

MEMORANDUM

TO: Missouri Public Service Commission Official Case File
Case No. WA-2021-0116, Missouri-American Water Company

FROM: David C. Roos, Water and Sewer Department
Gary Bangert, Customer Experience Department
David T. Buttig, PE, Engineering Analysis Department
Courtney Barron, Auditing Department

<u>/s/ David C. Roos</u> <u>02/04/2021</u>	<u>/s/ Casi Aslin</u> <u>02/04/2021</u>
Case Manager, Water & Sewer Dept.	Staff Counsel Department / Date

SUBJECT: Staff Recommendation to Approve Certificate of Convenience and Necessity

DATE: February 4, 2021

EXECUTIVE SUMMARY

The Table Rock Estates Subdivision (“Table Rock”) Homeowners Association (“HOA”), seeks to sell its water utility assets to Missouri-American Water Company (“MAWC”). The HOA no longer has the ability or desire to operate the water utility.

MAWC proposes to purchase the utility assets, seeks a Certificate of Convenience and Necessity (CCN) issued by the Commission, and undertake operations and maintenance of the water utility that would result in safe and adequate service to customers and compliance with drinking water and environmental regulations. In the *Application and Motion for Waiver* (Application), it is stated that MAWC proposes to modify its water tariff to include the Table Rock service area, and to apply MAWC’s existing approved rate for “All Missouri Service Areas Outside of St. Louis County and Outside of Mexico” to Table Rock.

Details regarding the background and condition of Table Rock’s water system are outlined in this Recommendation. Based on its review as described in this Recommendation, Staff recommends approval of the sale of assets of the HOA of Table Rock and the issue of a CCN, with some conditions involving rates, tariff filings, notifications regarding completion of the sale, customer billing and customer notification, as outlined below.

CASE BACKGROUND

On October 22, 2020, MAWC filed its Application with the Missouri Public Service Commission (Commission). MAWC, an existing regulated water and sewer utility, seeks a CCN to provide

water service in an area known as Table Rock in Stone County, Missouri. At present, water service to Table Rock is not regulated by the PSC, and is provided by the Table Rock HOA.

BACKGROUND OF TABLE ROCK

Table Rock is located in Stone County, Missouri. Initial construction of the subdivision began in the 1970s and currently consists of 39 single-family homes on about 30 acres of land. According to the Application, the HOA of Table Rock owns the water system for the subdivision.

Currently, the system is unmetered. According to the Application, there are 39 customers that are billed annually by Table Rock for water in the amount of \$240.00, and \$7.00 for the Missouri Department of Natural Resources' (DNR) primacy fee for a total of \$247.00 per year.

BACKGROUND OF MAWC

MAWC is an existing regulated water and sewer utility currently providing water service to more than 457,000 customers and sewer service to more than 13,000 customers in several service areas throughout Missouri. In recent years, MAWC has acquired several small existing water and sewer systems. MAWC is a subsidiary of American Water Works Company, Inc., and is affiliated with other companies that undertake some of the tasks associated with utility service, such as customer billing and technical resources.

STAFF'S INVESTIGATION

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

Staff performed an on-site inspection of the water system on January 5, 2021. The inspection included an on-site review of the current condition of the system and a discussion with MAWC personnel on proposed future operations and capital improvements. Based on its current knowledge of the system, Staff, at this time, considers MAWC's proposal for operating and maintaining the system to be a reasonable plan for providing safe and adequate service. Staff's review of the Application and Data Request ("DR") responses, and discussions with MAWC personnel indicate that, at this time, MAWC has no plans for major improvements or capital investment in the Table Rock water system. Remote monitoring capabilities and customer meters may be installed in the future.

Description of Water System

The existing drinking water system includes two wells (Well #1 and Well #2), a ground level storage tank, one well house, and a water distribution system. Inside the well house is Well #1,

a water meter, two high service pumps, three bladder tanks, a chlorination system, piping controls and electrical controls.

According to DNR records, Well #1 was drilled in 1972 to a depth of 245 feet with six-inch casing to a depth of 32 feet. The well construction was recorded, but not approved by DNR. The submersible pump is set at an unknown depth. Water flowing from Well #1 is metered. Chlorination for disinfection was reportedly added at Well #1 in September 2016, as a result of samples from the water distribution system that tested positive for Total Coliform in March and May 2016, and tested positive for Total Coliform and E. coli in July 2016. Although chlorination was added to the system per DNR recommendations, a construction permit from DNR was not obtained for this system modification.

Well #2 is located near Hunt Club Circle. It is a state-approved well drilled in 1980 to a depth of 467 feet with six-inch casing to a depth of 325 feet. The submersible pump is reportedly rated at five-horsepower. This well is reportedly used as a backup well and water flow from this well is not metered and is not chlorinated.

The well house is a low-profile, concrete block, earth contact structure. Routine access is provided by a small (3'x3' approx.) access way and a short ladder. A removable skylight provides overhead access for well maintenance and the roof may be removed for major equipment repair and replacement.

Inside the well house are two five-horsepower high service pumps, two 62-gallon bladder tanks, and one 86-gallon bladder tank that maintain pressure in the system. Chlorination equipment, electrical controls and panels are also located inside the well house.

Adjacent to the well house is a 10,000-gallon ground level storage tank with level controls. This tank provides water storage and chlorine contact time for disinfection.

The distribution system consists of approximately 5,000 feet of two-inch diameter pressurized mains located on approximately 30 acres of land. The distribution piping is laid out in an outer loop pattern with two, inner lateral lines.

DNR Permits and Inspections of Water System

The Table Rock drinking water system operates under a Permit to Dispense Water to the Public with identification number MO5036232. The results of Staff's Sunshine Request to DNR show that the system was inspected by DNR on August 29, 2017, and that a Notice of Violation (NOV) was issued on November 15, 2019.

The results from the 2017 inspection found Table Rock to be out of compliance with two significant deficiencies:

- 1) Table Rock installed chlorination at Well #1 as required by DNR; however the system did not obtain written authorization from DNR prior to construction. Table Rock was required to submit to DNR an as-built engineering report with plans and specifications, along with an application for a construction permit.
- 2) Well #2 was not accessible for inspection. DNR required Table Rock to remove the protective concrete casing, inspect and repair the well head, well vent, electrical, and piping as necessary, and clean, paint and prime rusted pipe. Table Rock was to submit photos of the completed work.

The results of Staff's Sunshine Request to DNR did not provide documentation that Table Rock complied with DNR's requirements, nor that there was any follow up correspondence from DNR on these issues. Discussions with MAWC representatives at the time of Staff's site inspection could not confirm that Table Rock complied with DNR requirements, and Staff's inspection of Well #2 found no indication that repairs and painting had occurred.

The 2019 NOV was issued for the failure to provide a Consumer Confidence Report with adequate content meeting 10 CSR 60-8.030. Staff's Sunshine Request to DNR did not provide further documentation regarding this issue.

Staff Observations of Water System

Staff observed that the system was a mix of equipment and structures that ranged from the original construction in the 1970s to more recent installation. Overall, the system appeared to be well maintained, and was in good condition at the time of inspection. Staff noted signs of past leaks in the well house, but all leaks have been repaired and the well house was dry at the time of inspection. The piping was mostly polyvinyl chloride (PVC) with brass and galvanized sections and fittings having some surface corrosion and staining from past leaks. The pump starter and well control box appeared to have been more recently installed while the main breaker box appeared to be original equipment with some surface rust. Based on Staff's inspection, the deficiencies DNR found at Well #2 are general maintenance items that do not require capital improvements of the well.

Proposed Improvements for the Water System

Staff's review of the Application, DR responses, and discussions with MAWC personnel indicate that, at this time, MAWC has no current plans for major improvements or capital investment in the Table Rock water system.

The DNR deficiency found at Well #1 and the NOV of 2019 are remedied by submitting the appropriate reports to DNR and do not require capital improvements to the system.

MAWC plans to install remote monitoring capabilities and customer meters in the future. MAWC's approach to system improvements are consistent with the results of Staff's document review and Staff's observations at the time of Staff's inspection.

DEPRECIATION

In Case No. WR-2017-0285, the Commission ordered water depreciation rates applicable to all divisions of MAWC. Staff recommends the use of these rates for all plant in the Table Rock service area.

RATE BASE

Normally, the Auditing Department would review plant-in-service records maintained by the Table Rock HOA for the Table Rock water system to determine the current net book value of Table Rock's assets. However, it is Staff's understanding the HOA received the Table Rock water system from the developer as contributed plant. The Auditing Department also understands the developer did not provide the HOA with any documentation to support the developer's original cost to install the Table Rock water system. In response to Staff Data Request No. 8, MAWC stated that Table Rock only provided MAWC with its 2018 and 2019 budget and actual expenses, as well as its 2018 actual revenue, which Staff has reviewed. In response to Staff Data Request No. 13, MAWC stated that no documentation was provided from Table Rock identifying the water system assets as either rate base or contributions in aid of construction (CIAC).

MAWC, in preparing its confidential Feasibility Study for this case, used similar systems it owns, engineering assessments, and due diligence visits to estimate the value of the water system plant at today's cost which MAWC then converted to an estimate of what it cost at the time MAWC believes the plant was originally put in service. MAWC then calculated the depreciation reserve from 1970 to 2020, resulting in a net plant valuation. As will be discussed below, Staff also calculated an estimate of the current value of Table Rock's assets. Following are the estimates as calculated by MAWC and Staff for the original cost and the net book value: ¹

¹ MAWC values taken from Attachment e-c of application.

next general rate filing if it seeks recovery of capital and expense costs related to this water system. Staff has traditionally opposed inclusion of positive or negative acquisition adjustments in utility rates. If the Commission approves this CCN and MAWC acquires the Table Rock water system, then Staff expects an updated rate base level for this system will be established when MAWC files its next rate case. It has been Staff's position in prior cases that the rate base, and ultimately the utility rates charged for acquired properties should be based upon the original net book value of such properties when first devoted to public use; rate base should not reflect the amount of any acquisition adjustment, either above or below, that net book value. MAWC has not requested such an adjustment in this matter.

MAWC indicated it was unable obtain from the HOA any invoices or supporting documentation of original cost and installation for any plant asset of the Table Rock water system, which includes the 2009 improvements paid by the HOA. Therefore, both MAWC's and Staff's calculations are based on estimated values. In order to more accurately establish a rate base for the water system in the first rate case for which it is included, Staff recommends MAWC attempt to obtain from the Table Rock HOA, 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 CIAC transactions, and any capital recovery transactions.

CUSTOMER SERVICE AND BILLING

MAWC maintains a business office in Branson, Missouri. Customers will be able to visit the office location from 7:00 a.m. to 3:30 p.m., Monday through Friday, for billing and customer service inquiries. The same customer service team that takes care of all MAWC customers will be available for Table Rock water system customers to contact toll-free from 7:00 a.m. to 7:00 p.m., Monday through Friday, with 24/7 coverage for emergencies.

MAWC asserts that it plans to install meters in the unmetered system. MAWC will offer payment options including, check, credit/debit cards, and electronic funds transfers. In addition, customers will have the option to make payments online via check or credit/debit cards, although all credit card payments will have a \$1.95 fee.

In order to incorporate the Table Rock water system customers into its billing and customer service systems, it will be necessary for MAWC to properly enter the appropriate customer information into its systems and apply the Commission-approved rate. MAWC will also need to provide training to its call center personnel regarding rates and rules applicable to the Table Rock water system customers so that customer service matters are handled accurately and in a timely manner.

PUBLICITY AND CUSTOMER NOTICE

According to information provided to Staff by MAWC, a special meeting was called for the Table Rock Lot Owners' Association² on May 4, 2019, to discuss the future of the water system. A representative from MAWC was also in attendance at the meeting to provide information and respond to questions. After all discussion ended, a vote was taken and 56 out of 58 lot owners voted to approve the sale to MAWC. Two lot owners were absent and no proxies were received.

RATE AND TARIFF IMPACT

In its application, MAWC proposes to apply its existing approved rate for "All Missouri Service Areas Outside of St. Louis County and Outside of Mexico," for the Table Rock service area. The rate would be a monthly flat rate charge of \$48.40 and the rules governing water service are currently found in MAWC's water tariff P.S.C. MO No.13. Currently, customers are billed a total of \$247.00 per year by Table Rock, which is \$20.58 per month for water. For Table Rock customers the MAWC proposed rate would result in a rate increase of approximately 135%.

MAWC provided no cost of service justification to increase Table Rock customers' rates for water. The Application does show some detail of sewer expenses; however, there is no sewer utility subject to this acquisition case. Therefore, Staff recommends a monthly rate of \$20.58 for Table Rock which is one-twelfth the current annual rate for Table Rock customers until the cost of service is examined in a future rate case.

In its Application, MAWC requested a service area which approximates Table Rock's boundary lines. However, the supplied map had boundary lines drawn through some lots and houses. Staff and MAWC have researched the boundary lines and have agreed upon a more accurate service area map.

Staff recommends that MAWC submit, prior to closing on the Table Rock assets, tariff sheets within its existing PSC MO No. 13 tariff showing the revised Table Rock service area map and written description, and rates for water service the same as Table Rock's existing rate computed on a monthly basis.

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 regarding MAWC's TMF capacities in previous CCN and transfer of assets cases. MAWC has demonstrated over many years that it has adequate resources to operate utility systems

² Company response to Staff Data Request No. 0004.

that it owns, to acquire new systems, to undertake construction of new systems and expansions of existing systems, to plan and undertake scheduled capital improvements, and to timely respond and resolve emergency issues when such situations arise. After completing its review in this matter, Staff continues to find that MAWC meets the requisite TMF 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. 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 cases Staff investigated these criteria for MAWC 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, have a desire to sell the system, and will continue to need service with MAWC; 2) MAWC is a qualified utility based on its current provisions of water and sewer service; 3) MAWC has demonstrated its financial ability by making appropriate investment in its current operations; 4) it is feasible for MAWC to operate and manage Table Rock's water system; and 5) due to the positive nature of the preceding criteria, this proposed acquisition is not detrimental to the public interest.

OTHER ISSUES

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

MAWC is current with annual report filings with the Commission through calendar year 2019, as documented on the Commission's Electronic Filing and Information System (EFIS).

MAWC is current on its annual assessment quarterly payments through the fourth quarter of fiscal year 2020.

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

SA-2021-0120	CCN (Taos)
SA-2021-0074	CCN (Trimble)
SA-2021-0017	CCN (Hallsville)
WA-2019-0364	CCN (Isle del Sol)
WC-2021-0227	Formal Complaint (Nangle)
WC-2021-0129	Formal Complaint (Harris)
WC-2021-0080	Formal Complaint (Woolever)
WC-2021-0075	Formal Complaint (DeFeo)
WC-2020-0407	Formal Complaint (Scott)
WC-2020-0181	Formal Complaint (Beecham)
WR-2020-0344	General Rate Case

These above-noted pending cases will have no impact upon this proposed case requesting a new CCN for water and establishing rates for water service in this requested area, nor will approval of the CCN and water rate impact the above-noted pending cases before the Commission.

STAFF'S RECOMMENDATIONS AND CONCLUSIONS

Based upon the above, Staff recommends that the Commission:

1. Grant MAWC a CCN to provide water service in the proposed Table Rock service area, modified as outlined herein;
2. Require MAWC to install a customer's meter for each customer within the Table Rock service area within three years of closing on the assets.
3. Approve Staff's recommended monthly rate of \$20.58, which is one-twelfth the current annual rate for Table Rock customers, until the cost of service is examined in a future rate case;
4. Require MAWC 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 water tariff P.S.C. MO No. 13, and water rates, applicable specifically to water service in its Table Rock service area;
5. Require Table Rock or MAWC to notify the Commission of closing on the assets within five (5) days after such closing;
6. If closing on the water system assets does not take place within thirty (30) days following the effective date of the Commission's order approving such, require MAWC to submit a status report within five (5) days after this thirty (30) day period regarding the status of closing, and additional status reports within five (5) days after each additional thirty (30) day period, until closing takes place, or until MAWC determines that the transfer of the assets will not occur;
7. If MAWC determines that a sale of the assets will not occur, require MAWC to notify the Commission of such no later than the date of the next status report, as addressed above, after such determination is made, and require MAWC to submit tariff sheets, as appropriate, in its water tariff that would cancel service area maps and descriptions and rate sheets applicable to customers in the Table Rock area;
8. Require MAWC to keep its financial books and records for plant-in-service and operating expenses in accordance with the NARUC Uniform System of Accounts; Staff recommends the Commission specifically require such recordkeeping apply to the Table Rock water system.
9. Adopt, for Table Rock Water assets, the depreciation rates ordered for MAWC in Case No. WR-2017-0301;

10. Require MAWC to obtain from Table Rock, 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;
11. Require MAWC to provide training to its call center personnel regarding rates and rules applicable to the Table Rock water system customers;
12. Require MAWC to include the Table Rock water system 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;
13. Require MAWC to distribute to the Table Rock water system customers an informational brochure detailing the rights and responsibilities of the utility and its customers regarding its water service, consistent with the requirements of Commission Rule 20 CSR 4240-13, within thirty (30) days of closing on the assets;
14. Require MAWC to provide to the CXD Staff an example of its actual communication with the Table Rock water system customers regarding its acquisition and operations of the water system assets, and how customers may reach MAWC, within ten (10) days after closing on the assets;
15. Require MAWC to provide to the CXD Staff a sample of ten (10) billing statements from the first month's billing within thirty (30) days after closing on the assets; and,
16. Require MAWC 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.
17. Require MAWC to file notice in this case once Staff Recommendations Nos. 1-16 above have been completed.

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

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

In The Matter of Missouri-American Water)
Company for a Certificate of Convenience and)
Necessity Authorizing it to Install, Own, Acquire,)
Construct, Operate, Control, Manage and Maintain)
A Water System in an area of Stone County,)
Missouri (Table Rock Estates Subdivision))

Case No. WA-2021-0116

**AFFIDAVIT OF DAVID C. ROOS, GARY BANGERT, DAVID T. BUTTIG, PE,
AND COURTNEY BARRON**

State of Missouri)
) ss.
County of Cole)

COME NOW, David C. Roos, Gary Bangert, David T. Buttig, PE, and Courtney Barron, and on their oath declares that they are of sound mind and lawful age; that they contributed to the attached *Staff Recommendation in Memorandum form*; and that the same is true and correct according to their best knowledge and belief.

Further the Affiants sayeth not.

/s/ David C. Roos
David C. Roos

/s/ Gary Bangert
Gary Bangert

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

/s/ Courtney Barron
Courtney Barron

**Table Rock Estates Water System
Case No. WA-2021-0116
Rate Base Summary**

Line	Water WA-2021-0116 Dec. 31, 2020
1 Plant in Service	\$ 118,978
2 Less: Accumulated Reserve	\$ 57,580
3 Net Plant in Service	<u><u>\$ 61,398</u></u>
4 Ending CIAC Balance	\$ 49,541
5 Less Accumulated CIAC Reserve	\$ 47,159
6 Net CIAC	<u><u>\$ 2,382</u></u>
8 Add Materials and Supplies	\$ -
9 Rate Base	<u><u>\$ 59,016</u></u>