

MEMORANDUM

TO: Missouri Public Service Commission
Official Case File, File No. WA-2022-0311
Missouri-American Water Company

FROM: David A. Spratt – Water and Sewer Department
David C. Roos – Water and Sewer Department
Keith D. Foster – Auditing Department
Courtney Horton – Auditing Department
Lisa A. Stockman – Customer Experience Department
Cedric E. Cunigan, PE – Engineering Analysis Department

/s/ David A. Spratt 10/11/2022 /s/ Paul Graham 10/11/2022
Case Manager / Date Staff Counsel’s Office / Date

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

DATE: October 11, 2022

EXECUTIVE SUMMARY

In its Application for a Certificate of Convenience and Necessity (“CCN”) authorizing it to install, own, acquire, construct, operate, control, manage, and maintain a water and sewer system in Stewartsville, Missouri, Missouri-American Water Company (“MAWC”) has elected to exercise an option provided by Section 393.320, RSMo. The procedures outlined in this statute may be applied when a “large water public utility” as defined by the statute¹ acquires a “small water utility,” also as defined.² Section 393.320, RSMo, provides large water public utilities an alternative procedure to value acquisitions of small water utilities for ratemaking purposes (appraisal method). If a large water public utility chooses to use these procedures, the Commission, should it grant the large water public utility’s application, must use the appraisal method to establish the ratemaking rate base of the small water utility being acquired.

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

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

The appraised value of the water and sewer utilities was \$2,300,000. The agreed upon purchase price for both systems in this case is \$1,900,000. Staff's calculated rate base value for the water and sewer system combined is \$1,261,580; which is \$638,420 less than the proposed purchase price. In comparison to MAWC's overall rate base, Staff considers the \$638,420 difference to be *de minimis*. Staff reviewed the Application, Appraisal, and Engineering Report; performed an on-site investigation of both the water and sewer systems; reviewed City records as well as MAWC's responses to Staff-issued data requests (DRs); and has determined that issuance of a CCN to MAWC is necessary or convenient for the public service. Staff recommends approval of MAWC's Application, subject to the conditions found at the end of this document.

CASE BACKGROUND

On May 10, 2022, MAWC filed an Application with the Missouri Public Service Commission ("Commission") for a CCN authorizing it to install, own, acquire, construct, operate, control, manage, and maintain a water and sewer system in Stewartsville, Missouri ("City" or "Stewartsville"). In its Application, MAWC states that it intends to acquire substantially all the water and sewer utility assets that are presently owned and operated by the City. The City systems, as municipal utilities, are not presently subject to the jurisdiction of the Commission. The Application was docketed in two separate cases, Case Nos. WA-2022-0311 and SA-2022-0312, which were consolidated by the Commission, with Case No. WA-2022-0311 being designated the lead case.

On May 11, 2022, the Commission issued its Additional *Order Directing Notice*. The Commission established an initial date of June 27, 2022, by which Staff would suggest a date by which it could file a recommendation. Staff requested a ninety (90) day extension. The Commission approved the extension request and established a final date for the Staff Recommendation of September 26, 2022. No parties sought to intervene in the case.

For this case, MAWC has chosen to exercise an option provided by Section 393.320, RSMo. This statute may be applied when a large water public utility as defined by the statute acquires a small water utility also as defined. For purposes of assessing compliance with Section 393.320, the Appraisal is discussed in further detail later in this memorandum.

BACKGROUND OF MAWC

MAWC currently provides water service to approximately 474,000 customers and sewer service to approximately 16,500 customers in service areas throughout Missouri. In recent years, MAWC has acquired many existing small water and sewer systems. MAWC is a subsidiary of American Water Works Company, Inc., and is affiliated with other American Water companies that undertake tasks associated with utility service, such as customer billing and technical resources.

BACKGROUND OF STEWARTSVILLE

Stewartsville is a Fourth-Class City with a population of approximately 733 people, located in DeKalb County which is approximately 30 miles north of Kansas City and 20 miles east of St. Joseph. The City serves 357 water accounts and 354 sewer accounts. The City buys its water wholesale from DeKalb County Public Water Supply District ("PWSD") #1. The City stores water in a 200,000 gallon elevated storage tank, and maintains approximately 52,000 feet of distribution

mains. The City sewer system consists of a three-cell facultative lagoon³ system, two lift stations, and approximately 39,000 feet of collection system.

MAWC attended a town hall meeting October 18, 2021, to talk to the residents of the City about the proposed sale. On November 2, 2021, the issue was placed to a vote of the townspeople. Of the 180 votes cast, 162 were in favor of selling the utilities. On February 17, 2022, MAWC entered into a Purchase Agreement with the City to obtain substantially all the water and sewer utility assets of Stewartsville.

STAFF'S INVESTIGATION

Staff from the Water and Sewer Department investigated the condition of the water and sewer utilities for the City, including its performance and compliance with drinking water and environmental regulations. Staff also reviewed information from the Missouri Department of Natural Resources' (DNR's) records, including operating permits, inspections, notices of violation, and letters of warning. As part of its filing, MAWC provided the appraisers' report and engineer's reports. MAWC also provided additional information in response to Staff DRs.

Staff performed an inspection of the water, collection sewer, and wastewater treatment systems on September 12, 2022. These inspections included an on-site review of the current condition of each system and a discussion with MAWC personnel on proposed capital improvements. Staff agrees with MAWC that these systems will require some repairs and improvements. Based on its current knowledge of the systems, Staff, at this time, considers MAWC's proposals for system repairs and improvements to be a reasonable plan for providing safe and adequate service. MAWC's preliminary cost estimates for these repairs and improvements are provided in this Memorandum for informational purposes only. Staff will review all investments and the actual costs for repairs and improvements during a future rate case to be filed by MAWC. Staff's review and observations are listed below each system description.

Description of the Water System

The City purchases its water from the Public Water Supply District 1 of DeKalb County (PWSD #1). Stewartsville purchases an average of 37,000 gallons per day with a maximum daily purchase of 45,000 gallons. The source of water for the City is MAWC's St. Joseph water system, located in Buchanan County, approximately 50 miles north of Kansas City. The St. Joseph system provides retail water service within the City of St. Joseph and parts of Buchanan County and provides resale water supply to several water districts, including PWSD #1. The water is treated by MAWC before delivery to the water districts. Treatment includes chemical treatment, clarification and softening, filtration, and disinfection. A review of the 2021 Annual Water Quality Reports showed that no violations or adverse health effects occurred during the 2021 calendar year for PWSD #1.

The original Stewartsville water system was installed in 1954. It currently consists of a 200,000 gallon elevated storage tank and a water distribution system that includes piping, fire hydrants,

³ A facultative lagoon is a type of passive sewage treatment plant that utilizes biological processes to treat sewage. It includes aerobic, anaerobic, and anoxic layers, with facultative bacteria capable of operating within these different habitats. Sludge is stored within the lagoon cells and can be removed mechanically if it builds up too much. The sludge settles in the lagoon and through a biological process the sludge dissipates over time.

water meters, and valving. There is also a vault and master meter owned by owned by PWSD #1 for metering the purchased water. Periodic replacement and upgrades have been made to the system as needed. The elevated storage tank was installed in 1994, and a significant water main replacement/upgrade was completed in 2017.

Overall, the distribution system consist of approximately 9.8 miles of water main ranging from 2-inch to 6-inch in diameter, 21 fire hydrants, and 397 services and meters. MAWC and the City state that the distribution system maintains adequate water pressure throughout the system under normal conditions.

Regulatory Status of Water System

Stewartsville's drinking water system operates under a DNR Permit to Dispense Water to the Public with identification number MO1010762. The results of Staff's Sunshine Request to DNR show that the system was last inspected by DNR on October 8, 2020. This inspection found that Stewartsville was in compliance with Section 640.100.4 of the Missouri Safe Drinking Water Statutes. The inspection report noted that the 200,000 gallon elevated tank was inspected on August 11, 2020, and no deficiencies were noted.

Staff Observations of the Water System

Staff inspected the Stewartsville water system on September 12, 2022, and found it to be in good condition overall. Staff observed that the 200,000 gallon elevated tank had a few spots where the topcoat was flaking off from the undercoat. Staff also observed some paint test patches on the tank, and, according to MAWC personnel, the tank had been recently pressure washed and will be painted.

Proposed Improvements for the Water System

Based on MAWC's response to DR No. 0019, MAWC anticipates that the following capital improvements to Stewartsville's water system will be required for general maintenance and operational efficiency over the next five years:

- Looping dead-end mains and valve replacements;
- Replacement of hydrants and valves;
- Replace water meters with new advanced metering infrastructure (AMI) meters;
- Installation of remote monitoring equipment;
- Purchases of tools, equipment, computer, and phone system;
- Installation of tank house piping chlorine analyzer;
- New storage building at storage tank site;
- Storage tank mixer; and
- Replace valve-metering pit for storage tank.

**

**

MAWC's five-year approach with proposed improvements to Stewartsville's water system are consistent with the results of Staff's document review and Staff's observations at the time of Staff's inspection.

Description of Collection Sewer and Treatment System

Stewartsville's collection sewer consists of approximately seven miles of 8-inch diameter gravity mains, approximately 2,000 feet of 6-inch diameter force mains, 154 manholes, and two lift stations, known as the North and South lift stations. The North Lift Station discharges wastewater to the South Lift Station and the South Lift Station discharges wastewater to the treatment system. Both lift stations contain dual 3-horsepower submersible pumps which operate alternately.

In 2015, all known gravity mains were inspected using closed caption television and were mapped. These mains are 8-inch diameter vitrified clay, polyvinyl chloride (PVC), and iron pipe.

The wastewater treatment plant is a three-cell lagoon system with two aerators in Cell #1. According to the DNR operating permit the design flow is 104,600 gallons per day and the actual flow is 41,500 gallons per day.

Regulatory Status of Wastewater Treatment System

Stewartsville's wastewater treatment system operates under Missouri State Operating Permit MO-0108880, which was last issued on November 1, 2019, and expires on September 30, 2024. The results of Staff's Sunshine Request to DNR show that the system was last inspected by DNR on June 2, 2021. That inspection found the system to be out of compliance with the Missouri Clean Water Law, and a letter of warning (LOW), dated August 25, 2021, was issued for the following violations:

1. Failed to comply with effluent limits for Total Suspended Solids (TSS);
2. Failed to develop, maintain, and implement an operations and maintenance manual;
3. Failed to maintain the inner berm slopes of the lagoon;
4. Discharged water contaminants (green effluent) into waters of the state; and
5. On June 2, 2021, failed to comply with effluent limits for biological oxygen demand (BOD), TSS, and E. coli.

Stewartsville worked with DNR to resolve the violations, and on December 17, 2021, DNR issued a return to compliance (RTC) for the wastewater treatment system, needing no further response from Stewartsville.

Staff Observations of the Collection Sewer and Treatment System

Staff inspected the Stewartsville lift stations and wastewater treatment system on September 12, 2021. Staff observed good housekeeping at each location it inspected. Staff found the collection sewer and wastewater treatment system to be in fair condition overall.

The North Lift Station was installed as part of the original system in the 1970's and Staff noted the aged concrete tank and extensively corroded piping and fittings. The submersible pumps were not visually accessible to Staff due to safety concerns (enclosed space entry). The pump control

panels were weathered but in fair condition. The South Lift Station was installed in 2012. Piping controls and fencing showed weathering but all equipment appeared to be in good condition.

At the lagoon, some riprap was observed on the inside berm of Cell 1 with vegetation growing through the riprap. Both aeration units were operating in Cell 1, and the water in Cell 1 appeared clear. Cell 2 had no visible riprap, the water appeared clear and was approximately 10 percent covered in duckweed. Cell 3 had no visible riprap, the water had a rust colored hue, and was approximately 25 percent covered in duckweed.

Staff also observed a composting pile of duckweed from past duckweed removal events, and two baffles suspended across the southern end of the second cell, which are the remains of ammonia removal pilot test strips. One of the baffles had broken from its anchor and was lying near the western side of Cell 2's inner berm. Staff recommends this be removed from the lagoon cell to prevent further issues with clogging piping.

Proposed Improvements for the Collection Sewer and Treatment System

Based on MAWC's response to DR No. 0019, MAWC anticipates that the following capital improvements to Stewartsville's collection sewer and wastewater treatment system will be required for general maintenance, operational efficiency, and continued compliance with DNR regulations over the next five years:

- Sewer main repair and lining (to reduce I&I, DNR required),
- Install remote monitoring equipment,
- Upgrade North Lift Station personal safety and security features,
- Install new valve vault and piping for North Lift Station,
- TSS control in third lagoon cell (DNR Required),
- Install ultraviolet disinfection (DNR Required),
- Rip rap on along lagoon's inner berms (DNR Required),
- One additional lagoon aerator (DNR Required), and
- GPS data collection and hydraulic modelling.

**

**

MAWC's five-year approach with proposed improvements to Stewartsville's collection sewer and wastewater treatment system are consistent with the results of Staff's document review and Staff's observations at the time of Staff's inspection.

Rate Base

Plant-In-Service Balances

The Auditing Department reviewed information MAWC provided in response to Staff's DRs and informal e-mail requests as well as MAWC's application and its appendices including the asset purchase agreement (Appendix C), the Valuation Report (Appendix G), the Flinn Engineering Report (Appendix H), and the confidential feasibility studies (Appendices I and J). In support of Staff's efforts to calculate plant in service, Staff submitted DR No. 0015, asking what books and records of the City of Stewartsville water and sewer systems were available. MAWC's response states "Stewartsville City Clerk Meagan Foreman said that some of their billing register goes back to 2004 and some financial statements go back as much as 10 years. However, items like a general ledger and invoices are 3 years, coinciding with the time she has been the City Clerk." According to page 1 of the Flinn Engineering report, "the City provided limited information on the assets. The original installation costs and dates were not documented by the City. The 2021 estimated cost of installation was calculated using a combination of an engineering opinion of cost to install the assets based on knowledge of other systems of similar size, as well as correspondence from the City, vendors, and contractors. Some of the original installation costs were available."

In DR No. 0008, Staff requested copies of all documents MAWC and Stewartsville have in their possession to determine the value of the water and sewer systems assets. No documents were provided in response to this DR, just a reference was made to the appraisal attached to the Application. A few invoices were provided in response to an informal email request on August 30, 2022. Staff used those invoices, information in MAWC's confidential feasibility studies, and the most current Commission-approved depreciation rates from MAWC's Case No. WR-2020-0344 to determine its rate base for the water and sewer system.

In preparing its confidential feasibility studies for this case, MAWC used similar systems it owns, engineering assessments, and due diligence visits to estimate the value of the water and sewer system at today's cost. MAWC then converted those numbers into an estimate of what it cost at the time MAWC believes the plant was originally put in service. MAWC then calculated the depreciation reserves for water system from 1954 to 2021 and for the sewer system from 1975 to 2021, resulting in a net plant valuation.

Using MAWC's estimated plant in service and the current Commission-approved depreciation rates, Staff calculated the accumulated depreciation balances for each system. Staff did not calculate Contributions in Aid of Construction (CIAC) amounts since MAWC stated in its response to DR No. 0010 that there was no CIAC for either system.

Based upon Staff's analysis, the net book value of assets proposed to be purchased from the City of Stewartsville by MAWC as of December 31, 2021, is approximately \$472,549 for the water system and \$789,032 for the sewer system, or \$1,261,580 combined. Several of the assets were originally installed in the 1950s and have been fully depreciated, resulting in a net zero rate base value for those individual assets.

The following is a breakdown of the rate base components:

	Water	Sewer
Plant in Service	\$1,087,826	\$1,647,232
Accumulated Depreciation	\$615,277	\$858,200
CIAC	0	0
Net Plant minus CIAC	\$472,549	\$789,032
CIAC Amortization	0	0
Net Rate Base	\$472,549	\$789,032

Appraisal

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

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

While Staff cannot replicate the methods used in the Appraisal, Staff reviewed the appraisal (Valuation Report) and Flinn Engineering Report MAWC filed with the Application, which included the methods and assumptions used to establish the value of the systems. The appraisal report assigns a market value of \$900,000 for the water system and \$1,400,000 for the sewer system, which combined is \$2,300,000. The agreed upon purchase price between MAWC and Stewartsville is \$900,000 for the water system and \$1,000,000 for the sewer system, which combined is \$1,900,000. Thus, if the Commission approves MAWC's Application in this matter, the Commission must use the purchase price of \$1,900,000 to establish rate base.

The appraisal method is used to estimate a market value for the utility systems as a whole to be used as rate base for the system, in lieu of the Commission's typical practice of determining rate base using the net book value of system assets. The appraisal method provides a market value for system assets, including those that are fully depreciated. In this case, when compared to Staff's calculated net book value of assets, the appraised values of the systems are approximately \$427,451 higher for the water system, and \$610,968 higher for the sewer system. The purchase price is \$427,451 higher for the water system and \$210,968 higher for the sewer system.

While Staff's calculation of rate base resulted in a net book value less than the appraisal and subsequent purchase price, Staff reviewed the appraisal and supporting documentation submitted by MAWC, and finds the appraisal process to have been completed pursuant to the requirements of Section 393.320.

Should the Commission approve MAWC's Application, rate base for the Stewartsville systems must still be reflected on its utility plant account records. These records must be kept in accordance with the National Association of Regulatory Commissioners (NARUC) Uniform System of Accounts (USOA), as required by Commission regulations 20 CSR 4240-50.030 for water utilities and 20 CSR 4240-61.020 for sewer utilities. The cost of individual plant assets must be booked into the appropriate plant account with original cost, along with information regarding the year constructed. MAWC will be tasked with making determinations, based on rate base as determined by the purchase price, of values for original cost, depreciation reserve, and CIAC amounts that can be booked in its plant records.

Depreciation

In Case No. WR-2020-0344, the Commission ordered the continued use of the depreciation rates currently ordered for all divisions of MAWC. Staff's Engineering Analysis Department recommends the use of these rates for all plant in the Stewartsville service area. These depreciation rates are included as Attachment A.

Publicity and Customer Notice

A Town Hall Meeting was held on October 18, 2021 at 7:00 p.m. at the Stewartsville Fire Station. MAWC representatives were in attendance and available to answer any questions on the proposed sale. An election was held on November 2, 2021. There were 180 votes cast in which 162 (90%) voted "yes" and 18 (10%) voted "no" in favor of Stewartsville selling its water and sewer systems to MAWC.

A Local Public Hearing was held virtually on September 12, 2022 at 6pm. Staff and OPC were present for the meeting but there were not any customers in attendance. There were no public comments entered in EFIS by any customers who wished to voice their opinion.

Customer Experience

In order to effectively manage the information on the new customers of Stewartsville, MAWC has proposed that they will collect new customer data via email, in-person meetings, and physical inspection as needed. Once all the data is collected, MAWC will enter the customer information into the MAWC system for customer service and billing purposes. MAWC will need to provide training to their call center staff regarding the rates and rules applicable to the new Stewartsville customers so that customer service issues are handled in a timely and accurate manner.

MAWC provides two (2) customer service centers where customers can reach a customer service representative by calling 1-866-430-0820. MAWC representatives are available 24/7 for emergencies and from 7:00 a.m. to 7:00 p.m. Monday through Friday for non-emergencies. Customers may also sign up for alerts at www.amwater.com/mywater. In the event of an emergency, customers will be notified by text or phone from the alert system. MAWC also uses social media platforms to alert customers of emergencies. Online services are available at

www.missouriamwater.com for customers to access for emergencies, check their usage, view account information, request service, and pay their bill at any time.

MAWC offers payment options which include cash, check, credit/debit cards, and electronic funds transfers (EFT). Online payments can be made using a check or credit/debit card. Customers also have the ability to make payments over the phone, via mail or at select third party payment locations. Approved payment locations may be found at www.amwater.com/myaccount.

MAWC's policy is not to collect a deposit for new or existing customers. If the City of Stewartsville has collected any deposits, MAWC requests the city to refund/return them prior to the closing.

MAWC will utilize its standard billing process. Bills will be generated within 3 days of the meter read with a due date of 21 days from the invoice date. The due date is printed on the front of the bill for easy access. Delinquent accounts will be mailed a written notice at least ten (10) days before service is discontinued. The notice will include the amount due in the case of a past due bill and the reason for the disconnect.

1. Require MAWC to provide to the Customer Experience Department an example of its actual communication with the Stewartsville customers regarding its acquisition and operations of the water and sewer system assets, and how customers may reach MAWC, within ten (10) days after closing on the assets;
2. Require MAWC to distribute to its Stewartsville customers an informational brochure detailing the rights and responsibilities of the utility and its customers regarding its sewer service, consistent with the requirements of Commission Rule 20 CSR 4240-13.040(3), within thirty (30) days of closing on the assets;
3. Require MAWC to provide to the CXD Staff a sample of five (5) billing statements from the first month's billing within thirty (30) days of closing on the assets;
4. Require MAWC to provide training to its call center personnel regarding rates and rules applicable to the Stewartsville customers;
5. Require MAWC to include the Stewartsville customers in its established monthly reporting to the CXD Staff on customer service and billing issues, on an ongoing basis, after closing on the assets; and
6. 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.

Rate and Tariff Matters

According to the application, MAWC proposes to charge the water customers of Stewartsville the current rates for water that are being charged to the rest of its water customers outside of St. Louis County and outside of Mexico. The current rate for water for a residential customer with a 5/8 inch meter is \$9.00 per month for the base rate plus \$6.2469 per 1,000 gallons of water registered as noted on Sheet 1.2 of MAWC's water tariff P.S.C. MO No. 13.

MAWC proposes to charge the sewer customers of Stewartsville the current rates for water that are being charged to the customers of the Trimble service area. The Company's current rates for a single family residence is \$44.03 per month as noted on Sheet 3.1 of MAWC's sewer tariff P.S.C. MO No. 26. There rates are subject to change as rates and rules are modified by law.

The current rates being charged by the City of Stewartsville for water is a minimum of \$29.25 per month plus \$13.80 per 1,000 gallons of water registered. The current sewer rate is \$23.00 per month plus an additional \$3.40 per thousand gallons of water registered.

Therefore, Staff recommends MAWC adopt rates for the City systems in-line with other like systems outside the St. Louis service area, within close proximity to the City system and county, and as afforded by MAWC's current Commission approved water and sewer tariffs.

Staff has worked with MAWC to explain why the proposed map and a legal description of the proposed service area submitted with the application cannot be approved due to the encroachment into the territory of PWSD #1. MAWC has agreed to submit a revised map and legal description to be included in MAWC's water and sewer tariff, MO P.S.C. No. 13, and MO PSC No. 26, respectively. Because Stewartsville currently provides service to two customers outside its city limits, and these customers will become MAWC customers, MAWC has entered into an agreement with the PWSD to carry forward this service arrangement.

The table of contents in both MAWC's water and sewer tariffs will need to be updated to reflect the addition of new and/or revised sheets containing the service area map, legal descriptions, system rates and system charges.

Staff recommends that **after approval but before MAWC closes on the utility assets**, MAWC submit the new or revised water and sewer tariff sheets such that they may become effective **on or before** the date MAWC closes on the City assets.

Technical, Managerial, and Financial Capacity and Tartan Energy Criteria

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

When considering a request for a new CCN, the Commission applies criteria originally developed in a CCN case filed by the Tartan Energy Company and referred to now as the "Tartan criteria." The Tartan criteria contemplate 1) need for service; 2) the utility's qualifications; 3) the utility's financial ability; 4) the economic feasibility of the proposal; and, 5) promotion of the public interest. Similar to the TMF capabilities, in previous CCN cases Staff investigated these criteria and that investigation relates to this proposed acquisition. The results of Staff's investigation are outlined below:

(1) Need for Service

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

(2) Applicant's Qualifications

MAWC is an existing water and sewer corporation and public utility subject to the jurisdiction of the Commission. MAWC is currently providing water service to approximately 470,000 customers and sewer service to more than 16,500 customers in several service areas throughout Missouri.

(3) Applicant's Financial Ability

MAWC anticipates no need for external financing to complete this acquisition, and has demonstrated over many years that it has adequate resources to operate utility systems it owns, to acquire new systems, to undertake construction of new systems and expansions of existing systems, to plan and undertake scheduled capital improvements, and timely respond and resolve emergency issues when such situations arise.

(4) Feasibility of the Proposal

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

(5) Promotion of the Public Interest

Additionally, due to involvement by the public of the City in voting to approve the sale of the City's system, the involvement of the Stewartsville's elected officials in the negotiation with MAWC, and subsequent Purchase Agreement, and for the reasons outlined previously in this memorandum, Staff asserts that MAWC's request for a CCN and related acquisition of the City water and sewer assets promotes the public interest.

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

OTHER ISSUES

The City, as an unregulated water and sewer operation, has no obligations due to the Commission, and has no pending actions before the Commission.

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

MAWC is current with annual report filings with the Commission through calendar year 2022, as documented on the Commission's Electronic Filing and Information System (EFIS).

MAWC is current on its annual assessment quarterly payments through the first quarter of fiscal year 2022.

MAWC has no pending cases before the Commission that will impact the outcome of this application.

STAFF RECOMMENDATION

Staff recommends the Commission find that MAWC has complied with the requirements of Section 393.320, RSMo, and approve MAWC's request for a CCN subject to the following conditions and actions:

1. Grant MAWC a CCN to provide water and sewer service in the proposed Stewartsville service areas, as outlined herein;
2. Approve MAWC using existing water rates applicable to customers outside the St. Louis County region and existing sewer rates applicable to customers in the Trimble service area for approved service areas;
3. Require MAWC submit tariff sheets, to become effective before closing on the assets, to include a revised service area map, revised service area written description, rates and charges to be included in its EFIS tariffs P.S.C. MO No. 13 and 26, applicable to water and sewer service, respectively;
4. Require MAWC to notify the Commission of closing on the assets within five (5) days after such closing;
5. If closing on the water and sewer system assets does not take place within thirty (30) days following the effective date of the Commission's order approving such, require MAWC to submit a status report within five (5) days after this thirty (30) day period regarding the status of closing, and additional status reports within five (5) days after each additional thirty (30) day period, until closing takes place, or until MAWC determines that the transfer of the assets will not occur;
6. If MAWC determines that a transfer of the assets will not occur, require MAWC to notify the Commission of such no later than the date of the next status report, as addressed above, after such determination is made, and require MAWC to submit tariff sheets as appropriate that would cancel service area maps and descriptions applicable to the Stewartsville service area in its water and sewer tariffs, and rate and charges sheets applicable to customers in the Stewartsville service area in both the water and sewer tariffs;
7. Require MAWC to develop a plan to book all of the Stewartsville plant assets, with the concurrence of Staff and/or with the assistance of Staff, for original cost, depreciation reserve, and contributions (CIAC) for appropriate plant accounts, such that current rate base is broken down as \$900,000 for the water system, and \$1,000,000 for the sewer system, along with reasonable and prudent transaction, closing, and transition costs. This plan should be submitted to Staff for review within 60 days after closing on the assets;
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;
9. Adopt for MAWC water and sewer assets the depreciation rates ordered for MAWC in Case No. WR-2020-0344;

10. Require MAWC to provide to the Customer Experience Department an example of its actual communication with the Stewartsville service area customers regarding its acquisition and operations of the water and sewer system assets, and how customers may reach MAWC, within ten (10) days after closing on the assets;
11. Require MAWC to obtain from the Stewartsville, 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;
12. Except as required by Section 393.320, RSMo, make no finding that would preclude the Commission from considering the ratemaking treatment to be afforded any matters pertaining to the granting of the CCN to MAWC, including expenditures related to the certificated service area, in any later proceeding;
13. Require MAWC to distribute to the Stewartsville customers an informational brochure detailing the rights and responsibilities of the utility and its customers regarding its sewer service, consistent with the requirements of Commission Rule 20 CSR 4240-13.040(3), within thirty (30) days of closing on the assets;
14. Require MAWC to provide to the CXD Staff a sample of five (5) billing statements from the first month's billing within thirty (30) days of closing on the assets.
15. Require MAWC communicate with the Stewartsville customers concerning the billing date, delinquent date, and billing changes that will occur once the acquisition is approved, and provide a copy of this communication to CXD Staff.
16. Require MAWC to provide training to its call center personnel regarding rates and rules applicable to the Stewartsville customers;
17. Require MAWC to include the Stewartsville customers in its established monthly reporting to the CXD Staff on customer service and billing issues, on an ongoing basis, after closing on the assets; and
18. 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.

ATTACHMENTS:

- A. Depreciation Schedule

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 and Sewer System in)
and around the City of Stewartsville, Missouri

File No. WA-2022-0311

AFFIDAVIT OF DAVID A. SPRATT

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

COMES NOW DAVID A. SPRATT, and on his oath declares that he is of sound mind and lawful age; that he contributed to the foregoing *Staff Recommendation in Memorandum form*; and that the same is true and correct according to his best knowledge and belief.

Further the Affiant sayeth not.

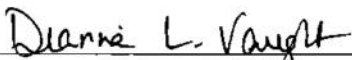


DAVID A. SPRATT

JURAT

Subscribed and sworn before me, a duly constituted and authorized Notary Public, in and for the County of Cole, State of Missouri, at my office in Jefferson City, on this 11th day of October, 2022.

DIANNA L VAUGHT Notary Public - Notary Seal STATE OF MISSOURI Cole County My Commission Expires: July 18, 2023 Commission #: 15207377
--



Notary Public

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 and Sewer System in)
and around the City of Stewartsville, Missouri

File No. WA-2022-0311

AFFIDAVIT OF DAVID C. ROOS

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

COMES NOW DAVID C. ROOS, and on his oath declares that he is of sound mind and lawful age; that he contributed to the foregoing *Staff Recommendation in Memorandum form*; and that the same is true and correct according to his best knowledge and belief.

Further the Affiant sayeth not.

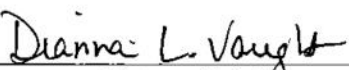


DAVID. C. ROOS

JURAT

Subscribed and sworn before me, a duly constituted and authorized Notary Public, in and for the County of Cole, State of Missouri, at my office in Jefferson City, on this 11th day of October, 2022.

DIANNA L VAUGHT
Notary Public - Notary Seal
STATE OF MISSOURI
Cole County
My Commission Expires: July 18, 2023
Commission #: 15207377



Notary Public

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,)	<u>File No. WA-2022-0311</u>
Construct, Operate, Control, Manage and)	
Maintain a Water System and Sewer System in)	
and around the City of Stewartville, Missouri)	

AFFIDAVIT OF KEITH D. FOSTER

STATE OF MISSOURI)	
)	ss.
COUNTY OF COLE)	

COMES NOW KEITH D. FOSTER, and on his oath declares that he is of sound mind and lawful age; that he contributed to the foregoing *Staff Recommendation in Memorandum form*; and that the same is true and correct according to his best knowledge and belief.

Further the Affiant sayeth not.

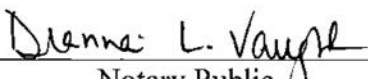


KEITH D. FOSTER

JURAT

Subscribed and sworn before me, a duly constituted and authorized Notary Public, in and for the County of Cole, State of Missouri, at my office in Jefferson City, on this 6th day of October, 2022.

DIANNA L. VAUGHT
Notary Public - Notary Seal
STATE OF MISSOURI
Cole County
My Commission Expires: July 18, 2023
Commission #: 15207377



Notary Public

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 and Sewer System in)
and around the City of Stewartsville, Missouri

File No. WA-2022-0311

AFFIDAVIT OF COURTNEY HORTON

STATE OF MISSOURI)
)
COUNTY OF COLE) ss.

COMES NOW COURTNEY HORTON, and on her oath declares that she is of sound mind and lawful age; that she contributed to the foregoing *Staff Recommendation in Memorandum form*; and that the same is true and correct according to her best knowledge and belief.

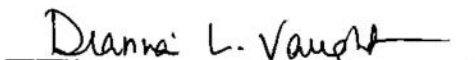
Further the Affiant sayeth not.


COURTNEY HORTON

JURAT

Subscribed and sworn before me, a duly constituted and authorized Notary Public, in and for the County of Cole, State of Missouri, at my office in Jefferson City, on this 11th day of October, 2022.

DIANNA L VAUGHT
Notary Public - Notary Seal
STATE OF MISSOURI
Cole County
My Commission Expires: July 18, 2023
Commission #: 15207377


Notary Public

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 and Sewer System in)
and around the City of Stewartville, Missouri

File No. WA-2022-0311

AFFIDAVIT OF LISA A. STOCKMAN

STATE OF MISSOURI)
)
COUNTY OF COLE) ss.

COMES NOW LISA A. STOCKMAN, and on her oath declares that she is of sound mind and lawful age; that she contributed to the foregoing *Staff Recommendation in Memorandum form*; and that the same is true and correct according to her best knowledge and belief.

Further the Affiant sayeth not.

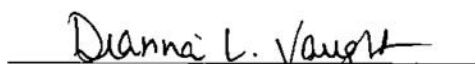


LISA A. STOCKMAN

JURAT

Subscribed and sworn before me, a duly constituted and authorized Notary Public, in and for the County of Cole, State of Missouri, at my office in Jefferson City, on this 11th day of October, 2022.

DIANNA L VAUGHT
Notary Public - Notary Seal
STATE OF MISSOURI
Cole County
My Commission Expires: July 18, 2023
Commission #: 15207377



Notary Public

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 and Sewer System in)
and around the City of Stewartsville, Missouri

File No. WA-2022-0311

AFFIDAVIT OF CEDRIC E. CUNIGAN, PE

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

COMES NOW CEDRIC E. CUNIGAN, PE and on his oath declares that he is of sound mind and lawful age; that he contributed to the foregoing *Staff Recommendation in Memorandum form*; and that the same is true and correct according to his best knowledge and belief.

Further the Affiant sayeth not.

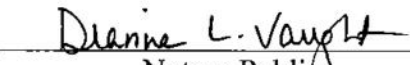


CEDRIC E. CUNIGAN, PE

JURAT

Subscribed and sworn before me, a duly constituted and authorized Notary Public, in and for the County of Cole, State of Missouri, at my office in Jefferson City, on this 11th day of October, 2022.

DIANNA L VAUGHT
Notary Public - Notary Seal
STATE OF MISSOURI
Cole County
My Commission Expires: July 18, 2023
Commission #: 15207377



Notary Public

MISSOURI AMERICAN WATER COMPANY – Water
Schedule of Depreciation Rates
WR-2020-0344

USOA Account Number	Account Description	Remaining Life Depreciation Rate %	Average Service Life (Years)	Iowa Curves	% Net Salvage
<u>Source of Supply</u>					
311.0	Structures & Improvements	1.97%	60	R4	-25%
312.0	Collecting & Impoundment Reservoirs	0.35%	85	R3	0%
313.0	Lake, River & Other Intakes	3.57%	70	S0.5	-10%
314.0	Wells & Springs	2.52%	55	R1.5	-5%
315.0	Infiltration Galleries and Tunnels	1.77%	60	R2.5	0%
316.0	Supply Mains	1.45%	80	R3	-25%
317.0	Miscellaneous Source of Supply – Other	4.97%	25	SQ	0%
<u>Pumping Plant</u>					
321.0	Structures & Improvements	3.95%	75	R2.5	-15%
322.0	Boiler Plant Equipment	3.05%	37	R3	-5%
323.0	Power Generation Equipment	3.05%	37	R3	-5%
324.0	Steam Pumping Equipment	1.89%	47	R1	-10%
325.0	Electric Pumping Equipment	1.89%	47	R1	-10%
326.0	Diesel Pumping Equipment	1.89%	47	R1	-10%
327.0	Hydraulic Pumping Equipment	1.89%	47	R1	-10%
328.0	Other Pumping Equipment	1.89%	47	R1	-10%
<u>Water Treatment Plant</u>					
331.0	Structures & Improvements	2.34%	80	R2.5	-15%
332.0	Water Treatment Equipment	2.18%	48	R1.5	-20%
333.0	Miscellaneous Water Treat, Other	3.33%	30	SQ	0%
<u>Transmission and Distribution</u>					
341.0	Structures & Improvements	1.49%	55	R2.5	-20%
341.1	Structures & Improve - Special Crossing	1.49%	55	R2.5	-20%
342.0	Distribution Reservoirs & Standpipes	1.70%	65	R2.5	-25%
343.0,1,2,3	Transmission & Distribution Mains	1.39%	90	R2.0	-30%
344.0	Fire Mains	1.56%	85	S1	-30%
345.0	Customer Services	2.92%	65	R2.0	-100%
346.0	Customer Meters	2.40%	42	R1.5	-10%
347.0	Customer Meter Pits & Installation	2.40%	42	R1.5	-10%
348.0	Fire Hydrants	1.85%	65	R1.5	-30%
349.0	Misc Trans & Dist – Other	2.96%	50	R3	0%
<u>General Plant</u>					
390.0	Structures & Improve - Shop & Garage	3.02%	55	R2.5	-20%
390.1	Structures & Improve - Office Buildings	2.09%	47	S0	-20%
390.3	Structures & Improve – Miscellaneous	3.72%	55	R2.0	-20%
390.9	Structures & Improve – Leasehold	2.75%	25	R4	0%
391.0	Office Furniture	3.49%	20	SQ	0%
391.1	Computer & Peripheral Equipment	19.06%	5	SQ	0%
391.2	Computer Hardware & Software	19.06%	5	SQ	0%
391.25	Computer Software	5.00%	20	SQ	0%
391.26	Personal Computer Software	10.00%	10	SQ	0%
391.3	Other Office Equipment	10.46%	15	SQ	0%
391.4	BTS Initial Investment	5.00%	20		0%
392.1	Transportation Equipment - Light trucks	5.57%	9	L1.5	15%
392.2	Transportation Equipment - Heavy trucks	0.00%	10	L1.5	15%
392.3	Transportation Equipment – Autos	0.00%	6	L1.5	15%
392.4	Transportation Equipment – Other	6.15%	15	S3	5%
393.0	Stores Equipment	3.88%	25	SQ	0%
394.0	Tools, Shop, Garage Equipment	3.73%	20	SQ	0%
395.0	Laboratory Equipment	3.90%	15	SQ	0%
396.0	Power Operated Equipment	3.79%	12	L1	20%
397.1	Communication Equip - Non Telephone	5.76%	15	SQ	0%
397.2	Communication Equip – Telephone	8.94%	10	SQ	0%
398.0	Miscellaneous Equip	6.48%	15	SQ	0%
399.0	Other Tangible Equipment	2.43%	20	SQ	0%

MISSOURI AMERICAN WATER COMPANY – Sewer
Schedule of Depreciation Rates
WR-2020-0344

USOA Account Number	Account Description	Remaining Life Depreciation Rate %	Average Service Life (Years)	Iowa Curves	% Net Salvage
<u>Collection Plant</u>					
351	Structures & Improvements	2.03%	50	R3	-5%
352.1	Collection Sewers (Force)	1.64%	60	R2.5	-10%
352.2	Collection Sewers (Gravity)	1.58%	70	R3	-20%
353	Services To Customers	2.87%	55	R2.0	-40%
354	Flow Measuring Devices	3.38%	25	S2.5	0%
356	Other Collection Equipment	3.15%	50		0%
357	Communication Equipment	6.67%	15	SQ	0%
<u>Pumping Plant</u>					
361	Structures & Improvements	2.17%	45	R3	0%
362	Receiving Wells	2.87%	30	L2.5	0%
363	Electric Pumping Equip, (Includes Generators)	4.31%	15	L1.5	-5%
364	Diesel Pumping Equipment	4.31%	15	L1.5	-5%
365	Other Pumping Equipment	4.31%	15	L1.5	-5%
<u>Treatment and Disposal Plant</u>					
371	Structures & Improvements	1.43%	60	R2.5	-5%
372	Treatment & Disposal Equipment (Includes pumps, blowers, generators)	3.97%	30	S0.5	-20%
373	Plant Sewers	1.60%	50	R2.5	0%
374	Outfall Sewer Lines	3.04%	35	L2.0	0%
<u>General Plant</u>					
390.0	Structures & Improve – General	3.11%	35	R2.5	-5%
390.9	Structures & Improve – Leasehold	5.00%	20	R4	0%
391.0	Office Furniture	5.00%	20	SQ	0%
391.1	Computer & Peripheral Equipment	20.00%	5	SQ	0%
391.2	Computer Hardware & Software	20.00%	5	SQ	0%
391.25	Computer Software	5.00%	20	SQ	0%
391.26	Personal Computer Software	10.00%	10	SQ	0%
391.3	Other Office Equipment	6.67%	15		0%
391.4	BTS Initial Investment	5.00%	20		0%
392.0	WW Transportation Equipment	3.45%	10	L2.5	5%
392.1	Transportation Equipment - Light trucks	3.45%	10	L2.5	5%
392.2	Transportation Equipment - Heavy trucks	3.45%	10	L2.5	5%
392.3	Transportation Equipment – Autos	3.45%	10	L2.5	5%
392.4	Transportation Equipment – Other	3.45%	10	L2.5	5%
393.0	Stores Equipment	4.00%	25	SQ	0%
394.0	Tools, Shop, Garage Equipment	5.00%	20	SQ	0%
395.0	Laboratory Equipment	6.67%	15	SQ	0%
396.0	Power Operated Equipment	7.71%	15	L2.5	0%
397.1	Communication Equip - Non Telephone	6.67%	15	SQ	0%
397.2	Communication Equip – Telephone	6.67%	15	SQ	0%
398.0	Miscellaneous Equip	6.43%	15	SQ	0%
399.0	Other Tangible Equipment	0.00%	30	R2.0	0%