The Tartan criteria contemplate 1) need for service; 2) the utility’s

qualifications; 3) the utility's financial ability; 4) the economic feasibility of the proposal; and, 5) promotion of the public interest. Similar to the TMF capabilities, in previous CCN cases Staff investigated these criteria and that investigation relates to this proposed acquisition. The results of Staff's investigation are outlined below:

(1) Need for Service

There is both a current and future need for water and sewer service. The existing customer base in Bolivar has both a desire and need for service. In addition, there is a need for the necessary steps to be taken to bring the Bolivar's sewer system into compliance, and to ensure the provision of safe and adequate service. Further, Bolivar has made the decision to exit the water and sewer utility business, sell the existing system to Liberty, and rely upon Liberty to properly operate and maintain the existing water and sewer system in order that customers will continue to have safe and adequate service.

(2) Applicant's Qualifications

Liberty is an existing water and sewer corporation and public utility subject to the jurisdiction of the Commission. As mentioned above, Liberty currently provides water service to approximately 7,636 water customers and sewer service to 638 sewer customers in several service areas throughout Missouri. Liberty is a subsidiary of Algonquin Power & Utilities Corporation, and is affiliated with other companies that undertake some of the tasks associated with utility service, such as customer billing, and technical resources.

(3) Applicant's Financial Ability

Liberty stated in its Application that no approval for financing was being sought as part of this Application; however, Liberty has separately requested long-term financing for this acquisition in Case No. WF-2021-0016.⁹ Liberty has demonstrated over many years that it has adequate resources to operate utility systems it owns, to acquire new systems, to undertake construction of new systems and expansions of existing systems, to plan and undertake scheduled capital improvements, and timely respond and resolve emergency issues when such situations arise. Staff finds that Liberty possesses the necessary financial ability for its proposal.

⁹The Commission issued an order approving Liberty's request for long-term financing related to the acquisition of the Bolivar systems, contingent on approval Liberty's Application in this matter, on April 15, 2021.

(4) Feasibility of the Proposal

Liberty's feasibility study indicates that the purchase of the City's assets will generate positive income. Liberty can draw upon the significant resources of its parent company, should any shortfall arise prior to the next rate case.

(5) Promotion of the Public Interest

As the Commission determined in Case No. GA-94-127, positive findings with respect to the other four standards above will, in most instances, support a finding that an application for a CCN will promote the public interest. Additionally, the citizens of Bolivar voted to approve the sale of the utility systems, Bolivar's elected officials were involved in the negotiation with Liberty and developed a subsequent Purchase Agreement between the City and Liberty.

Further, while it is Staff's position that Bolivar has the capability to eliminate the bypasses and upgrade the wastewater treatment facility, the City has not done so. Liberty also has the ability, and has developed sufficient plans, to bring the facility into compliance and cease pollution of Piper Creek. Restoring this public resource to its full use, and eliminating the public health threat of bypasses, is generally in the public interest.

However, it is Staff's position that the approximately \$7,000,000 acquisition premium created by the difference between the appraised value and Staff's calculation of net book value of the water and sewer assets is an unreasonably high price for customers to pay. This is especially true considering that Liberty will be required to incur significant construction costs to address compliance issues with the Bolivar sewer system. An additional \$7,000,000 included in rates on top of those construction costs is not in the public interest. Therefore, Staff recommends, should the Commission determine that Liberty does not meet the definition of a large water public utility per 393.320, RSMo, that rate base for the Bolivar systems be determined using the net book value of the system assets.

However, if the Commission does find that Liberty is a large water public utility, and approves Liberty's Application as filed, Staff recommends that Liberty keep Bolivar's books and records separate from Liberty's other service areas and that the rates for the Bolivar systems not be consolidated with the rates for Liberty's other customers for a period of at least ten years after the effective date of this transaction.

Staff's conclusion is that Liberty has the requisite TMF capacities to own and operate the Bolivar systems. Staff further concludes that Liberty's proposal meets the Tartan Energy criteria, if rate base for the systems is determined utilizing the net book value of the water and sewer assets. However, it is Staff's position that the transaction as requested by Liberty in its Application, i.e., utilizing the appraisal method contained in §393.320, RSMo, is not in the public interest.

OTHER ISSUES

Liberty is a registered business in good standing with the Secretary of State's office, is up to date with its annual reports and PSC assessments. There are no other active PSC cases that would have an impact on this application, beyond the finance case mentioned above.

STAFF RECOMMENDATION

Staff recommends the Commission find that Liberty is not a large water public utility pursuant to §393.320, RSMo, and approve Liberty's request for CCNs subject to the following conditions and actions:

1. Grant Liberty a CCN to provide water and sewer service in the proposed Bolivar service areas, as modified as outlined herein;
2. Approve existing Bolivar water and sewer rates applicable to customers in Liberty's Bolivar water and sewer approved service areas;
3. Establish rate base for the Bolivar systems utilizing Staff's calculation of net book value for water and sewer assets as of March 31, 2021.
4. Require Liberty to submit tariff sheets, to become effective before closing on the assets, to include a service area map, and service area written description to be included in its EFIS tariffs P.S.C. MO No. 14 and 15, applicable to water service and sewer service in its Bolivar service area;
5. Require Liberty to notify the Commission of closing on the assets within five (5) days after such closing;
6. If closing on the water and sewer system assets does not take place within thirty (30) days following the effective date of the Commission's order approving such, require Liberty 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 Liberty determines that the transfer of the assets will not occur;

7. If Liberty determines that a transfer of the assets will not occur, require Liberty 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 Liberty to submit tariff sheets as appropriate that would cancel service area maps and descriptions applicable to the Bolivar area in its water tariff, and rate sheets applicable to customers in the Bolivar area in both the water and sewer tariffs;
8. Require Liberty to develop a plan to book all of the Bolivar plant assets, with the concurrence of Staff and/or with the assistance of Staff, for original cost, depreciation reserve, and contributions (CIAC) for appropriate plant accounts, along with reasonable and prudent transaction, closing, and transition costs. This plan should be submitted to Staff for review within 60 days after closing on the assets;
9. Require Liberty to keep its financial books and records for plant-in-service and operating expenses in accordance with the NARUC Uniform System of Accounts;
10. Adopt for Bolivar Water and Sewer assets the depreciation rates ordered for Liberty in Case No. WR-2018-0170;
11. Require Liberty to provide to the Customer Experience Department an example of its actual communication with the Bolivar service area customers regarding its acquisition and operations of the Bolivar water and sewer system assets, and how customers may reach Liberty, within ten (10) days after closing on the assets;
12. Require Liberty to obtain from Bolivar, 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;
13. Except as required by §393.320, RSMo, 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 Liberty, including expenditures related to the certificated service area, in any later proceeding;

14. Require Liberty to distribute to the Bolivar 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 20 CSR 4240-13.040(3), within thirty (30) days of closing on the assets;
15. Require Liberty to provide to the CXD Staff a sample of ten (10) billing statements from the first month's billing within thirty (30) days of closing on the assets.
16. Require Liberty communicate with Bolivar customers concerning the billing date, delinquent date, and billing changes that will occur once the acquisition is approved, and provide a copy of this communication to CXD Staff.
17. Require Liberty to provide training to its call center personnel regarding rates and rules applicable to the Bolivar customers;
18. Require Liberty to include the Bolivar customers in its established monthly reporting to the CXD Staff on customer service and billing issues, on an ongoing basis, after closing on the assets; and
19. Require Liberty to file notice in this case outlining completion of the above-recommended training, customer communications, and notifications within ten (10) days after such communications and notifications.

In the alternative, if the Commission determines that Liberty is a large water public utility pursuant to §393.320, RSMo, and grants its Application as filed, Staff recommends that Liberty keep Bolivar's books and records separate from Liberty's other service areas and that the rates for the Bolivar systems not be consolidated with the rates for Liberty's other customers for a period of at least ten years.

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of the Application of Liberty)
Utilities (Missouri Water) LLC d/b/a Liberty)
Utilities for Certificates of Convenience and)
Necessity Authorizing it to Install, Own,)
Acquire, Construct, Operate, Control, Manage,)
and Maintain a Water System and Sewer)
System in Bolivar, Polk County, Missouri)

Case No. WA-2020-0397

**AFFIDAVIT OF CURT B. GATELEY, ANDREW HARRIS,
ANGELA NIEMEIER, ASHLEY SARVER, SCOTT J. GLASGOW,
GARY BANGERT, DAVID T. BUTTIG, PE**

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

COME NOW Curt B. Gateley, Andrew Harris, Angela Niemeier, Ashley Sarver, Scott J. Glasgow, Gary Bangert, David T. Buttig, PE, and on their oath declares that they are of sound mind and lawful age; that they contributed to the foregoing *Staff Recommendation* in memorandum form; and that the same is true and correct according to their best knowledge and belief, under penalty of perjury.

Further the Affiants sayeth not.

/s/ Curt B. Gateley
CURT B. GATELEY

/s/ Andrew Harris
ANDREW HARRIS

/s/ Angela Niemeier
ANGELA NIEMEIER

/s/ Ashley Sarver
ASHLEY SARVER

/s/ Scott J. Glasgow
SCOTT J. GLASGOW

/s/ Gary Bangert
GARY BANGERT

/s/ David T. Buttig, PE
DAVID T. BUTTIG, PE

LIBERTY UTILITIES (MISSOURI WATER)
BOLIVAR
SCHEDULE of DEPRECIATION RATES
WATER
WA-2020-0397

Account Number	Account Description	Depreciation Rate	Average Service Life (Years)	Net Salvage
Source of Supply				
311	Structures & Improvements	2.5%	44	-10%
314	Wells & Springs	2.0%	55	-8%
316	Supply Mains	2.0%	50	0%
Pumping Plant				
321	Structures & Improvements	2.5%	44	-10%
325	Electric Pumping Equipment	10.0%	10	0%
325.1	Submersible Pumping Equipment	10.0%	12	-20%
325.2	High Service or Booster Pumping Equip.	6.7%	15	0%
328	Other Pumping Equipment	4.0%	25	0%
Water Treatment Plant				
332	Water Treatment Equipment	2.9%	35	0%
Transmission and Distribution				
341	Structures & Improvements	2.5%	44	-10%
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	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%
399	Other Tangible Plant			