

MEMORANDUM

TO: Missouri Public Service Commission
Official Case File, Case No. WA-2023-0003
Confluence Rivers Utility Operating Company, Inc.

FROM: Keri Roth – Water, Sewer & Steam Department
Daronn A. Williams – Water, Sewer & Steam Department
Amanda McMellen – Auditing Department
Scott J. Glasgow – Customer Experience Department
Amanda Coffey – Engineering Analysis Department

| | | | |
|------------------------------|-------------------|------------------------|-------------------|
| <u>/s/ Keri Roth</u> | <u>11/18/2022</u> | <u>/s/ Ron Irving</u> | <u>11/18/2022</u> |
| Senior Research/Data Analyst | Date | Staff Counsel’s Office | Date |

SUBJECT: Staff’s Recommendation Regarding Requested Certificate of Convenience and Necessity

DATE: November 18, 2022

Case Background

On July 1, 2022, Confluence Rivers Utility Operating Company, Inc. (“Confluence Rivers”) filed an *Application and Motion for Waiver* (“Application”) with the Missouri Public Service Commission (“Commission”) requesting a Certificate of Convenience and Necessity (“CCN”) authorizing it to install, own, acquire, construct, operate, control, manage, and maintain certain water system assets currently served by Tan Tar A State Road, LLC (“Tan Tar A”) in Camden County, Missouri. On July 6, 2022, the Commission ordered Staff to file a recommendation regarding Confluence Rivers’ application, or a request for additional time, by August 23, 2022. On October 24, 2022, Staff filed a Recommendation that Confluence Rivers produce additional documents, which the company provided on November 3, 2022. No parties sought to intervene in the case, and to date, no public comments have been submitted.

Attached to Confluence Rivers’ Application is a purchase agreement between Central States Water Resources (“CSWR”), Confluence Rivers’ parent company, and Tan Tar A. CSWR proposes to purchase the distribution system (which consists mostly of the underground piping) servicing a residential neighborhood known as the Margaritaville Subdivision (formerly known as Tan-Tar-A Estates) in Osage Beach for ** [REDACTED] **. Under this prospective arrangement, Tan Tar A will retain the distribution system serving the Margaritaville Lake Resort, three wells, storage tanks, and seven master meters. Tan Tar A owns the Margaritaville Lake Resort.

Currently, Tan Tar A receives water at no cost from an entity called KK Water Supply (“KK Water”). Tan Tar A owns KK Water, and Tan Tar A registered the fictitious name “KK Water Supply” with the Missouri Secretary of State on October 28, 2022. Staff confirmed

** Denotes Confidential Information **

through e-mails and telephone conversations with Confluence Rivers' and Department of Natural Resources ("DNR") personnel that KK Water is the name of the water system given by the owner on the DNR drinking water permit. DNR personnel stated that such fictitious names are allowed under their rules at this time. Because it has been providing service only to its own facilities, Tan Tar A did not fall under the Commission's jurisdiction prior to this transaction with Confluence Rivers.

Background of Confluence Rivers Utility Operating Company, Inc.

Confluence Rivers is a regulated water and sewer utility currently providing service in Missouri. Confluence Rivers is a subsidiary of Central States Water Resources, LLC ("CSWR"), which also owns and operates six other water and sewer companies in Missouri, as well as several other operating companies in several other states. In its Application, Confluence Rivers states it currently provide water service to approximately 4,300 customers and sewer service to approximately 4,400 customers in several counties.

Background of Tan Tar A

Tan Tar A is a limited liability company organized in 2017 in the State of Delaware and is registered with the State of Missouri as a foreign corporation. Tan Tar A provides water service to approximately 400 customers in Camden County, Missouri. Six customers are non-residential and the remaining 394 are residential customers. The non-residential customers are a restaurant, a distribution center, a homeowners maintenance building, a pool, a "Marine Industry Products/Services building", and a warehouse¹. Tan Tar A provides water service to its facilities via a permit issued by Missouri Department of Natural Resources ("DNR") MO3036050, although the permit lists the name of the drinking water system as KK Water Supply. Tan Tar A has been supplying the customers in the portion of the distribution system that Confluence Rivers intends to purchase, and Tan Tar A is in compliance with its DNR permit. Tan Tar A does not presently charge for water service.

Staff's Investigation

Description of Water System

Confluence Rivers retained Flinn Engineering to evaluate the system. Flinn Engineering's evaluation assumes all of the distribution system was installed in 1970 based on the year the oldest home in the subdivision was constructed. Based on this report and information gathered from DR 0004, the water distribution system is believed to be made up of 37,323 feet of six (6) to eight (8) inch asbestos-cement and PVC piping. There is also approximately 75 fire hydrants apart of the system. Currently, there are no individual meters for the residents of the subdivision, which

¹ DR0032

is why Confluence Rivers has proposed flat rates. Confluence Rivers is gathering information to determine the cost and feasibility of installing individual meters, but a final plan has not been determined at this time. The engineering report assumed that no assets have been replaced over the lifespan of the system.

Tan Tar A has been successfully supplying the customers in the portion of the distribution system that Confluence Rivers intends to purchase, and KK Water is in compliance with its DNR permit. Agreements for the provision of water service among the parties are in place. It appears that KK Water is capable of continuing to provide safe and adequate service. Confluence Rivers will be purchasing the water at a rate of ** [REDACTED]

[REDACTED] **. In contrast to its previous practice, Tan Tar A/KK Water will now be selling water to Confluence Rivers. It is Staff's preliminary opinion, based upon the facts presently known to it, that Tan Tar A/KK Water will be subject to Commission regulation as a water corporation as a result of these sales. Staff will open an investigation in order to determine whether there are any other facts, presently unknown, that might modify its preliminary opinion.

Proposed Service Area and DNR Permits

Staff reviewed the service area map and legal description submitted with the Application and found both to be adequate.

Proposed Improvements for the Water System

Confluence Rivers provided an engineering memorandum from 21 Design, which has been marked entirely confidential by Confluence Rivers, in response to DR 0003. The document listed the following proposed investments:

- Master meter and pit installation;
- Installation of remote water meters at each service connection;
- Installation of pressure reducing valves downstream from the master meters located on Hopetown Drive, Waterscape Drive and Cutter Place; and,
- Replacement of valves as necessary (following an investigation)

The estimated cost for these investments is approximately ** [REDACTED] **.

These plans are preliminary. A final determination of required upgrades, repairs, or modifications will be made after Confluence Rivers owns and operates the system.

Rate Base

The Auditing Department reviewed information provided by Confluence Rivers in response to Staff's data requests ("DR"), Confluence Rivers' Application with included sale agreement documents, and Confluence Rivers' work papers. Normally, the Auditing Department would

review plant-in-service records maintained by Tan Tar A for its water system to determine the current net book value of its assets. However, in this case, the Auditing Department was unable to do this due to lack of records kept by Tan Tar A. Staff had to supplement estimates for plant when no records were available to determine the current net book value of the City assets. Staff utilized the Flinn Engineering Report provided in response to Staff DR No. 0007 as a basis for its depreciation and rate base calculations in the absence of plant-in-service records.

Based upon Staff's analysis, the net book value of the Tan Tar A assets, as of September 30, 2022, is approximately \$0 net rate base for the water system. All assets date back to 1970. Based on their age, they are presumed to be fully depreciated, resulting in a net zero rate base value for those assets. Although rate base is not established in this CCN case, \$0 net rate base will be Staff's initial position for this system in the next rate case. Staff will consider any additional information it receives as part of its rate base calculation to determine the revenue requirement in Confluence's subsequent rate case filing.

The following is a breakdown of the rate base components:

| | Water |
|--------------------------|-----------|
| Plant in Service | \$313,201 |
| Accumulated Depreciation | \$313,201 |
| CIAC | \$0 |
| Net Plant minus CIAC | \$0 |
| CIAC Amortization | \$0 |
| Net Rate Base | \$0 |

From a Financial Analysis perspective, Confluence Rivers has the financial capacity to acquire and operate this system through access to capital from its parent company. Responses to Staff DR No. 0001 indicate this purchase is being made with a capital infusion and as a result, the purchase does not have a negative impact on the purchaser's capital structure or financial ratios.

Depreciation

Staff's Engineering Analysis Department recommends the use of the depreciation rates that are Confluence Rivers' current depreciation rates. These depreciation rates are included as Attachment A.

Customer Experience

Customer Service and Billing

Although Tan Tar A customers will not have a local business office, customers will be able to contact Confluence Rivers' customer service department by calling the toll-free phone number 866-946-3920, or by sending an email to customer service at

support@confluenceriversuoc.com. The same toll-free phone number is available for emergency calls by selecting option two. The emergency number, website and email are available 24/7. According to Confluence Rivers, this information will be provided on the customer brochure, the website, and in all written materials that will be sent to customers. The main office is open from 7:00 am to 5:00 pm M-F to respond to customer concerns forwarded by operations or customer service personnel. The main office is located at 1630 Des Peres Road, Suite 140, St. Louis, MO 63131. Additionally, main office customer service personnel are available to be contacted after hours for emergency calls.

Confluence Rivers will offer payment options including, check, money order, cashier's check, credit and debit cards. Other payment options include apple pay, google pay and PayPal Cash. The methods to pay are through the IVR ("interactive voice response"), pay online or mailing a check or money order to P.O. Box 676384, Dallas, TX 75267. Online payments can be made using check or credit/debit cards.

In order to incorporate company records into its billing and customer service systems, it will be necessary for Confluence Rivers to properly enter the appropriate customer information into its systems and apply the Commission-approved rates. Tan Tar A customers have not previously been billed for water service and some customer information required some research. According to Confluence Rivers, all customer information has been identified and will be entered into Confluence Rivers' billing system. Because Tan Tar A customers have never been billed, it is imperative that Confluence Rivers provide training to its call center personnel regarding rates and rules applicable to the Tan Tar A customers, so that customer service matters are handled accurately and in a timely manner.

Publicity and Customer Notice

According to information provided to Staff, Confluence Rivers stated that they are not aware of any notifications or meetings held to inform the residents of this proposed acquisition of Tan Tar A.

Rate and Tariff Matters

Currently, Tan Tar A customers are not charged for water service. As a result, Confluence Rivers proposes to apply its existing approved customer charge at its nearby Osage water system for the Tan Tar A service area. The rate would be a monthly flat rate charge of \$24.76 for 5/8" meters as shown in the table below, and the rules governing water service currently found in Confluence Rivers' water tariff P.S.C. MO No. 24 (Osage) would be utilized. Confluence Rivers is currently gathering information to determine the cost of installing individual meters, but plans have not been finalized.

| Meter Size | Rate |
|-------------------|-------------|
| 5/8" | \$ 24.76 |
| 1" | \$ 61.90 |
| 1.5" | \$ 123.80 |
| 2" | \$ 198.08 |
| 3" | \$ 371.40 |
| 4" | \$ 619.00 |
| 6" | \$ 1,238.00 |

Technical, Managerial, and Financial Capacity and Tartan Energy Criteria

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

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) the 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 capacities, 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 service. The existing customer base in the Tan Tar A service area has both a desire and need for service. In addition, there is a need for the necessary steps to be taken to update the Tan Tar A water system, and to ensure the provision of safe and adequate service.

(2) Applicant’s Qualifications

Confluence Rivers is an existing water and sewer corporation and public utility subject to the jurisdiction of the Commission. Confluence Rivers is currently providing water service to approximately 4,300 customers and sewer service to approximately 4,400 customers in several

service areas throughout Missouri. Additionally, Confluence Rivers has affiliates that provide water and sewer service in several other states.

(3) Applicant's Financial Ability

Confluence Rivers 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

Confluence Rivers' purchase of the system, utilizing the previously approved rates noted above, is financially feasible. Confluence Rivers 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

Due to Tan Tar A's decision to sell this portion of its utility system and for the reasons outlined previously in this memorandum, Staff asserts that Confluence Rivers request for a CCN and related acquisition of the Tan Tar A water assets promotes the public interest. Customers will experience enhanced service with the improvements to the water system. Confluence Rivers has demonstrated the ability to provide save and adequate service.

Other Issues

Tan Tar A is not currently regulated as a water corporation, and therefore currently has no obligations due to the Commission, and has no pending actions before the Commission.

Confluence Rivers is a corporation that is in "good standing" with the Missouri Secretary of State. Confluence Rivers is current with annual report filings with the Commission through calendar year 2021, as documented on the Commission's Electronic Filing and Information System ("EFIS").

Confluence Rivers is current on its annual assessment quarterly payments.

Confluence Rivers has other pending cases before the Commission, but none that would impact this decision.

Staff Recommendation

Based upon the above, Staff recommends that the Commission:

1. Grant Confluence Rivers a CCN to provide water service in the proposed Tan Tar A service area;

2. Approve Confluence Rivers' proposed rates and the rules governing water service currently found in Confluence Rivers' water tariff P.S.C. MO No. 24 (Osage);
3. Require Confluence Rivers to submit tariff sheets, to become effective before closing on the assets, to include a service area map, service area written description, rates and charges;
4. Require Confluence Rivers to notify the Commission of closing on the assets within five (5) days after such closing;
5. 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 Confluence Rivers 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 Confluence Rivers determines that the transfer of the assets will not occur;
6. If Confluence Rivers determines that a transfer of the assets will not occur, require Confluence Rivers 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 Confluence Rivers to submit tariff sheets as appropriate that would cancel service area maps and descriptions applicable to the service area in its water tariff, and rate and charges sheets applicable to customers in the service area in the water tariff;
7. Require Confluence Rivers to keep its financial books and records for plant-in-service and operating expenses in accordance with the NARUC Uniform System of Accounts;
8. Require Confluence Rivers to adopt Confluence Rivers' current depreciation rates;
9. Require Confluence Rivers to provide training to its call center personnel regarding rates and rules applicable to the water customers in the acquired area;
10. Require Confluence Rivers to distribute to the customers in the acquired area an informational brochure detailing the rights and responsibilities of the utility and its customers consistent with the requirements of Commission Rule 20 CSR 4240-13, within thirty (30) days of closing on the assets;
11. Require Confluence Rivers to provide to the CXD Staff an example of its actual communication with the Tan Tar A customers regarding its acquisition and operations of the water, and how customers may reach Confluence Rivers, within ten (10) days after closing on the assets;
12. Require Confluence Rivers to provide to the CXD Staff and the Manager of the Water, Sewer and Steam Department a sample of five (5) billing statements from the first three month's billing for the acquired Company within ten (10) days of the billings; and,
13. Require Confluence Rivers to file notice in this case outlining completion of the above-recommended training, customer communications, notifications and billing for each acquired company within ten (10) days after such communications and notifications.

14. Require Confluence Rivers to include the Tan Tar A water 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,
15. Require Confluence Rivers to file notice in this case once Staff Recommendations Nos. 1-14 above have been completed.

Attachments:

- A. Depreciation Schedule

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

| | | |
|-------------------------------------|---|-----------------------|
| In the Matter of the Application of |) | |
| Confluence Rivers Utility Operating |) | |
| Company, Inc., for a Certificate of |) | Case No. WA-2023-0003 |
| Convenience and Necessity and |) | |
| Associated with the Acquisition of |) | |
| Certain Water Assets |) | |
| |) | |

AFFIDAVIT OF KERI ROTH

| | | |
|-------------------|---|-----|
| STATE OF MISSOURI |) | |
| |) | ss. |
| COUNTY OF COLE |) | |

COMES NOW KERI ROTH, 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.

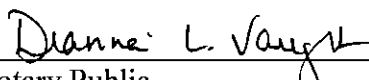
Further the Affiant sayeth not.



 KERI ROTH

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 18th day of November, 2022.



 Notary Public

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| DIANNA L VAUGHT Notary Public - Notary Seal STATE OF MISSOURI Cole County My Commission Expires: July 18, 2023 Commission #: 15207377 |
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BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of the Application of)
Confluence Rivers Utility Operating)
Company, Inc., for a Certificate of) Case No. WA-2023-0003
Convenience and Necessity and)
Associated with the Acquisition of)
Certain Water Assets)
)

AFFIDAVIT OF AMANDA McMELLEN

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

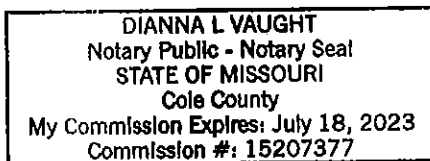
COMES NOW AMANDA McMELLEN, and on her oath declares that she is of sound mind and lawful age; that she contributed to the foregoing *Staff Recommendation, in Memorandum form*; and that the same is true and correct according to her best knowledge and belief.

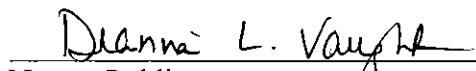
Further the Affiant sayeth not.


AMANDA McMELLEN

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 16th day of November, 2022.




Notary Public

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of the Application of)
Confluence Rivers Utility Operating)
Company, Inc., for a Certificate of) Case No. WA-2023-0003
Convenience and Necessity and)
Associated with the Acquisition of)
Certain Water Assets)
)

AFFIDAVIT OF SCOTT J. GLASGOW

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

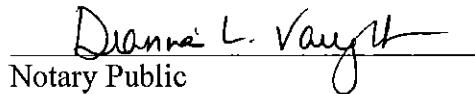
COMES NOW SCOTT J. GLASGOW, and on his oath declares that he is of sound mind and lawful age; that he contributed to the foregoing *Staff Recommendation, in Memorandum form*; and that the same is true and correct according to his best knowledge and belief.

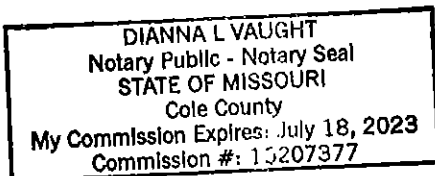
Further the Affiant sayeth not.


SCOTT J. GLASGOW

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 15th day of November, 2022.


Notary Public



BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of the Application of)
Confluence Rivers Utility Operating)
Company, Inc., for a Certificate of) Case No. WA-2023-0003
Convenience and Necessity and)
Associated with the Acquisition of)
Certain Water Assets)
)

AFFIDAVIT OF AMANDA COFFER

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

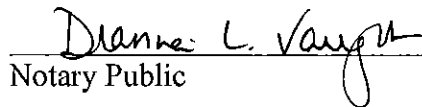
COMES NOW AMANDA COFFER, and on her oath declares that she is of sound mind and lawful age; that she contributed to the foregoing *Staff Recommendation, in Memorandum form*; and that the same is true and correct according to her best knowledge and belief.

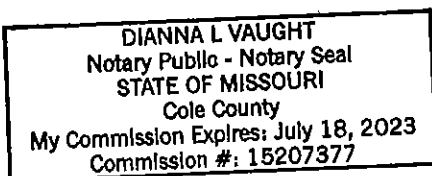
Further the Affiant sayeth not.


AMANDA COFFER

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 16th day of November, 2022.


Notary Public



BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of the Application of)
Confluence Rivers Utility Operating)
Company, Inc., for a Certificate of) Case No. WA-2023-0003
Convenience and Necessity and)
Associated with the Acquisition of)
Certain Water Assets)
)

AFFIDAVIT OF DARONN A. WILLIAMS

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

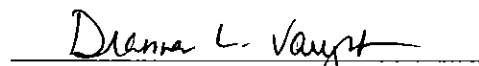
COMES NOW DARONN A. WILLIAMS, and on his oath declares that he is of sound mind and lawful age; that he contributed to the foregoing *Staff Recommendation, in Memorandum form*; and that the same is true and correct according to his best knowledge and belief.

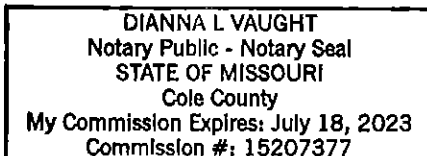
Further the Affiant sayeth not.


DARONN A. WILLIAMS

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 17th day of November, 2022.


Notary Public



Confluence Rivers Utility Operating Company
SCHEDULE of DEPRECIATION RATES
WATER Class C & D
WR-2020-0053

| NARUC USOA ACCOUNT NUMBER | ACCOUNT DESCRIPTION | DEPRECIATION RATE |
|----------------------------------------------|----------------------------------------------------------------------------|----------------------|
| SOURCE OF SUPPLY | | |
| 311 | Structures & Improvements | 2.5% |
| 314 | Wells & Springs | 2.0% |
| PUMPING PLANT | | |
| 321 | Structures & Improvements | 2.5% |
| 325/325.1 | Elec. Submersible Pumping Equipment | 10.0% |
| 325.2 | High Service or Booster Pumping Equip. | 6.7% |
| WATER TREATMENT EQUIPMENT | | |
| 331 | Structures & Improvements | 2.5% |
| 332 | Water Treatment Equipment | 2.9% |
| TRANSMISSION & DISTRIBUTION MAINS | | |
| 341 | Structures & Improvements | 2.5% |
| 342 | Distribution Reservoirs & Standpipes | 2.5% |
| 343 | Transmission & Distribution Mains | 2.0% |
| 345 | Customer Services | 2.5% |
| 346 | Customer Meters, Bronze (Calibrate) | 3.3% |
| 346.1 | Customer Meters, Plastic (Throw Aways) | 10.0% |
| 347 | Customer Meter Pits & Installation | 2.5% |
| 348 | Hydrants | 2.0% |
| GENERAL PLANT | | |
| 371 | Structures & Improvements | 2.5% |
| 372 | Office Furniture & Equipment | 5.0% |
| 372.1 | Office Electronic & Computer Equip. | 20.0% |
| 373 | Transportation Equipment | 13.0% |
| 379 | Other General Equipment (tools, shop equip., backhoes, trenchers, etc.) | 6.7% |