M E M O R A N D U M

TO: Missouri Public Service Commission
Official Case File, File No. WM-2020-0403

FROM: Curt B. Gateley – Water and Sewer Department
David C. Roos – Water and Sewer Department
David T. Buttig, PE – Engineering Analysis Department
Deborah Ann Bernsen – Customer Experience Department
Jason Kunst, CPA – Auditing Department

/s/ *James A. Busch* 9/18/2020
Water and Sewer Manager / Date

/s/ *Mark Johnson* 9/18/2020
Staff Counsel's Office / Date

SUBJECT: Recommendation of Approval of Requested Transfer of Assets and Rejection of Acquisition Premium Adjustment

DATE: September 18, 2020

EXECUTIVE SUMMARY & CASE BACKGROUND

On March 11, 2020, Confluence Rivers Utility Operating Company, Inc. (Confluence) filed its *Application and Motion for Waiver* (Application) with the Missouri Public Service Commission (Commission) in Case No. WM-2020-0282. In that application, Confluence proposed to purchase many systems, including Terre du Lac Utilities Corporation (TDLU). On June 1, 2020, Confluence voluntarily dismissed the portion of the application related to TDLU.

On June 12, 2020, Confluence filed its *Application and Motion for Waiver* (Application) with Commission in Case No. WM-2020-0403. The assets of TDLU are the only assets that Confluence is seeking to acquire in this case. With its Application Confluence requested an Acquisition Incentive pursuant to Sections 386.040, 386.250, and 393.140, RSMo, and Commission Rule 20 CSR 4240-10.085, in the form of both a rate of return premium and a debit acquisition adjustment.[1]

As detailed below, Staff's position is that the acquisition of TDLU by Confluence is not detrimental to the public interest. However, Staff's position regarding an Acquisition Incentive is that it is not in the public interest, and should be denied.

BACKGROUND OF TERRE DU LAC

TDLU is located in St. Francois and Washington Counties in Missouri, near the city of Bonne Terre, Missouri. TDLU provides water service to approximately 1,298 customers and sewer service to 1,255 customers. TDLU received its Certificate of Convenience and Necessities (CCN)

[1] In its application, Confluence refers to this as a "debt acquisition premium."

from the Missouri Public Service Commission (Commission) December 13, 1973, in Case No. 17887.

The current water rates for TDLU are as follows:

5/8" & 3/4" Meters	$14.85 per month
1" Meter	$37.14 per month
2" Meter	$118.85 per month
Usage Charge	$1.80 per 1,000 gallons of water used per month

The current sewer rates for TDLU are as follows:

Residential and Commercial

5/8" & 3/4" meters	$19.72 per month

Commercial, Multi-Family & Residential

1" meter	$49.29 per month
2" meter	$157.74 per month

Both the water and sewer rates became effective on September 29, 2017.

TDLU is co-owned by two brothers, Mike Tilley and Paul Tilley. The Tilley brothers purchased the TDLU systems from James Kwon, the previous TDLU owner, in April 2001. Mike Tilley oversees the day-to-day operations and serves as the licensed operator for the water system. Stephen Skiles currently serves as the licensed operator for the sewer system. Paul Tilley primarily maintains an ownership interest in the Company and occasionally provides very limited assistance with TDLU's operations.

TDLU's one drinking water system permitted by the Missouri Department of Natural Resources (DNR) and three DNR permitted wastewater treatment systems, have a history of repeated notices of violations (NOVs) and letters of warning (LOWs). TDLU was referred to DNR Water Protection Enforcement Section and then to the Attorney General's Office for multiple compliance issues.

In August of 2010, the Missouri Attorney General's Office (AGO) brought a case against TDLU on behalf of DNR for violations of the Missouri Safe Drinking Water regulations and the Missouri Clean Water Law; Case No. 10SF-CC00186. The case was brought before the Circuit Court of St. Francois County, Missouri, and is ongoing. On May 19, 2015, the parties to the case filed an *Agreed Partial Order of Preliminary Injunction*, which required TDLU to complete multiple improvements to each of its permitted systems. Based upon Staff's recent investigations, Staff determined the current status of the court ordered improvements to be as follows:

Drinking Water System

From Staff's document review, and site inspections, it appears that all of the court ordered system improvements have been made for the drinking water system, and past DNR compliance issues have been resolved.

Wastewater System

Oxidation Ditch

Completed Improvements

Install a perimeter fence with a locking gate in accordance with the standards contained in 10CSR 20-8.020(11)(C)11.

Improvements Not Completed

Install replacement equipment to provide sufficient aeration after obtaining the necessary construction permit(s)

Purchase and install a new or used stationary or mobile unit emergency generator with sufficient generating capacity to supply the oxidation ditch's electrical needs in the event of a power failure.

Three-Cell Lagoon

Completed Improvements

Submit to the Department [DNR] design proposals and engineering details intended to bring the lift stations and emergency overflow basins into compliance with the design requirements contained in 10CSR 20.8.

Install a perimeter fence with a locking gate around the WWTF in accordance with the standards contained in 10 CSR 20-8.020(11)(C)11.

Install audio and visual alarms on all lift stations for the north cell lagoon in the collection system.

Remove the brush and weeds from the berms and the fencerows of the lagoon system.

Improvements Not Completed

Install the necessary and required aerators in the primary and secondary lagoon cells in order to provide sufficient aeration to the system.

Install a flow effluent monitor to determine the actual flow discharging from the lagoon.

Collection Sewers

Completed Improvements

There are no completed improvements.

Improvements Not Completed

Assign a number or letter to each manhole and perform a study on the system, prioritizing the manholes that experience the most sanitary sewer overflows.

Install high-level flow monitoring alarms on the ten most problematic manholes.

Single-Cell Lagoon

Completed Improvements

Remove the brush and weeds from the berms and the fencerows of the lagoon system

Improvements Not Completed

There are no outstanding court ordered system improvements for the single-cell lagoon.

However, TDLU and the AGO have agreed to settlement terms that would resolve the case. Part of the settlement terms is for TDLU to sell its system to a Central States Water Resources, LLC (CSWR) entity. The matter has been continued to allow for review by the Commission. A status hearing is currently scheduled for December 15, 2020.

BACKGROUND OF CONFLUENCE

Confluence is an existing regulated water and sewer utility currently providing water service in several service areas throughout Missouri. Confluence is a subsidiary of CSWR, which is also the parent company of six other water and sewer companies in Missouri, as well as systems in

Arkansas, Tennessee, Kentucky, and Louisiana. In its Application Confluence stated it provides water service to approximately 547 customers and sewer service to approximately 636 customers. As of its last rate case, Case No. WR-2020-0053, Confluence provided water service to 543 customers and sewer service to 627 customers.

STAFF'S INVESTIGATION

Staff from the Water and Sewer Department investigated the condition of TDLU's water and sewer systems, including its performance and compliance with drinking water and environmental regulations. Staff also reviewed information from DNR's records, including operating permits, inspections, notices of violation, and letters of warning.

Staff performed an investigation of TDLU that included reviews of regulatory compliance of TDLU and three site inspections conducted on June 11, 2019, July 2, 2019, and July 8, 2020. Two of the inspections and reviews were in part routine system inspections, a follow-up of Staff's operational recommendations made in TDLU's last two rate cases and a follow-up of the company's violations of DNR regulations and subsequent DNR enforcement actions. The third site inspection was triggered by this merger case and as a follow-up to the previous two inspections. The results of this investigation are as follows:

- Staff observed several key pieces of equipment in various states disrepair, including fire hydrants, lagoon aerators, a clarifier, and an aeration rotor in the oxidation ditch. There appears to be no significant effort to repair or replace this equipment.
- Staff observed a considerable sludge build-up in TDLU's three-cell lagoon, the oxidation ditch, and at lift station #3.
- Staff verified that there is a long-term (greater than 10 years) use of cashless, trading of services with a local vendor based on verbal agreements.
- Staff verified from TDLU personnel that TDLU completed some but not all of the conditions agreed to in the last two rate cases, as described in detail below.
- Staff confirmed that TDLU has not completed all of the system improvements, as ordered by the Circuit Court of St. Francois County, Missouri in *Agreed Partial Order of Preliminary Injunction*, Filed May, 19, 2015, in Case No. 10SF-CC00186.
- During the most recent site visits Staff found TDLU personnel to be polite and helpful but unwilling or unable to completely follow through on system improvements that were part of Commission approved agreements between parties in the two most recent rate cases and on agreed upon action items with Staff from previous Staff site inspections. Operationally, there are several unresolved issues

including equipment repair and sludge management.[2] Inflow and Infiltration of surface or groundwater into the collection system (I&I)[3] appears to be significant, and maintenance is needed.

These inspections were conducted with the current owner / operator of the TDLU systems; Staff had separate discussions with Confluence's personnel on proposed capital improvements. Staff agrees with Confluence that these systems will require repairs and improvements. Based on its current knowledge of the systems, Staff, at this time, considers Confluence's proposals for system repairs and improvements to be a reasonable plan for providing safe and adequate service. Confluence's preliminary cost estimates for the planned repairs and improvements are provided in this Memorandum for informational purposes only. Staff will review all investments and the actual costs for all repair and improvements during a future rate case to be filed by Confluence. Staff's review and observations are listed below each system description.

Description of Drinking Water System

The drinking water system utilizes groundwater wells as the source of supply. Historically, the Company has had two issues with its water supply source: capacity and quality. Prior to 2015, the existing well field (Wells 1, 2, and 3) did not provide sufficient capacity for TDLU's service area. In addition, ground water in the area of the Terre du Lac Community has a significant radionuclide contamination. These radionuclides are naturally occurring isotopes of the mineral Radium, with associated Alpha particle emission. TDLU has experienced ongoing environmental issues relating to these naturally occurring radionuclide levels within its well systems. The addition of a new drinking water well (Well #4) in 2016, and the removal of Well #1 from service has significantly increased system capacity and reduced the radionuclide problem. Well #4 was drilled to a depth that includes significantly less radionuclides, although production from this well may eventually draw higher concentrations from within the aquifer. If this occurs installation of additional treatment, such as an ion-exchange resin softener, may be necessary.

Well #2 provides approximately 100 gallons per minute (gpm), and is a backup source when the system demand is high, such as peak usage day of the year. Well #3 provides approximately 250 gpm and the Well, #4, provides approximately 320 gpm. The water supply utilizes chlorine disinfection. With the current well field (Wells 2, 3 and 4); Staff considers the daily pumping capacity to be adequate.

Storage is provided by two elevated tanks with 50,000 and 100,000 gallon capacities, respectively. For a system with multiple sources of supply (wells) this is adequate storage for peak-hour flows plus some reserve volume for fire protection. The distribution system, with water meters on all customer service connections, has approximately 50 miles of 4, 6, and 8-inch diameter pipe.

[2] Violation of 20 CSR 4240-60.020(1).

[3] Violation of 20 CSR 4240-60.020(3).

DNR Permits and Inspections

The TDLU drinking water system operates under a DNR Permit to Dispense Water to the Public with identification number MO4036059. The drinking water system is subject to the *Agreed Partial Order of Preliminary Injunction* in Case number 10SF-CC00186 before the Circuit Court of St. Francois County, filed May 19, 2015, which states, in part, that "Defendants shall reduce radionuclide present in the Community Public Water System … to levels below the Maximum Containment [sic] Level ("MCL").

The results of Staff's Sunshine Request to DNR show that the system has operated in the past with significant deficiencies. Significant deficiencies are defined as defects in design, operation or maintenance of the water system that can cause public health concerns, or have the potential to introduce contamination to the water system.

In the past, DNR has also found the drinking water system was out of compliance numerous times for several violations of the Missouri Safe Drinking Water Statutes. Since 2015, DNR has found the following significant deficiencies and violations:

- The 50,000 gallon tank was in need of sanitary repairs
- Exceeded the maximum contaminant level (MCL) for radium
- Failure to provide public notice of exceeding the MCL for radium
- Not adequately following its coliform sampling plan
- No established lead plumbing ban program
- No cross control ordinance or user's agreement

From Staff's document review, it appears that these DNR compliance issues have all been resolved at the current time.

Staff Observations of Water System

During its June 11, 2019, site inspection, Staff inspected the water system and found it to be operating under normal conditions. The exterior surfaces of both elevated tanks have deteriorated with faded paint and surface corrosion. The well houses appear to be original structures and have weathered roofing and siding. Although operational, some equipment, including meters, piping, chlorination equipment and control systems show signs of age and wear and are obsolete. During a partial drive through of the distribution system Staff found one fire hydrant with damaged outer housing, one hydrant partially buried in a front yard, and one hydrant painted white and possibly disconnected from the system. During its July 2, 2019, site inspection Staff observed a second, partially buried fire hydrant.

Staff observed no significant changes to the water system during its July 8, 2020, inspection.

Proposed Improvements for the Water System

Confluence anticipates making the following capital improvements:

- Refurbishment of the two elevated storage tanks, including:
  - Surface preparations and painting,
  - Extension of overflow piping and splash pad,
  - Addition of a new ladder and safety devices.
- Refurbishment of the well house exteriors,
- Installation of electrical wiring in conduit,
- Installation of remote monitoring equipment,
- Installation of a new magnetic flow meters at the well houses,
- Installation of chlorination equipment at the well houses,
- Closure of Well #1,
- Repair / replacement of well piping at Wells #2, 3, and 4,

Confluence's cost estimate for upgrades to the drinking water system includes ** _____ ** for construction costs, plus a ** ____ ** construction cost contingency, plus surveying and engineering. The total project cost estimate for all of the proposed capital improvements, with contingency is ** _____ ** with estimate completion of the projects to occur no later than 18 months after the acquisition closing.

Confluence's proposed improvements are consistent with the results of Staff's document review and Staff's observations at the time of Staff's inspection.

Description of Single-Cell Lagoon and Collection Sewer

This system is a gravity flow collection sewer with a single-cell lagoon approximately 100 feet in diameter that serves approximately 18 customers. The operating permit shows an actual flow is 4,000 gallons per day, with a design flow of 15,000 gallons per day. According to DNR personnel the actual flow has been measured as high as 27,000 gallons per day and this excess flow has been attributed to I&I. In addition to exceeding the authorized flow for the facility, and therefore pollutant loading to the receiving stream, excessive flows caused by I&I often prevents a sewer treatment system from properly functioning. This can result in sludge being discharged to the receiving stream, exceeding effluent limitations for a period during and after the high flow event, and can cause damage to treatment facilities.

A TDLU employee indicated to Staff that there is a general plan to replace this facility with a lift station. Construction of the lift station would also involve the construction of a new electric

power line connection, and a force main to transfer sewage to the collection system that drains to the Company's oxidation ditch; however, there is no design and no schedule to construct this lift station.

DNR Permits and Inspections

The single-cell lagoon operates under DNR permit MO-0057312, last issued July 1, 2017, and expires June 30, 2023. The permit was issued with conditions, including a schedule of compliance (SOC) for new effluent limits for ammonia and E.coli. The single-cell lagoon is also subject to the *Agreed Partial Order of Preliminary Injunction* in a DNR enforcement action against TDLU, as Case number 10SF-CC00186 before the Circuit Court of St. Francois County, filed May 19, 2015. The enforcement action is due to the following reasons: caused pollution to the waters of the state, failure to comply with permit conditions, failure to fulfill operational testing requirements, failure to operate and maintain the wastewater facility, failure to retain a certified operator, failure to submit discharge monitoring reports, failure to upgrade facilities, illegal discharge of wastewater/sediment, sludge violation, and violated water quality standards.

In addition, the results of Staff's Sunshine Request to DNR show that DNR is very concerned with peak discharge flows that exceed the design flows for the lagoon. The system has operated in the past with several significant deficiencies. Some of the deficiencies appear to have been resolved. In the past, however, as noted by DNR, and per Staff's most recent observations, the lagoon berms have not been maintained and are a continuing concern.

Staff Observations of the Single-Cell Lagoon

During its June 11, 2019, inspection, Staff observed that the lagoon was in poor overall condition, with a thick layer of duckweed over the surface of the lagoon, and damage to the berm caused by rodents and weathering. Staff detected a slight septic odor at the berm of the lagoon and noted that the access gate was not locked. Locked gates and fencing are DNR requirements to restrict access to sewer treatment facilities. A septic odor from a lagoon, in addition to being objectionable to nearby residents, often indicates that the lagoon is not properly functioning.

During its July 8, 2020, site inspection, Staff observed that the access gate was locked and some fencing had been repaired. Compared to the previous inspection, there was no change in the overall condition of the lagoon or the surrounding berms. No progress has been made on the lift station project.

Proposed Improvements for the Single-Cell Lagoon

Confluence anticipates installing electrical service, an all-weather access road, and a lift station, force main and remote monitoring system. Confluence will investigate and address the I&I issues.

Confluence's cost estimate for this capital project is ** _____ ** for construction costs, not including construction cost contingency, surveying and engineering.

Description of Oxidation Ditch and Collection Sewers

The oxidation ditch and its collection sewers serve approximately 730 customers. The operating permit shows an actual flow of 66,000 gallons per day, with a design flow of 250,000 gallons per day. The collecting sewer systems consist of about 25 miles of pressure collecting sewers with each customer owning a septic tank effluent pump (STEP) unit. The STEPs pump wastewater to the treatment system, which consists of an oxidation ditch, which is a large, oval concrete basin with two aeration rotors. Adjacent to the oxidation ditch is a clarifier, a sludge holding tank with sludge return pumps and piping, and a chlorination contact chamber.

There is a small building used to house the electrical panel and motor starters, and is used as a one room office / lab.

DNR Permits and Inspections of Wastewater Treatment System

The oxidation ditch operates under DNR permit MO-0095311, last issued January 1, 2019, and expires December 31, 2022. A review of the performance history shows that between November 2015 and July 2018, Ammonia was reported as exceeding permit limits 11 times and *E. coli* was reported exceeding limits 9 times. The oxidation ditch is also subject to the *Agreed Partial Order of Preliminary Injunction* filed in Case number 10SF-CC00186 before the Circuit Court of St. Francois County. The enforcement action is due to the following reasons: caused pollution to the waters of the state, failure to comply with permit conditions, failure to fulfill operational testing requirements, failure to operate and maintain the wastewater facility, failure to retain a certified operator, failure to submit discharge monitoring reports, failure to upgrade facilities, illegal discharge of wastewater/sediment, sludge violation, and violated water quality standards.

In addition, the results of Staff's Sunshine Request to DNR show that DNR last inspected the facility in December 2017, and found it to be in compliance based on DNR's observations at the time of inspection; however, DNR also noted that repairs and upgrades to the system, including replacement/ repair have not been completed.

Staff Observations of Wastewater Collection and Treatment System

During its June 11, 2019, inspection, Staff observed a build-up of sludge and vegetation in the oxidation ditch, and one of the oxidation ditch's aeration rotor was inoperable. Algae and vegetation were growing on the clarifier's V-notched weirs and troughs. A TDLU employee indicated to Staff that parts were on order for the aeration rotor and that algae and vegetation would be removed from the system. He estimated that everything would be cleaned, repaired and

operational within two weeks. Staff also observed that the office/lab building and site fencing appeared to be original and showing age and deterioration.

During Staff's July 2, 2019, inspection, the same TDLU employee informed Staff that the necessary maintenance to the aeration rotor had not been conducted and that conditions at the oxidation ditch were the same as they had been three weeks ago.

Staff observed no significant changes to the operation or physical plant during its July 8, 2020, inspections.

Proposed Improvements for the Oxidation Ditch

Confluence is considering a phased approach to system improvements for the oxidation ditch treatment system. As part of a first phase, Confluence anticipates making the following improvements:

- Replacement of non-operable aeration rotor
- Installation of a sludge holding tank
- Installation of flow meter and remote monitoring
- Repair of fencing and building

Based on the results of the system evaluation and permit limits, a second phase of improvements may be necessary. Second Phase ("Phase 2") improvements include evaluating the disinfection system and potentially installing an ultra-violet disinfection unit, and potentially expanding or replacing the oxidation ditch in its entirety.

Confluence's cost estimate for the oxidation ditch capital improvement project is ** _____ ** for construction costs. This estimates does not include Phase 2 improvements, construction cost contingency, surveying and engineering costs.

Three-Cell Aeration Lagoon and Collection Sewers

The collecting sewer system consists of about 20 miles of gravity collecting sewer with three (3) lift stations. Station 1 and Station 2 pump wastewater to Station 3, and Station 3 pumps the combined wastewater to the treatment system. The treatment system is a three-cell lagoon with aeration in the primary and secondary cells. This facility serves approximately 530 connections.

DNR Permit and Inspections

The three-cell lagoon operates under DNR permit MO-0035700, last issued January 1, 2019, and expires December 31, 2023. A review of the performance history shows that TDLU failed to keep the berms of the lagoon mowed and kept free of any deep-rooted vegetation, and failed to submit

progress reports. The three cell lagoon is subject to the *Agreed Partial Order of Preliminary Injunction* filed in Case number 10SF-CC00186 before the Circuit Court of St. Francois County. The enforcement action is due to the following reasons; caused pollution to the waters of the state, failure to comply with permit conditions, failure to fulfill operational testing requirements, failure to operate and maintain the wastewater facility, failure to retain a certified operator, failure to submit discharge monitoring reports, failure to upgrade facilities, illegal discharge of wastewater/sediment, sludge violation, and violated water quality standards.

In addition, the results of Staff's Sunshine Request to DNR show that on January 4, 2017, DNR personnel visited TDLU in response to a concern that sanitary wastewater had overflowed from a manhole on to the ground and into a nearby stream. Discharges of untreated wastewater from the collection system are called Sanitary Sewer Overflows (SSOs) and are a threat to public health and the environment. They are most often caused by excessive I&I, but can also be caused by clogged sewers if the lines are not appropriately maintained. DNR last inspected the facility in December 2017, and found it to be out of compliance based on its observations at the time of inspection. Unsatisfactory findings included:

- The facility failed to clearly and sufficiently restrict unauthorized entry.
- The facility failed to clearly mark Outfall 001.
- The facility failed to place warning signs around its perimeter
- The facility failed to keep berms mowed and kept free of brush and animal dens.
- The facility failed to submit a progress report.

Staff notes that TDLU did perform some of the required actions to remedy these issues but not all issues have been resolved. The most notable unresolved issue is the continuing failure to keep the berms mowed and free of brush and animal dens.

Staff Observations of Collection Sewer and Treatment System

During its June 11, 2019, inspection, Staff inspected Lift Stations 1, 2, and 3. Staff was informed by a TDLU employee that Lift Stations 1 and 2 were operating normally, but Lift Station 3 was currently experiencing a power supply problem. Staff observed a large lagoon-like structure behind Pump Station 3 that was full of sludge and wastewater. The TDLU employee told Staff that the lagoon-like structure was an overflow basin for Pump Station 3 that was normally dry but was currently full because of the power supply problem to Pump Station 3. Once pump Station 3 became operable, the estimated repair time was 1 day; the overflow basin would be drained in a matter of hours. Staff did not detect an odor from the overflow basin on that date.

At the three-cell lagoon, Staff observed that the access gate did not have a lock and that only the secondary cell was being aerated with one aerator. Under normal operating conditions, the gate would be locked and both the primary and secondary cells would be aerated with multiple aerators. Staff was told by the TDLU employee that the gate would have a lock on it by the end of the day, that motors for the aerators were on order and that all aerators would be operating in 3 or 4 days.

During its July 2, 2019, inspection, Staff met with the same TDLU employee that Staff had met with previously on June 11, 2019, at Pump Station 3. Staff observed that the conditions at Pump Station 3 did not appear to have changed from the previous site inspection. The overflow basin was filled with wastewater and sludge and Staff detected septic odors several feet away from the basin. Staff was told that Pump Station 3's inlet was clogged, and TDLU personnel were repairing the pump. Pump Station 3 was operable when Staff left the site.

Further discussion with the TDLU employee during Staff's July 2, 2019, inspection corroborated the following operational concerns and equipment conditions previously known or suspected by Staff:

- The three-cell lagoon is approximately eight feet deep but contains about seven feet of sludge, leaving approximately one foot of operating depth, which does not allow for enough water for effective wastewater treatment.
- There are no immediate plans to repair inoperable aerators at the lagoon.
- The I&I of storm water into the sewer system, causing overflows at manholes and treatment systems is a common and long-term (over ten years) occurrence.

Staff observed no significant changes to the operation or physical plant from previous site inspections during its July 8, 2020, inspections.

Proposed Improvements for the Three-Cell Lagoon and Collection Sewer

Confluence is proposing the following improvements to the three-cell lagoon treatment system:

- Installation of a Moving Bed Biofilm Reactor (MBBR), a filter/clarifier, and a disinfection process,
- Installation of flow measurement and remote monitoring,
- Repair of fencing, berm, and electrical service
- Repair/replacement of aeration units,
- Construction of an all-weather access road,
- Evaluation of effluent box and repair as needed.
- Perform smoke testing, video inspections, and mapping of collection sewer.
- Repair and replace collection sewer to reduce I&I.

Confluence's cost estimate for the three-cell lagoon and collection system capital project is ** _____ ** for construction costs, not including construction cost contingency, or surveying and engineering.

Construction Cost Estimate for Wastewater System Improvements

The total cost estimate for improving the TDLU wastewater treatment systems is ** _____ ** This cost estimate includes an overall ** ____ ** construction cost contingency and surveying and engineering costs for all system improvements. These projects are planned to be completed no later than 18 months following the acquisition closing. The cost estimate does not include any Phase 2 improvements to the Oxidation Ditch.

Follow-Up of Rate Cases

Staff reviewed the Commission's *Report and Orders* and the Commission-approved agreements between parties in TDLU's previous two rate case, Case Nos. WR-2017-0110 and WR-2014-0104. Leading up to and included in these cases, TDLU agreed to undertake facility improvements to the drinking water system needed to address daily supply capacity and radionuclide contamination, and agreed to make improvements to the wastewater system needed to address operating deficiencies including violations of environmental regulations. As part of the WR-2014-0104 rate case, TDLU agreed to subsequently file a rate case, Case No. WR-2017-0110, to address recovery of capital expenses. Completed improvements include one additional drinking water well (Well #4) and a renovation of three sewage lift stations. However, not all of the improvements of TDLU's operation and equipment originally agreed to in the WR-2014-0104 case have been completed.

The following is a list of outstanding system improvements based on the results of an interview of TDLU staff on June 11, 2019 and informally reviewed with TDLU personnel during the July 2, 2019 and July 8, 2020 site inspections:

Drinking Water System

5. Install continuous pressure and tank level recording.

6. Complete a technical evaluation and quantification of the drinking water system; including, flow rates, sizes of piping/physical plant and updating of an accurate map.[4]

9. Determine the number of fire hydrants in need of repair, formulate plans to accomplish needed repairs and improvements, and maintain records of repairs and flow testing.

[4] Staff notes that an accurate, updated map of the distribution system has not been completed.

10. Observe and exercise every valve in the system and observe all of the distribution system at least once per year, preferably in winter after a few days of subfreezing temperature. The identified critical valves should be exercised annually and the other valves exercised every three years.

13. Add storage capacity, based on item 6 and 7, along with desirable fire flow reserve volume.

14. Maintain well house structures, and add security fencing.

Wastewater Treatment System

2. Repair/Install the second aeration rotor on the oxidation ditch.

3. Determine the actual flow of the north lagoon, including average and peak flow.

4. Establish a written plan for sludge hauling and disposal that includes a sound estimate of sludge to be disposed and recording procedure of sampling and quantities.

5. Complete a Technical evaluation and quantification of the wastewater system; including I and I, actual flow rates, actual solids production, condition of the STEP systems and pressure collecting sewers that transport wastewater to the oxidation ditch, sizes of the piping/physical plant and updating a map of the system.

6. Install and maintain adequate fencing to restrict access to all facilities by small children, pets and livestock.

7. Observe and document the condition of each manhole on the gravity sewer collection systems.

8. Resume maintenance and sludge hauling of STEP pump units; develop a system of recordkeeping for each specific pump unit in service as described herein.[5]

9. Evaluation of and likely elimination of the small single cell lagoon.

Summary of DNR Regulatory Compliance

TDLU has one DNR permitted drinking water system and three DNR permitted wastewater treatment system. All four systems have a history of repeated notices of violations (NOVs) and letters of warning (LOWs). TDLU has been referred to the Water Protection Enforcement Section and then to the Attorney General's Office for multiple compliance issues.

[5] Staff notes that only emergency repairs are made to the STEP units.

Currently there is an open case, Case No. 10SF-CC00186, before the Circuit Court of St. Francois County, Missouri in which an *Agreed Partial Order of Preliminary Injunction*, Filed May, 19, 2015, directs TDLU to complete multiple improvements to each of its permitted systems. Based upon Staff's recent investigation, Staff found no evidence that the following improvements have been made, all pertaining to TDLU's wastewater systems:

Oxidation Ditch

Install replacement equipment to provide sufficient aeration after obtaining the necessary construction permit(s)

Purchase and install a new or used stationary or mobile unit emergency generator with sufficient generating capacity to supply the oxidation ditch's electrical needs in the event of a power failure.

Three-Cell Lagoon

Install the necessary and required aerators in the primary and secondary lagoon cells in order to provide sufficient aeration to the system.

Install a flow effluent monitor to determine the actual flow discharging from the lagoon.

Collection Sewers

Assign a number or letter to each manhole and perform a study on the system, prioritizing the manholes that experience the most SSOs.

Install high-level flow monitoring alarms on the ten most problematic manholes.

However, as stated earlier in this report, TDLU and the AGO have agreed to settlement terms that would resolve the case. Part of the settlement terms is for TDLU to sell its system to a CSWR entity. The matter has been continued to allow for review by the Commission. A status hearing is currently scheduled for December 15, 2020.

Summary of Staff's Investigation of the TDLU Systems

TDLU has a history of noncompliance with PSC and DNR rules and regulations. During the most recent site visits Staff found TDLU personnel to be polite and helpful but unwilling or unable to completely follow through on agreed upon action items; further, Staff found TDLU to be in violation of PSC regulations as noted above. TDLU agreed to but did not complete all of the recommendations from in Case No. WR-2014-0104, and TDLU has not fully complied with the *Agreed Partial Order of Preliminary Injunction* in Case No. 10SF-CC00186 before the Circuit Court of St. Francois County, Missouri. Operationally, there are several unresolved issues including equipment repair, sludge management, and I&I. These issues were examined in depth

by Staff during the previous rate case, along with discussions with the Company regarding investments needed in the system. At that time, the Company employed operators who appeared to have the technical understanding of how to conduct the maintenance.

It is Staff's position that adequate revenue is built into existing rates to maintain the drinking water and sewer systems, and to retain employees capable of conducting this maintenance. TDLU has dismissed some of its operators and has not refilled the positions for several months. While TDLU has stated they have an operator who comes to collect drinking water and wastewater samples, TDLU not filling the other positions eliminates the possibility of other tasks being completed, such as mowing, proper sludge handling, seeking to identify leaks in sewer lines, etc.; all while TDLU continues to collect the money for these operator salaries in rates. Prior to the dismissal of these employees and continuing at least through the last inspection, TDLU chose not to properly remove sludge from the oxidation ditch, impairing its operation. These are examples of intentional neglect, rather than TDLU being unable to properly operate the utility. This type of action also raises the possibility of utility overearnings.

Depreciation

The Engineering Analysis Department performed a review of the depreciation rates for water and sewer utility assets, plant-in-service, and the accumulated depreciation reserves for TDLU. The Auditing Department used these depreciation rates in calculating the recommended rate base.

Staff therefore recommends that Confluence maintain existing depreciation rates for the plant accounts that were previously ordered by the Commission for TDLU.

The proposed depreciation rates, which were previously approved for TDLU, are included with this memorandum as Attachment A applying to water assets, and as Attachment B applying to sewer assets. Staff intends to review the depreciation schedules again when Confluence files for its next rate case.

Rate Base

As part of its review in this case, Staff's Auditing Department reviewed information provided by Confluence as part its application. Additionally Staff reviewed information provided by Confluence and TDLU through Staff and other parties' data requests. On July 8, 2020, Staff toured the TDLU systems and spoke with the owner/operator Mike Tilley. In addition to the above information, Staff reviewed current effective tariffs and annual reports for TDLU.

Confluence is seeking to acquire virtually all of the assets of the TDLU systems for ** _____ **; as part of the agreement TDLU will retain the ownership of several vehicles, however none of the vehicles that the owners of TDLU are seeking to retain were in-service and

included in rates in the previous cases. These vehicles were therefore not included in Staff's calculation of rate base below.

Staff is recommending that the net book value of the TDLU systems as of June 30, 2020, be used to determine the rate base in this case. To determine this value, Staff's starting point was the balances as of the true-up cut-off date from the most recent TDLU Rate Case, Case No. WR-2017-0110.[6] From that starting point, Staff reviewed the invoices for plant additions and retirements to determine the updated plant in service, depreciation reserve, Contributions in Aid of Construction (CIAC) and CIAC amortization balances. Staff updated the depreciation reserve balances and CIAC amortization balances through June 30, 2020. The chart below summarizes Staff's estimated rate base for TDLU as of June 30. 2020:

	Plant in Service	Depreciation Reserve	CIAC	CIAC Amortization	Net Book Value
TDLU (Water)	** _____ **	** _____ **	** _____ **	** _____ **	** _____ **
TDLU (Sewer)	** _____ **	** _____ **	** _____ **	** _____ **	** _____ **
Total	** _____ **	** _____ **	** _____ **	** _____ **	** _____ **

Based upon Staff's review of the information provided in this case, Confluence's purchase price is ** _____ ** above the current net book value of the TDLU systems. If the Commission approves Confluence's request in this case, Staff would expect that an updated rate base level will be established when Confluence files its next rate case for these systems. It has been Staff's position in prior cases that rates should be based upon the remaining net book value of the original cost of the utility plant at the time it was placed in service, and that no acquisition adjustment, above or below net book value, should be reflected in rates. However, as part of its application in this case, Confluence has requested an acquisition incentive pursuant to Commission Rule 20 CSR 420-10.085 in the form of a rate of return premium and a debit acquisition adjustment. Staff's analysis of this request is included later in this Memorandum.

Publicity and Customer Notice

It is Staff's understanding that, at the present time, there have been no notifications or meetings held to inform the customers of the pending case.

[6] Case Nos. WR-2017-0110 and SR-2017-0109 were consolidated, with WR-2017-0110 being designated as the lead case.

Customer Service and Billing

Should the Commission approve its application, Confluence intends to incorporate TDLU into its current billing and customer service system.

Customers may contact Confluence in one of several manners. Customer service personnel are available via phone to address customer questions or concerns Monday-Friday, 8 a.m. to 5 p.m. In addition, customers may send an email to customer service at any time and this will be forwarded to the appropriate group to address the question. The Company does not plan to maintain a local office. The main office is open from 7 a.m. to 5 p.m.to respond to customer concerns forwarded by Confluence operations or customer service staff. There is also an emergency number which operates on a 24/7 basis. Contact information for customers is included on the customer brochure, the website and all written materials sent to customers.

Customer billing information for TDLU will be obtained through company records and data will be entered into Confluence's billing system. As of July 1, Confluence has transitioned to a new billing system known as Starnik. Should the Commission approve the acquisition, existing TDLU customers will begin receiving a monthly bill from Confluence once it owns the system. Customers will have several options to pay bills such as check, money order, cashier's check, credit or debit card, and echeck. The methods of payment will include mail, on-line by credit or debit card, echeck or monthly auto-pay. Confluence does not require deposits from their customers.

Rate and Tariff Matters

In its Application, Confluence proposes to adopt the existing tariffs and rates of TDLU. Staff supports this proposal to maintain existing rates.

Staff supports this proposal to adopt TDLU tariffs, adopt existing water rates for the unregulated systems in P.S.C. MO No. 2, and adopt the existing sewer rates in P.S.C. MO No. 3.

Technical, Managerial, and Financial Capacity

In studying most situations involving transfers of assets and CCNs involving existing regulated water and/or sewer systems, Staff utilizes the concepts of technical, managerial, and financial capacity, or "TMF," originally developed by the United States Environmental Protection Agency. Staff has reviewed and stated its position regarding TMF regarding Confluence in previous CCN and transfer of assets cases before the Commission. Staff again reviewed Confluence's TMF capabilities in the context of this application, and takes the position that Confluence continues to demonstrate adequate TMF capability.

Technical Capacity

As noted above, Confluence is an existing regulated water and sewer utility currently providing water service to more than 547 customers and sewer service to approximately 636 in several service areas throughout Missouri. Confluence has acquired several small existing water and sewer systems, and, as a subsidiary of CSWR, is affiliated with other companies that undertake some of the tasks associated with utility service, such as customer billing, and technical resources. As such, it is Staff's position that Confluence has the requisite technical capacities to acquire and operate TDLU.

Managerial Capacity

Confluence intends to incorporate TDLU into its current billing and customer service system. Confluence's current customer service representatives will be available to take and process customer inquiries pertaining to billing and/or service issues, make necessary bill adjustments, enter into payment plans within company guidelines, interact with Staff in working with customer complaints, and manage new customer accounts and the closing of customer accounts. In the operation of its current system, Confluence has demonstrated the requisite managerial abilities to operate TDLU.

Financial Capacity

Confluence has the financial capacity to acquire and operate TDLU through access to capital through its upstream affiliates. Its parent company, CSWR, owns several water and sewer utilities in several states. It is Staff's opinion, based upon its current operations and past acquisitions, that Confluence has demonstrated that it has the requisite financial capacity to acquire and operate TDLU.

Tartan Criteria

It is also customary with most cases involving a new CCN for Staff to utilize the Tartan Criteria when analyzing requests for a new CCN. Confluence is requesting to acquire the existing CCN of the selling system, or in the alternative, that new CCNs be issued authorizing it to own, install, construct, operate, control, manage and maintain the systems it proposes to acquire from TDLU. Therefore, Staff asserts that the use of the Tartan Criteria is appropriate. The Tartan criteria contemplate: 1) need for service; 2) the utility's qualifications; 3) the utility's financial ability; 4) the feasibility of the proposal; and 5) promotion of the public interest. Similar to the TMF capacities, in previous CCN and CCN transfer cases Staff investigated these criteria and that investigation relates to this proposed acquisition. Based on Staff's investigation, it is Staff's opinion there is 1) a need for service, as the customers are already receiving service and will continue to need that service; further, there are currently several deficiencies associated with the service TDLU's customers are currently receiving. Confluence is capable of correcting those deficiencies and providing safe and adequate service; 2) Confluence is a qualified utility based on

its current provisions of water and sewer service; 3) Confluence has demonstrated its financial ability by making appropriate investment in its current operations; 4) the proposed rates are feasible since Confluence is not requesting a change in the currently approved Commission rates; and 5) due to the positive nature of the preceding criteria, this proposed acquisition not detrimental to the public interest.

OTHER ISSUES

Confluence is current on its water and sewer PSC assessment payments, is current on its annual reports, and is in good standing with the Secretary of State's office. TDLU has made a partial assessment payment, but still has a balance due of $3,462.92. TDLU is in good standing with the Secretary of State's office. Neither company has a proceeding before the Commission that should impact the outcome of this case.

Acquisition Incentive

As part of its application in this case, Confluence is seeking an acquisition premium or incentive pursuant to Commission Rule 20 CSR 4240-10.085, in the form of a rate of return premium and a debit acquisition adjustment. It is Staff's position that while the TDLU wastewater system may be considered a non-viable utility under the Commission's Incentives for Acquisition of Nonviable Utilities Rule, the granting an Acquisition Incentive in this situation is not in the public interest. Staff has several reasons outlined below why it recommends against the recovery of an acquisition premium in this case:

1. The water system is a viable utility;
2. Confluence did not perform the adequate due diligence required under the rule;
3. Confluence's inclusion of ** _____ **;
4. If the wastewater systems is considered to be nonviable at the current time, that is primarily due to past and current negligence or mismanagement of the systems; and
5. The acquisition premium would result in unjust or unreasonable rates.

Nonviable Utility

In accordance with 20 CSR 4240-10.085(3)(A)1., Confluence states on page 7 of the Application that both the TDLU water and sewer systems are nonviable utilities due to noncompliance with DNR requirements, and lists items in enforcement documents that remain uncompleted. 20 CSR 4240-10.085(1)(C) defines a nonviable utility as, a small water or sewer utility, serving eight thousand (8,000) or fewer customers that:

> 1. Is in violation of statutory or regulatory standards that affect the safety and adequacy of the service provided, including, but not limited to, the Public Service Commission

law, the federal clean water law, the federal Safe Drinking Water Act, as amended, and the regulations adopted under these laws;

2. Has failed to comply with any order of a federal agency, the Department of Natural Resources, or the commission concerning the safety and adequacy of service;

3. Is not reasonably expected to furnish and maintain safe and adequate service and facilities in the future; or

4. Is insolvent.

While the TDLU wastewater system is currently in violation of DNR requirements, the TDLU water system is currently in compliance. Confluence, in its application, references the AGO's enforcement action filed on behalf of DNR as evidence of the water system's noncompliance. However, the violations referenced in Confluence's application occurred from 2006 through 2012; according to DNR, the water system is now in compliance, and it is Staff's position that the violations are not relevant to this evaluation. Staff is not aware of any other violations of statutory or regulatory standards, or noncompliance with orders of state or federal agencies concerning the safety and adequacy of service. Violations that have been resolved are evidence the utility is capable of proper operation. Further, the water system is not insolvent, and is expected to continue to maintain safe and adequate service. For these reasons, TDLU's water system should not be considered as nonviable, and thus is ineligible for an acquisition incentive.

While the wastewater system is currently in violation of statutory or regulatory standards that affect the safety and adequacy of the service provided, and therefore could be considered non-viable pursuant to Commission Rule, it is Staff's position that the system can be brought into compliance with proper maintenance and appropriate investment by TDLU or another owner. Confluence's application lists several historic sewer system violations that are not relevant, and paperwork violations can be resolved with proper reporting. Historic violations that have been resolved, such as failure to conduct effluent testing in 2012, are not evidence of a utility being currently nonviable, they are evidence that TDLU was resolving violations. Nearly all utilities, particularly wastewater utilities, will, at some point, be out of compliance with statutory or regulatory standards due to the nature of biological wastewater treatment processes. However, the current relevant noncompliance for TDLU's sewer system is a failure to upgrade the North Lagoon and South Lagoon (or eliminate the discharge) and bring the oxidation ditch into compliance. The oxidation ditch can be brought into compliance by TDLU or another owner with proper maintenance and continued proper operation. The lagoons can either be eliminated with construction of lift stations or upgraded with additional treatment, as proposed by Confluence.

Additionally, as with the water system, Staff does not consider TDLU's wastewater systems to be insolvent at this time.

Records Related to the Original Cost of the Utility

20 CSR 4240-10.085(3)(A)2. requires that the applicant submit records related to the original cost of the utility as part of any acquisition incentive request. This includes an effort by the purchaser to obtain information from the seller concerning the net original cost of the properties to be acquired. The rule requires that the acquiring utility *must* exercise due diligence, and make reasonable efforts to obtain this information from the seller. However, it is Staff's position that Confluence has not demonstrated that it exercised appropriate due diligence in obtaining original cost information from TDLU; instead it relied on TDLU annual reports filed with the Commission for a determination of the net original cost of TDLU properties. In an effort to accurately determine and document the amount of the significant acquisition premium that Confluence is actually requesting above the value of the utility, and the resulting impact to customers, Staff has created an estimated calculation of TDLU's net book value as detailed below.

According to the communications included in the response to Staff Data Request No. 0010, ** _____ _____ ** seeking similar information in the previous acquisition case, Case No. WM-2020-0282, in which Confluence later dismissed the portion of the application related to TDLU. Additionally the rate base estimates provided to Staff in response to Staff Data Request No. 0013 ** _____ _____ _____. ** TDLU, like Confluence, is a Commission regulated utility and therefore has record retention requirements related to the information required to be requested in Rule 20 CSR 4240-10.85(3)(A)2. During the course of its review Staff was able to obtain the relevant information related to current plant, reserve and CIAC values directly from TDLU.

The TDLU annual reports relied upon by Confluence to ** _____ ** of the TDLU properties contain unaudited information and are often inaccurate at times, as Staff only reviews the annual reports for completeness not for the accuracy of the information at the times the annual reports are filed. For example, in Staff Data Request No. 0005, Staff requested information related to capital additions and retirements since the previous TDLU rate case, Case No. WR-2017-0110. Confluence's response was that they used TDLU's annual reports from 2017 onward to identify plant additions and retirements, and relied upon the statement from TDLU that were no supporting documents for the additions included in the annual reports. The 2017 annual report for TDLU reflects an addition to complete Well #4 in the amount of $68,590, however, the majority of that amount was already included in rate base in TDLU's last rate case, Case No. WR-2017-0110. Additionally, the 2017 annual report did not include the addition of the ** _____ _____ _____

_____
_____
_____
_____ **

Additionally, in its application Confluence states that it intends to file a plant-in-service study, as required by 20 CSR 420-10.085(6), as part of its next rate case to support the request for a debit acquisition adjustment, and would seek to recover the rate of return premium and/or debit acquisition adjustment through a surcharge on customers' bills. ** _____
_____
_____ ** In response to Staff Data Request No. 0012, Confluence stated that it did not allocate the acquisition premium between the water and sewer systems, but would be seeking recovery in rate base in a subsequent rate case. The difference in the valuations of TDLU's net plant between Confluence and Staff is due to Confluence relying upon TDLU's annual reports and third party asset valuation report,[7] while Staff calculated the net book value amounts shown in the Rate Base section of the recommendation using the rate base established in the previous TDLU rate case updated with supporting documentation.

In the asset valuation report provided as part of the application, Confluence is including an amount of ** _____
_____
_____
_____
_____
_____
_____
_____
_____
_____
_____
_____
_____
_____ **[8] The water USOA's require that "all amounts included in the amounts for utility plant, acquired as an operating unit or system, shall be

[7] ** _____
_____
_____ **

[8] ** _____
_____ **

stated at the cost incurred by the person who first devoted the property to utility service"[9] and further states "When utility plant constituting an operating unit or system is sold, conveyed, or transferred by sale, merger, consolidation, or otherwise, the book cost of the property shall be credited to the appropriate utility plant accounts."[10] Similar language is included in the USOA for Sewer utilities. For these reasons, ** _____ _____ _____ _____ **

Based upon Staff's calculation of the net book value of the TDLU system in this case, a debit acquisition adjustment based upon the full purchase price for the system would amount to a total of ** _____ **; ** _____ ** and ** _____ ** for the water and sewer systems respectively.[11] As discussed throughout the memo Staff is recommending no recovery of any acquisition premium or incentive by Confluence. While the systems do need some capital investment, it is Staff's position that the current state of the systems is primarily due to negligence and mismanagement by the current ownership. Rather than investing into the system, Terre Du Lac paid out dividends to its owners, paid health insurance and related costs for family members, and purchased excessively expensive vehicles[12] that required adjustments in previous rate cases by Staff. In past TDLU rate cases, it has been repeatedly expressed as Staff's position that the money used for dividends and non-utility expenses would be better served by being invested into the system. Additionally, review of the violations incurred by TDLU are primarily related to lack of reporting and proper maintenance of the system. In fact, the TDLU water system currently has no open violations, and has corrected the prior radionuclide problem with the completion of Well #4 in 2016. TDLU is a regulated utility and has filed rate cases as recently as 2017 and demonstrated that it was capable of obtaining financing for the completion of the lift stations and Well #4; TDLU is familiar with the process of filing for rate relief by filing a rate case to increase rates for the recovery of capital investment and increased expenses. It is Staff's recommendation that allowing Confluence to recover an acquisition premium or incentive in this case would be setting a precedent for at least indirectly rewarding bad management and/or negligence of a system at the potential expense of customers.

It is Staff's position that while Confluence's acquisition of the TDLU system is in the public interest, the recovery of any debit acquisition adjustment or rate of return premium would be detrimental to the rate payers and should be rejected by the Commission. In this case,

[9] 1976 Revisions of Uniform System of Accounts for Class A and B Water Utilities 1973, page 20-21.

[10] 1976 Revisions of Uniform System of Accounts for Class A and B Water Utilities 1973, page 25.

[11] This split is based upon the ratio of the current net book value of the water and sewer systems to the total plant-in-service.

[12] Since 2003 TDLU has paid out ** _____ ** in dividends to the owners.

Confluence is seeking a debit acquisition premium ** _____ _____ . ** If the Commission were to approve the debit acquisition adjustment and the return premium requested by Confluence it could potentially result in an estimated increase in rates of ** _____ ** and ** ____ ** for water and sewer customers respectively;[13] these increases would be on top of any future rate increases necessitated by Confluence's planned capital investments. Staff expects that the rate impact on customers of Confluence's planned additional capital investments and operational enhancements will be material. If Confluence's proposal for future rate recovery is approved, the resulting future rates would include the acquisition incentive on top of the increases, ** _____ ** and ** _____ ** for water and sewer respectively,[14] due to the planned capital investment by Confluence, would be unjust and unreasonable. These upgrades are proposed by Confluence to take up to 18 months from the acquisition closing date, but would not be placed into rates until Confluence filed a rate case.

In Staff's view, the Acquisition Incentive regulation is intended to address small troubled utilities that cannot come into compliance with applicable regulations on their own, and which would otherwise be unattractive to a larger acquiring company. A water and sewer utility with under 30 customers, for example, would have an extremely difficult time upgrading a lagoon and making repairs to an aging water system. Banks would be unlikely to give them a loan, and they would not have enough customers to raise the funds on their own. TDLU, however, has over a thousand customers and has already demonstrated an ongoing ability to obtain loans in recent years, including when it recently drilled a new water well. Under most criteria, the TDLU utility system would not be considered to be either distressed or non-viable utilities.

Staff also opposes Confluence's request for a rate of return premium in the case, for the reasons previously set out for the acquisition premium regarding viability, system mismanagement and neglect, and customer rate impact. Accordingly, it is Staff's position that an Acquisition Incentive, to include an acquisition premium of ** _____ **, as well as a rate of return incentive, is not in the public interest and should not be approved in this case.

STAFF'S RECOMMENDATIONS AND CONCLUSIONS

Staff's position, based on its review as described herein, is that the transfer of utility assets is not detrimental to the public interest, but that granting of the Acquisition Incentive is not in the public interest. Staff therefore recommends approval of the transfer of assets of TDLU and transfer of the affected CCNs, subject to the conditions and actions as outlined herein:

---

[13] These estimates are based on Staff's capital structure and return on equity from the most recent Confluence Rate Case No. WR-2020-0053. The monthly increase in rates due solely due to the acquisition premium would be approximately ** ____ ** for water customers and ** ____ ** for sewer customers.

[14] Based upon the estimated capital investment provided by Confluence in response to Staff Data Request No. 0020 using Staff's capital structure and return on equity from the most recent Confluence Rate Case No. WR-2020-0053.

1. Authorize TDLU to sell and transfer utility assets to Confluence, and transfer the CCN currently held by TDLU to Confluence upon closing on any of the respective systems;

2. Deny Confluence's request for an Acquisition Incentive;

3. Upon closing of the asset transfer, authorize TDLU to cease providing service, and authorize Confluence to begin providing service;

4. Require Confluence to submit an adoption notice prior to closing on the assets, to adopt the existing TDLU tariffs;

5. Require Confluence to create and keep financial books and records for plant-in-service, revenues, and operating expenses (including invoices) in accordance with the NARUC Uniform System of Accounts;

6. Require Confluence to follow the recommendations agreed to by TDLU in the Notice of Partial Disposition filed in the previous TDLU Rate Case Nos. WR-2017-0110 under agreement 3 listed below:

    a. Within thirty (30) days of the closing on the assets, Confluence shall report all plant additions related to customer service to Account 345 – Customer Services for water operations and Account 353 – Customer Services for sewer operations per the USOA.

    b. Within one hundred eighty (180) days of closing on the assets, Confluence shall record capitalized payroll related to customer connections as a separate journal entry to ensure this capitalized labor is properly reflected in Company's plant balances for ratemaking purposes. All journal entries to related to customer connects should be made on a quarterly basis.

    c. Within one hundred eighty (180) days of closing on the assets, Confluence shall record customer connection fees collected as a separate journal entry to ensure these amounts are properly reflected in Company's CIAC balance. All journal entries related to customer connections should be made on a quarterly basis.

    d. Within one hundred eighty (180) days of closing on the assets, Confluence shall track all meters installed on its water system separately from other costs to ensure proper Commission approved deprecation rate is applied for ratemaking purposes, and to ensure adequate records for tracking meter life, locations, and meter accuracy.

    e. Confluence shall submit, on or before August 15th of each year, to the Manager of the Auditing Department for the Staff copies of disks containing the final billed water usage, sewer service revenues and all miscellaneous revenues for each month on a separate basis for the period covering January through June. On or before February 15th of each year, Confluence shall provide to the Manager of the Auditing Department for the Staff copies of disks containing the final billed water usage, sewer service revenue, and all miscellaneous

revenue for each month on a separate basis for the period covering July through December.

f. Confluence shall maintain a Plant Additions and Retirements spreadsheet along with supporting documentation. This supporting documentation shall include any bids received, sale or purchase agreements, loan agreements, invoices by vendor and proof of payment.

g. Confluence will keep a record of the customers that are added and dropped off the system between the previous rate case and Confluence's next rate case.

h. Confluence shall continue tracking costs related to each customer connection to the sewer system and the water system using the form provided in the last rate case.

i. Confluence shall continue recording all parts purchased for customer connections as a separate journal entry to ensure a proper accounting of this cost.

7. Require Confluence to provide training to its call center personnel regarding rates and rules applicable to the customers acquired from the Selling Utilities, prior to the customers receiving notification of the pending acquisition;

8. Require Confluence to distribute to the newly acquired customers, prior to the first billing from Confluence, an informational brochure detailing the rights and responsibilities of the utility and its customers regarding its utility service, consistent with the requirements of Commission Rule 20 CSR 4240-13, as well as notification regarding changes to the billing cycle, bill format, and payment options within fifteen (15) days of closing on the assets;

9. Require Confluence to provide to the CXD Staff a sample of its actual communication with its newly acquired customers regarding its acquisition and operations of the utility assets, and how customers may reach Confluence, within fifteen (15) days after closing on the assets;

10. Require Confluence to provide to the CXD Staff a sample of five (5) billing statements for the acquired company from the first month's billing within thirty (30) days of such billing;

11. Require Confluence to file notice in this case once the Staff Recommendations regarding staff training, informational brochure, communications, and billing are completed; and

12. Make no finding that would preclude the Commission from considering the ratemaking treatment to be afforded any matters in any later proceeding.

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of the Application of Confluence Rivers Utility Operating Company, Inc., to Acquire Certain Water and Sewer Assets of Terre Du Lac Utilities Corporation	)))))	File No. WM-2020-0403

AFFIDAVIT OF CURT B. GATELEY, DAVID C. ROOS, DAVID T. BUTTIG, PE, DEBORAH ANN BERNSEN AND JASON KUNST, CPA

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

COME NOW CURT B. GATELEY, DAVID C. ROOS, DAVID T. BUTTIG, PE, DEBORAH ANN BERNSEN AND JASON KUNST, CPA, 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/ David C. Roos
David C. Roos

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

/s/ Deborah Ann Bernsen
Deborah Ann Bernsen

/s/ Jason Kunst, CPA
Jason Kunst, CPA

Terre Du Lac Utility Company
DEPRECIATION RATES
(WATER)
WM-2020-0403

ACCOUNT NUMBER	ACCOUNT DESCRIPTION	DEPRECIATION RATE	AVERAGE SERVICE LIFE (YEARS)	NET SALVAGE
300	Stipulated Plant	2.5%	40	0%
311	Structures & Improvements	2.5%	44	-10%
314	Wells & Springs	2.0%	50	0%
316	Supply Mains	2.0%	50	0%
321	Structures & Improvements Well House	2.5%	11	-10%
325	Submersible Pump Equipment	10.0%	12	-20%
332	Water Treatment Equipment	2.9%	35	0%
342	Distribution Reservoirs & Standpipes	2.5%	42	-5%
343	Transmission & Distribution Mains	2.0%	50	0%
345	Services	2.5%	40	0%
346.1	Meters - Bronze Chamber	9.5%	10	5%
346.2	Meters - Plastic Chamber	0.0%		
347	Meter Installations - Bronze Chamber	2.5%	40	0%
347.2	Meter Installations - Plastic Chamber	2.5%	40	0%
348	Hydrants	2.0%	50	0%
390	Structures & Improvements Office/Shop	2.5%	44	-10%
391	Office Furniture & Equipment	5.0%	20	0%
391.1	Office Computer Equipment	0.0%		
392	Transportation Equipment	0.0%		
393	Stores Equipment	4.0%	25	0%
394	Tool, Shop, and Garage Equipment	5.0%	18	10%
395	Laboratory Equipment	8.3%	12	0%
396	Power Operated Equipment	0.0%		
397	Communication Equipment	0.0%		

Attachment A

Terre Du Lac Utility Company
DEPRECIATION RATES
(SEWER)
SM-2020-0404

ACCOUNT NUMBER	ACCOUNT DESCRIPTION	DEPRECIATION RATE	AVERAGE SERVICE LIFE (YEARS)	NET SALVAGE
300	Stipulated Plant	2.5%	40	0%
311	Structures and Improvements	2.5%	44	-10%
352.1	Collection Sewers (Force)	2.0%	50	0%
352.2	Collection Sewers (Gravity)	2.0%	50	0%
353	Services	2.0%	50	0%
354	Flow Measurment Devices	3.3%	30	0%
326	Receiving Wells	5.0%	26	-5%
363	Electric Pumping Equipment	10.0%	10	0%
371	Treatment Plant Shed	2.5%	44	-10%
372	Treatment & Disposal Equipment	5.0%	22	-10%
390	Structure & Improvements Office/Shop	2.5%	44	-10%
391	Office Furniture and Equipment	0.0%		
391.1	Electronic Office Equipment	0.0%		
392	Transportation Equipment	13.0%	7	9%
393	Stores Equipment	4.0%	25	0%
394	Tools, Shop, and Garage Equipment	0.0%		
395	Laboratory Equipment	8.3%	12	0%
396	Power Operated Equipment	0.0%		
397	Communication Equipment	0.0%		

Attachment B