

**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) **File No. WA-2022-0311**¹
and Maintain a Water System and Sewer)
System in and around the City of)
Stewartsville, Missouri)

STAFF’S RECOMMENDATION

COMES NOW the Staff of the Missouri Public Service Commission (“Staff”), by and through counsel, and makes the following recommendation concerning MAWC’s² application for a CCN.³

1. On May 10, 2022,⁴ MAWC filed an application (“application”) seeking a CCN to acquire a water and sewer system in and around the City of Stewartsville, Missouri, located in DeKalb and Clinton Counties, Missouri.⁵ MAWC’s application also sought to invoke Section 393.320, RSMo, which instructs the Commission on how to value the Stewartsville system for rate making rate base purposes.

2. MAWC’s verified motion states that it has had no communication with the Office of the Commission within the prior 150 days regarding any substantive issue likely to arise in this case and requested waiver of the Rule 20 CSR 4240-4.017(1) sixty-day notice requirement. Staff does not oppose this request.

3. The Commission will evaluate MAWC’s application following two legal road maps. With respect to the requests for certificates of convenience and necessity, the

¹ Consolidated with File No.: SA-2022-0312

² Missouri American Water Company

³ Certificate of convenience and necessity.

⁴ All date references will be to 2022 unless otherwise stated.

⁵ The water and sewer systems will be collectively referred to as the “Stewartsville system.”

Commission may grant a company a CCN to operate after determining that the construction and operation are either “necessary or convenient for the public service.”⁶

4. With respect to valuing the Stewartsville system for rate base rate making purposes, Section 393.320, RSMo, sets out the following requirements and procedures:

- 1) MAWC must qualify as a “large water public utility.”⁷
- 2) The Stewartsville system must qualify as a “small water utility.”⁸
- 3) Based upon the appraisal procedures set out in the statute, a fair market value of the system will be determined.⁹

⁶ Section 393.170, RSMo 2016. The Commission has stated five criteria that it will use when considering an application for certificates of convenience and necessity: 1) There must be a need for the service; 2) The applicant must be qualified to provide the proposed service; 3) The applicant must have the financial ability to provide the service; 4) The applicant’s proposal must be economically feasible; and 5) The service must promote the public interest. *In re Tartan Energy Company*, 3 Mo.P.S.C. 173, 177 (1994).

⁷Section 393.320.1 (1): “Large water public utility”, a public utility that regularly provides water service or sewer service to more than eight thousand customer connections and that provides safe and adequate service but shall not include a sewer district established under Section 30(a), Article VI of the Missouri Constitution, sewer districts established under the provisions of [chapter 204](#), [249](#), or [250](#), public water supply districts established under the provisions of [chapter 247](#), or municipalities that own water or sewer systems.

⁸ Section 393.320.1 (2): “Small water utility”, a public utility that regularly provides water service or sewer service to eight thousand or fewer customer connections; a water district established under the provisions of [chapter 247](#) that regularly provides water or sewer service to eight thousand or fewer customer connections; a sewer district established under the provisions of [chapter 204](#), [249](#), or [250](#) that regularly provides sewer service to eight thousand or fewer customer connections; or a water system or sewer system owned by a municipality that regularly provides water service or sewer service to eight thousand or fewer customer connections; and all other entities that regularly provide water service or sewer service to eight thousand or fewer customer connections.

⁹Section 393.320.3 (1) An appraisal shall be performed by three appraisers. One appraiser shall be appointed by the small water utility, one appraiser shall be appointed by the large water public utility, and the third appraiser shall be appointed by the two appraisers so appointed. Each of the appraisers shall be a disinterested person who is a certified general appraiser under chapter 339.

(2) The appraisers shall:

(a) Jointly prepare an appraisal of the fair market value of the water system and/or sewer system. The determination of fair market value shall be in accordance with Missouri law and with the Uniform Standards of Professional Appraisal Practice; and

(b) Return their appraisal, in writing, to the small water utility and large water public utility in a reasonable and timely manner.

(3) If all three appraisers cannot agree as to the appraised value, the appraisal, when signed by two of the appraisers, constitutes a good and valid appraisal.

4) The rate making rate base will be the lesser of either the purchase price or the appraised value, plus reasonable and prudent transaction, closing, and transition costs incurred by the large water public utility.¹⁰

5. Staff has reviewed the Application, Appraisal and Engineering Report, performed an on-site investigation of both the water and sewer systems, and reviewed Stewartsville's records as well as MAWC's responses to Staff issued data requests.¹¹ Staff also performed its own net book valuation of the Stewartsville system. Based upon its investigation, Staff concludes that MAWC's CCN application meets the CCN Tartan factors and that granting the application is "necessary or convenient for the public service." Subject to the conditions set out in Staff's Official Case File Memorandum, Staff recommends approval of the CCN application.

6. The agreed upon purchase price for the Stewartsville system is \$1,900,000. The appraised value of the Stewartsville system is \$2,300,000. Staff performed its own net book value analysis of the Stewartsville system both to evaluate the CCN application and in order to test the reasonableness of the purchase price and the legal competency of the appraisal.¹² Based on its total investigation, including its net book value analysis, Staff does not oppose \$1,900,000 as the rate making rate base for the Stewartsville system.

¹⁰ Section 393.320.5 The lesser of the purchase price or the appraised value, together with the reasonable and prudent transaction, closing, and transition costs incurred by the large water public utility, shall constitute the ratemaking rate base for the small water utility as acquired by the acquiring large water public utility. . . .[exceptions not applicable here].

¹¹ Stewartsville system to MAWC; Appendix B – Notification of a Stewartsville town hall meeting; Appendix C – Purchase Agreement between MAWC and Stewartsville; Appendix D – Legal Description of the area to be CCN certificated; Appendix E – map of the area to be CCN certificated; Appendix-F-C (identified as confidential), containing a list of ten residents or landowners with the proposed service area; Appendix G – Appraisal; Appendix H – Flinn Engineering Report referenced in the appraisal. NOTE: MAWC is submitting a revised service area map. See the Official Case File Memorandum conditions of approval.

¹² Official Case File Memorandum, p. 6-7.

Respectfully Submitted,

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CERTIFICATE OF SERVICE

The undersigned by his signature below certifies that the foregoing pleading was served upon all counsel of record on this October 11, 2022 by electronic filing in EFIS, electronic mail, hand-delivery, or U.S. postage prepaid.

/s/ Paul T. Graham