

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

In the Matter of the Application of )  
Confluence Rivers Utility Operating )  
Company, Inc., to Acquire Certain Water ) **File No. WM-2020-0282**  
and Sewer Assets, and For Certificates of )  
Convenience and Necessity )

**RESPONSE TO ORDER DIRECTING RESPONSES REGARDING  
STAFF’S RECOMMENDATION**

**COMES NOW** the Staff of the Missouri Public Service Commission (“Staff”) and, in response to the Commission’s *Order Directing Responses Regarding Staff’s Recommendation*, states as follows:

**Procedural History**

1. On July 17, 2020, Staff submitted its Recommendation to the Commission recommending that it approve, subject to specified conditions, Confluence Rivers Utility Operating Company, Inc.’s (“Confluence Rivers”) application to acquire the sewer and water utility assets of Branson Cedars Resort Utility Company, LLC (“Branson Cedars”); the water utility assets of Fawn Lake Water Corp. (“Fawn Lake”) and P.A.G. LLC d/b/a Prairie Heights Water Company (“Prairie Heights”); and the sewer utility assets of Freeman Hills Subdivision Association (“Freeman Hills”) and a system serving the DeGuire subdivision in Madison County (“DeGuire”).

2. Following resolution of the Office of the Public Counsel’s request for a public hearing in this case, Confluence Rivers, on August 24, 2020, filed a timely response to Staff’s recommendation and stated that it had no objection to the conditions recommended by Staff for approval of the application. OPC did not file a response to Staff’s recommendation.

3. On September 23, 2020, the Commission issued its *Order Directing Responses Regarding Staff's Recommendation*, wherein it directed Staff to respond to several queries with a supplement to its recommendation, or a status report stating when it will be able to respond in full, no later than October 7, 2020.

### **Summary of Staff Recommendation**

4. As stated in its July 17, 2020, Staff Recommendation, pursuant to § 393.190, RSMo, no water corporation shall “sell, assign, lease, transfer, mortgage or otherwise dispose of or encumber the whole or any part of its franchise, works or system, necessary or useful in the performance of its duties to the public, nor by any means, direct or indirect, merge or consolidate such works or system, or franchises, or any part thereof, with any other corporation, person or public utility, without having first secured from the commission an order authorizing it so to do.” When deciding whether to approve a regulated entity’s request to transfer assets pursuant to § 393.190 RSMo, the Commission must determine that the transfer is “not detrimental to the public interest.”<sup>1</sup> When considering applications proposing the transfer of the assets of existing water systems, the Commission typically analyzes the transferee’s Technical, Managerial, and Financial (“TMF”) criteria.

5. Further, pursuant to § 393.170, RSMo, no water corporation shall provide service to consumers without first having obtained approval from the Commission. In determining whether or not to grant such approval, the Commission has traditionally applied the five “Tartan Criteria” established in *In the Matter of Tartan Energy Company, et al.*, 3 Mo. PSC 3d 173, 177 (1994): (1) there must be a need for the service; (2) the

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<sup>1</sup> *State ex rel. Fee Fee Trunk Sewer, Inc. v. Litz*, 596 S.W.2d 466, 468 (Mo. App. E.D. 1980); *State ex rel. City of St. Louis v. P.S.C.*, 335 Mo. 448, 459-460, 73 S.W.2d 393, 400 (Mo. banc 1934)

applicant must be qualified to provide the service; (3) the applicant must have the financial ability to provide service; (4) the applicant's proposal must be economically feasible; and (5) the service must promote the public interest.

6. In its Recommendation, Staff determined that Confluence Rivers possesses the necessary TMF criteria to own and operate the assets of Branson Cedars, Fawn Lake, Freeman Hills, Prairie Heights, and DeGuire, and fulfills the requirements of the Tartan Energy Criteria. Furthermore, Staff stated that it finds the requested expansion of Confluence Rivers' Villa Ridge service area also fulfills the Tartan Energy Criteria. That determination has not changed. Staff continues to recommend that the proposed transfers of assets are not detrimental to the public interest, that the requested CCNs authorizing Confluence Rivers to install, acquire, build, construct, own, operate, control, manage, and maintain water and sewer systems are in the public interest, and Staff continues to recommend approval of Confluence Rivers' application with the conditions described in Staff's July 17, 2020.

7. In assessing whether Confluence Rivers has fulfilled the TMF criteria, and whether it has met the Tartan Energy Criteria, Staff reviewed Confluence Rivers' application and various other information provided to Staff through the discovery process. Staff also assessed the general condition of the systems involved, including their performance and compliance with drinking water and environmental regulations. Staff reviewed information from the Missouri Department of Natural Resources' ("DNR") records, including operating permits, inspections, notices of violation, and letters of warning. Staff performed inspections of each system, which included on-site reviews of the current condition of each system and a discussion with Confluence Rivers' personnel

on proposed capital improvements. Staff also reviewed the Engineering Memorandums developed by 21 Design Group Inc. (“21 Design”) for each system, as provided by Confluence Rivers. As stated in Staff’s Recommendation, Staff concluded, in general, that the solutions proposed by Confluence Rivers appear reasonable based on Staff’s investigation and the current condition of the systems. Further, based on Staff’s expert knowledge and previous experience with similar preliminary cost estimates, Staff considers the cost estimates for Confluence Rivers’ proposed technical solutions to be reasonable at this time. However, Staff notes that the technical solutions identified by Confluence Rivers are preliminary, and further and/or different solutions may be necessary in the future, should the Commission approve the Company’s application. Confluence Rivers does not currently operate the systems which it is requesting to acquire and serve. Should the Commission approve Confluence Rivers’ application, Confluence Rivers will need to reassess all operations and proposed capital expenditures for these systems. Ultimately, any upgrades to the system will be the decision of the utility’s management based upon the needs of the system at that time.<sup>2</sup> Once those upgrades have been made, and recovery of the associated costs requested through the filing of a rate case, Staff will thoroughly review the utility’s chosen upgrades and capital expenditures.

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<sup>2</sup> “It must never be forgotten that, while the state may regulate with a view to enforcing reasonable rates and charges, it is not the owner of the property of public utility companies, and is not clothed with the general power of management incident to ownership.” ***State of Missouri ex rel. Southwestern Bell Tel. Co. v. Pub. Serv. Comm’n of Missouri***, 262 U.S. 276, 289, 43 S.Ct. 544, 547, 67 L.Ed. 981, \_\_\_ (1923).

### **Staff Responses to Specific Commission Queries**

8. Staff's responses to the Commission's queries are as follows:
  - a. *Please provide all photos in Staff's possession from Staff's inspection of each of the systems proposed for acquisition: Branson Cedars, Fawn Lake, Prairie Heights, Freeman Hills, and DeGuire. Please organize and label photos according to name and system.*

**STAFF RESPONSE:** Staff has taken over 250 photographs of the various systems during its site inspections for this case. Due to the number of photographs, and the associated file size of each, that will need to be uploaded to the Commission's Electronic Filing Information System ("EFIS"), Staff requires additional time for which to organize and prepare them for submission. Staff anticipates being able to submit the photographs no later than Wednesday, October 14, 2020.

- b. *In regard to each of the systems not currently regulated by the Commission, please provide Staff's calculation of net book value. In particular, please explain how Staff calculated contributions in aid of construction (CIAC) for each system. In addition, for each system individually, please identify the type of information used to calculate net book value and the source of such information.*

**STAFF RESPONSE:** As there was little to no information available regarding the original cost of the plant and contributions in aid of construction ("CIAC") for the currently non-regulated systems that Confluence Rivers is seeking to acquire in this case, Staff largely relied upon the asset valuation reports provided by Confluence Rivers to determine the plant-in-service values. As these systems are currently not regulated by

the Commission they do not have the requirements regarding record keeping and retention that regulated utilities must follow. Staff supplemented the asset valuation reports with one invoice that was provided by the current owner of the Prairie Heights system. The reports that Confluence Rivers had prepared relied upon the

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\_\_\_\_\_ , \*\* to estimate original plant-in-service values when original source documentation was unavailable. To determine the depreciation reserve for the systems Staff applied Staff's recommended depreciation rates and used a half-year convention<sup>3</sup>. The depreciation reserve was then carried forward through the end of February 2020. To estimate the CIAC for the systems Staff requested copies of the lot purchase agreements from Confluence Rivers to determine if the utilities were included in the sale of the lots by the developer, which is typically the case. Confluence Rivers responded that it did not have any copies of the lot purchase agreements for the systems. When the utilities are included in the lot purchase agreement they are typically recorded as CIAC. Based upon the lack of information available regarding the original cost and CIAC for the systems, Staff determined it was proper to consider the original cost of the utility plant to be treated as CIAC, on the assumption that utilities were included in the lot purchase agreements. Staff did not include the value of the land in the CIAC, however, allowing similar treatment as recommended for the Majestic Lakes systems in Case No. WM-2018-0116. Any capital additions beyond the original plant were also not

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<sup>3</sup> The half-year convention assumes the assets were in service for one-half of the first year.

included in the CIAC total on the assumption that those additions were placed into service after the lots were sold and constructed without funds from the lot sales, \*\* \_\_\_\_\_

\_\_\_\_\_. \*\* The resulting CIAC balances were than amortized using the recommended depreciation rates for those accounts through February 29, 2020. The net book value for the systems was then calculated by taking the plant-in-service balance and subtracting the depreciation reserve and the remaining CIAC balance (CIAC less CIAC amortization). Staff used the asset valuation reports provided by Confluence Rivers to calculate the net book value for the Freeman Hills, Fawn Lake, and DeGuire systems. For the Prairie Heights system, Staff used the asset valuation reports provided by Confluence Rivers and a single 2019 invoice provided by the owner of the system. Below is the chart that shows Staff's calculation:

System	Plant-in-Service	Accumulated Reserve	CIAC	CIAC Amortization	Net Book Value
Freeman Hills	\$26,070	\$22,272	\$21,070	\$22,272	\$5,000
Fawn Lake	\$81,790	\$42,310	\$56,498	\$34,808	\$17,790
Prairie Heights	\$45,717	\$41,351	\$36,634	\$40,771	\$8,503
DeGuire	\$65,547	\$58,816	\$64,017	\$58,816	\$1,530

c. In regard to Branson Cedars water assets:

- i. *Has Staff assessed the technical solutions proposed by Confluence Rivers to improve the system? If so, please describe the assessment and disclose any conclusions.*

**STAFF RESPONSE:** As part of its investigation, Staff assessed the condition of the water system, including its performance and compliance with drinking water and environmental regulations. Staff reviewed information from DNR's records, including operating permits, inspections, notices of violation, and letters of warning. Staff performed an inspection of the water system which included an on-site review of the current condition of each system and a discussion with Confluence Rivers' personnel on proposed capital improvements. Staff also reviewed the Engineering Memorandum developed by 21 Design for the system, as provided by Confluence Rivers. As stated in Staff's Recommendation, the solutions proposed by Confluence Rivers appear reasonable based on Staff's investigation and the current condition of the system.

However, a full assessment of potential technical solutions is not appropriate at this time. In general, Staff's investigation is a point in time inspection designed to capture the condition of the system at the time of purchase by Confluence Rivers and a review of Confluence Rivers' plan to maintain and upgrade the system. Currently, Confluence Rivers' proposed technical solutions are hypothetical in nature, and as such, Confluence Rivers may or may not actually complete each proposed solution. Since Confluence Rivers does not currently operate the system, Confluence Rivers will reassess all operations and proposed capital expenditures after it has acquired the system. Confluence Rivers will then make any upgrades it deems necessary.

The eventual upgrades Confluence chooses to make may be influenced by conditions that are not known at this time. These could potentially include changes to Department of Natural Resources regulations or the future availability of a connection to a larger facility, creating the opportunity to become a wholesale customer; even site



specific geologic conditions that are not yet known at this time can influence the upgrades ultimately made. While, based upon its inspection of the system and review of the Company's application, Staff has concluded Confluence River's proposed technical solutions appear reasonable. Should the Commission approve Confluence Rivers application, Staff will make a determination of the prudence of the expenditures associated with system upgrades once the upgrades have actually been made and Confluence Rivers' requests to recover the associated costs in rates. Once this has occurred, Staff will conduct a complete audit and investigation of any expenditures and will determine whether to propose any disallowance at that time.

*ii. Is Staff aware of any other technical solutions that could be used to improve the system? If so, please identify those alternatives and any advantages or disadvantages now known to Staff.*

**STAFF RESPONSE:** Not at this time.

Staff reviewed the application presented to the Commission by Confluence Rivers and concluded the preliminary technical solutions outlined by the Company are reasonable. Should the Commission approve Confluence Rivers' application, the ultimate upgrades to the system will be the decision of the utility's management based upon the needs of the system at that time. Once those upgrades have been made, and recovery of the associated costs requested through the filing of a rate case, Staff will thoroughly review the utility's chosen upgrades and capital expenditures.

*iii. Has Staff analyzed the likely cost of system improvements proposed by Confluence Rivers and any alternative technical solutions known to Staff? If so, please describe that analysis and disclose any conclusions.*

**STAFF RESPONSE:** As stated above, Staff performed an inspection of the water system, discussed proposed capital improvements with Confluence Rivers' personnel, reviewed the Engineering Memorandum developed by 21 Design Group Inc. ("21 Design") for the system, and determined the solutions proposed by Confluence Rivers appear reasonable. Staff also reviewed the "Construction Cost Estimate for Water System Improvements" for the Branson Cedars water system developed by 21 Design, as provided by Confluence Rivers. Based on Staff's expert knowledge and previous experience with similar, preliminary cost estimates, Staff considers this cost estimate to be reasonable at this time. However, Staff did not independently create feasibility studies with cost estimates or investigate other alternative technical solutions, nor has it performed a complete cost analysis of Confluence Rivers' proposed improvements. Staff views all costs and all improvements proposed by Confluence Rivers to be hypothetical in nature and as such, a complete analysis is not appropriate at this time. As noted in the Staff Recommendation, these preliminary cost estimates are provided by Staff for informational purposes only. If the application is approved, as Confluence Rivers assumes ownership and operation of the system any actual maintenance or system upgrades will be re-evaluated by Confluence Rivers. Once the maintenance or system upgrades are completed, Confluence Rivers may request the associated costs be

included into rates. At that time, Staff will conduct a full and complete audit of those upgrades and the associated costs, and propose any necessary adjustments.

*iv. Please advise whether any of the proposed improvements should be given priority and for what reason. Please also advise whether, and for what reason, proposed improvements should be completed together within a particular period, and whether any of the proposed improvements should be deferred.*

**STAFF RESPONSE:** While some repairs and maintenance concerns may be more immediate than others, Staff is not aware of any customers on this system that are receiving service that is unsafe or inadequate. As such, Staff does not have an opinion at this time as to which improvements should be given priority, or which improvements should be completed together or deferred. Confluence Rivers has experience in taking ownership and repairing and maintaining these types of systems and it is Confluence Rivers that will prioritize the order of repairs. As noted in Staff's Recommendation, some prioritization will depend upon negotiations between the company and DNR. If Staff becomes aware of new information in the future that makes an improvement at a system become a higher priority, Staff will work with Confluence to ensure adequate attention is given to this effort.

Staff's investigation is a point in time inspection designed to capture the condition of the system at the time of purchase by Confluence Rivers. Actual system improvements require consistent observation of a facility's operations. Staff takes the opportunity during its review of the application and inspections to review a utility's management decisions to determine if certain proposed actions seem appropriate/inappropriate prior to the utility

taking action. However, this is only a preliminary review and does not constitute any indication of pre-support.

d. In regard to Branson Cedars sewer assets:

- i. Has Staff assessed the technical solutions proposed by Confluence Rivers to improve the system? If so, please describe the assessment and disclose any conclusions.*

**STAFF RESPONSE:** As part of its investigation, Staff assessed the condition of the system, including its performance and compliance with wastewater and environmental regulations. Staff reviewed information from DNR's records, including operating permits, inspections, notices of violation, and letters of warning. Staff performed an inspection of the system, which included an on-site review of the current condition of each system and a discussion with Confluence Rivers' personnel on proposed capital improvements. Staff also reviewed the Engineering Memorandum for the system developed by 21 Design, as provided by Confluence Rivers. As stated in Staff's Recommendation, the solutions proposed by Confluence Rivers appear reasonable based on Staff's investigation and the current condition of the system.

However, a full assessment of potential technical solutions is not appropriate at this time. In general, Staff's investigation is a point in time inspection designed to capture the condition of the system at the time of purchase by Confluence Rivers and a review of Confluence Rivers' plan to maintain and upgrade the system. Currently, Confluence Rivers' proposed technical solutions are hypothetical in nature, and as such, Confluence Rivers may or may not actually complete each proposed solution. Since Confluence Rivers does not currently operate the system, Confluence Rivers will reassess all operations and

proposed capital expenditures after it has acquired the system. Confluence Rivers will then make any upgrades it deems necessary.

The eventual upgrades Confluence chooses to make may be influenced by conditions that are not known at this time. These could potentially include changes to Department of Natural Resources regulations or the future availability of a connection to a larger facility, creating the opportunity to become a wholesale customer; even site specific geologic conditions that are not yet known at this time can influence the upgrades ultimately made. While, based upon its inspection of the system and review of Confluence Rivers' application, Staff has concluded Confluence River's proposed technical solutions appear reasonable, should the Commission approve its application, Staff will make a determination of the prudence of the expenditures associated with system upgrades once the upgrades have actually been made, and Confluence Rivers requests to recover the associated costs in rates. Once this has occurred, Staff will conduct a complete audit and investigation of any expenditures and will determine whether to propose any disallowance at that time.

*ii. Is Staff aware of any other technical solutions that could be used to improve the system? If so, please identify those alternatives and any advantages or disadvantages now known to Staff.*

**STAFF RESPONSE:** Not at this time.

Staff reviewed the application presented to the Commission by Confluence Rivers and concluded the preliminary technical solutions outlined by the Company are reasonable. Should the Commission approve Confluence Rivers' application, the ultimate upgrades to the system will be the decision of the utility's management based upon the needs of

the system at that time. Once those upgrades have been made, and recovery of the associated costs requested through the filing of a rate case, Staff will thoroughly review the utility's chosen upgrades and capital expenditures.

*iii. Has Staff analyzed the likely cost of system improvements proposed by Confluence Rivers and any alternative technical solutions known to Staff? If so, please describe that analysis and disclose any conclusions.*

**STAFF RESPONSE:** As stated above, Staff performed an inspection of the sewer system, discussed proposed capital improvements with Confluence Rivers' personnel, reviewed the Engineering Memorandum developed by 21 Design for the system, and determined the solutions proposed by Confluence Rivers appear reasonable. Staff also reviewed the "Construction Cost Estimate for Wastewater System Improvements" for the Branson Cedars wastewater system developed by 21 Design, as provided by Confluence Rivers. Based on Staff's expert knowledge and previous experience with similar, preliminary cost estimates, Staff considers this cost estimate to be reasonable at this time. However, Staff did not independently create feasibility studies with cost estimates or investigate other alternative technical solutions, nor has it performed a complete cost analysis of Confluence Rivers' proposed improvements. Staff views all costs and all improvements proposed by Confluence Rivers to be hypothetical in nature and as such, a complete analysis is not appropriate at this time. As noted in the Staff Recommendation, these preliminary cost estimates are provided by Staff for informational purposes only. If the application is approved, and as Confluence Rivers assumes ownership and operation of the system any actual maintenance or system upgrades will be re-evaluated by

Confluence Rivers. Once the maintenance or system upgrades are completed, Confluence Rivers may request the associated costs be included into rates. At that time, Staff will conduct a full and complete audit of those upgrades and the associated costs, and propose any necessary adjustments.

*iv. Please advise whether any of the proposed improvements should be given priority and for what reason. Please also advise whether, and for what reason, proposed improvements should be completed together within a particular period, and whether any of the proposed improvements should be deferred.*

**STAFF RESPONSE:** While some repairs and maintenance concerns may be more immediate than others, Staff is not aware of any customers on this system that are receiving service that is unsafe or inadequate. As such, Staff does not have an opinion at this time as to which improvements should be given priority, or which improvements should be completed together or deferred. Confluence Rivers has experience in taking ownership and repairing and maintaining these types of systems and it is Confluence Rivers that will prioritize the order of repairs. As noted in Staff's Recommendation, some prioritization will depend upon negotiations between the company and DNR. If Staff becomes aware of new information in the future that makes an improvement at a system become a higher priority, Staff will work with Confluence to ensure adequate attention is given to this effort.

Staff's investigation is a point in time inspection designed to capture the condition of the system at the time of purchase by Confluence Rivers. Actual system improvements require consistent observation of a facility's operations. Staff takes the opportunity during

its review of the application and inspections to review a utility's management decisions to determine if certain proposed actions seem appropriate/inappropriate prior to the utility taking action. However, this is only a preliminary review and does not constitute any indication of pre-support.

*v. Please identify the factors that Staff believes should determine whether the existing system is upgraded or replaced.*

**STAFF RESPONSE:** There are many wastewater treatment technologies, with different levels of efficiency, design life, cost of operation, scalability, ability to process variations in flow, footprint, ability to properly operate in Missouri's climate, ability to be expanded in the future, etc. Cost, both of construction and future operation, is the primary driver of whether to upgrade or replace a treatment facility. Before this decision is made, the ability to connect to another regional wastewater treatment system must first be considered. If a connection is technically available, it may not be economical due to topography and distance, or due to fees that would be charged as a wholesale customer.

If the facility must be expanded due to customer growth, it is possible that some portions of the existing facility may be reused. If the technology of the existing system meets current and expected permit limits, installation of a parallel treatment process might be possible. This potential is sometimes limited by available land near the existing system. In situations where land is not available, it may be necessary to replace the existing system in exchange for a more efficient technology that is capable of handling the additional flow within the existing footprint.

If the facility must be changed due to new permit limitations, it becomes less likely that upgrading the existing facility is a workable solution. For wastewater treatment



systems, the overall design life is generally 20 years, with regular replacement of some equipment. If a treatment system is beyond its design life, it may not be feasible to reuse old equipment. Technology designed to meet certain permit limits sometimes cannot be economically upgraded to meet more stringent effluent limits or remove a chemical that was not previously regulated. For example, there are very limited opportunities to upgrade a lagoon. The type of biological treatment that exists in a lagoon is fundamentally different than that which exists in more modern treatment technologies. A moving bed biological reactor (MBBR), as has been installed by Confluence's parent company at some of its other utility systems, is one of the few technologies that can be used in conjunction with a lagoon to produce higher quality wastewater. If a treatment system is modern, but is now required to treat for a new parameter that was not previously regulated, it is often possible to add additional treatment technology. A recent example of this type of change was the requirement that most wastewater systems disinfect their wastewater before discharge. Disinfection, whether by chlorine or ultraviolet light, is amenable to being added to most existing treatment systems.

A utility's consulting engineer could propose many different ways that a particular treatment system can be changed to meet new challenges. Given the permit requirements and a list of technologies that will meet those limits, the engineer then must find the solution that will meet those needs in a most cost effective manner. Not all treatment technologies can be effectively scaled down to 30 customers, or scaled up to 3,000. Some technologies are very effective, but also very expensive to operate or require staff with advanced technical skills that are difficult to obtain. Some technologies have a lower up front cost but a shorter life expectancy or higher cost to operate. The

factors considered by the utility's engineer that influence their recommendation will be presented in an engineering report, along with pros and cons of other options available. It is then a utility management decision as to what resolution is appropriate with Staff reviewing those upgrades and capital investments as part of its investigation in a future rate case.

*vi. Please explain how the total construction cost amount in Staff's recommendation was calculated and how that relates to and/or includes the estimated cost of upgrades to the wastewater system.*

**STAFF RESPONSE:** The total construction cost amount in Staff's recommendation was developed by 21 Design on behalf of Confluence Rivers and provides the costs to complete the system improvements described in the Engineering Memorandum for the system as developed by 21 Design on behalf of Confluence Rivers. Based on Staff's expert knowledge and previous experience with similar, preliminary cost estimates, Staff considers this cost estimate to be reasonable at this time.

e. In regard to Fawn Lake:

*i. Has Staff assessed the technical solutions proposed by Confluence Rivers to improve the system? If so, please describe the assessment and disclose any conclusions.*

**STAFF RESPONSE:** As part of its investigation, Staff assessed the condition of the system, including its performance and compliance with wastewater and environmental regulations. Staff reviewed information from DNR's records, including operating permits, inspections, notices of violation, and letters of warning. Staff performed an inspection of

the system, which included an on-site review of the current condition of each system and a discussion with Confluence Rivers' personnel on proposed capital improvements. Staff also reviewed the Engineering Memorandum for the system developed by 21 Design for the system, as provided by Confluence Rivers. As stated in Staff's Recommendation, the solutions proposed by Confluence Rivers appear reasonable based on Staff's investigation and the current condition of the system.

However, a full assessment of potential technical solutions is not appropriate at this time. In general, Staff's investigation is a point in time inspection designed to capture the condition of the system at the time of purchase by Confluence Rivers and a review of Confluence Rivers' plan to maintain and upgrade the system. Currently, Confluence Rivers' proposed technical solutions are hypothetical in nature, and as such, Confluence may or may not actually complete each proposed solution. Since Confluence Rivers does not currently operate the system, Confluence Rivers will reassess all operations and proposed capital expenditures after it has acquired the system. Confluence Rivers will then make any upgrades it deems necessary.

The eventual upgrades Confluence chooses to make may be influenced by conditions that are not known at this time. These could potentially include changes to Department of Natural Resources regulations or the future availability of a connection to a larger facility, creating the opportunity to become a wholesale customer; even site specific geologic conditions that are not yet known at this time can influence the upgrades ultimately made. While, based upon its inspection of the system and review of the Company's application, Staff has concluded Confluence River's proposed technical solutions appear reasonable, should the Commission approve its application, Staff will

make a determination of the prudence of the expenditures associated with system upgrades once the upgrades have actually been made, and Confluence Rivers requests to recover the associated costs in rates. Once this has occurred, Staff will conduct a complete audit and investigation of any expenditures and will determine whether to propose any disallowance at that time.

*ii. Is Staff aware of any other technical solutions that could be used to improve the system? If so, please identify those alternatives and any advantages or disadvantages now known to Staff.*

**STAFF RESPONSE:** Not at this time.

Staff reviewed the application presented to the Commission by Confluence Rivers and concluded the preliminary technical solutions outlined by the Company are reasonable. Should the Commission approve Confluence Rivers' application, the ultimate upgrades to the system will be the decision of the utility's management based upon the needs of the system at that time. Once those upgrades have been made, and recovery of the associated costs requested through the filing of a rate case, Staff will thoroughly review the utility's chosen upgrades and capital expenditures.

*iii. Has Staff analyzed the likely cost of system improvements proposed by Confluence Rivers and any alternative technical solutions known to Staff? If so, please describe that analysis and disclose any conclusions.*

**STAFF RESPONSE:** As stated above, Staff performed an inspection of the water system, discussed proposed capital improvements with Confluence Rivers' personnel,

reviewed the Engineering Memorandum developed by 21 Design for the system, and determined the solutions proposed by Confluence Rivers appear reasonable. Staff also reviewed the “Construction Cost Estimate for Water System Improvements” for the Fawn Lakes water system developed by 21 Design, as provided by Confluence Rivers. Based on Staff’s expert knowledge and previous experience with similar, preliminary cost estimates, Staff considers this cost estimate to be reasonable at this time. However, Staff did not independently create feasibility studies with cost estimates or investigate other alternative technical solutions, nor has it performed a complete cost analysis of Confluence Rivers’ proposed improvements. Staff views all costs and all improvements proposed by Confluence Rivers to be hypothetical in nature and as such, a complete analysis is not appropriate at this time. As noted in the Staff Recommendation, these preliminary cost estimates are provided by Staff for informational purposes only. If the application is approved, as Confluence Rivers assumes ownership and operation of the system any actual maintenance or system upgrades will be re-evaluated by Confluence Rivers. Once the maintenance or system upgrades are completed, Confluence Rivers may request the associated costs be included into rates. At that time, Staff will conduct a full and complete audit of those upgrades and the associated costs, and propose any necessary adjustments.

*iv. Please advise whether any of the proposed improvements should be given priority and for what reason. Please also advise whether, and for what reason, proposed improvements should be completed together within a particular period, and whether any of the proposed improvements should be deferred.*

**STAFF RESPONSE:** While some repairs and maintenance concerns may be more immediate than others, Staff is not aware of any customers on this system that are receiving service that is unsafe or inadequate. As such, Staff does not have an opinion at this time as to which improvements should be given priority, or which improvements should be completed together or deferred. Confluence Rivers has experience in taking ownership and repairing and maintaining these types of systems and it is Confluence Rivers that will prioritize the order of repairs. As noted in Staff's Recommendation, some prioritization will depend upon negotiations between the company and DNR. If Staff becomes aware of new information in the future that makes an improvement at a system become a higher priority, Staff will work with Confluence to ensure adequate attention is given to this effort.

Staff's investigation is a point in time inspection designed to capture the condition of the system at the time of purchase by Confluence Rivers. Actual system improvements require consistent observation of a facility's operations. Staff takes the opportunity during its review of the application and inspections to review a utility's management decisions to determine if certain proposed actions seem appropriate/inappropriate prior to the utility taking action. However, this is only a preliminary review and does not constitute any indication of pre-support.

*v. Please explain how geographic information system (GIS) mapping will be used for this system.*

**STAFF RESPONSE:** GIS mapping will be used to map the location of the water distribution system including street crossings, pipelines, shutoff valves and hydrants. It may also be used to develop the legal description of utility easements where none exist.

f. In regard to Prairie Heights:

- i. Has Staff assessed the technical solutions proposed by Confluence Rivers to improve the system? If so, please describe the assessment and disclose any conclusions.*

**STAFF RESPONSE:** As part of its investigation, Staff assessed the condition of the system, including its performance and compliance with wastewater and environmental regulations. Staff reviewed information from DNR's records, including operating permits, inspections, notices of violation, and letters of warning. Staff performed an inspection of the system, which included an on-site review of the current condition of each system and a discussion with Confluence Rivers' personnel on proposed capital improvements. Staff also reviewed the Engineering Memorandum for the system developed by 21 Design for the system, as provided by Confluence Rivers. As stated in Staff's Recommendation, the solutions proposed by Confluence Rivers appear reasonable based on Staff's investigation and the current condition of the system.

However, a full assessment of potential technical solutions is not appropriate at this time. In general, Staff's investigation is a point in time inspection designed to capture the condition of the system at the time of purchase by Confluence Rivers and a review of Confluence Rivers' plan to maintain and upgrade the system. Currently, Confluence Rivers' proposed technical solutions are hypothetical in nature, and as such, Confluence Rivers may or may not actually complete each proposed solution. Since Confluence Rivers does not currently operate the system, Confluence Rivers will reassess all operations and proposed capital expenditures after it acquires the system. Confluence Rivers will then make any upgrades it deems necessary.

The eventual upgrades Confluence chooses to make may be influenced by conditions that are not known at this time. These could potentially include changes to Department of Natural Resources regulations or the future availability of a connection to a larger facility, creating the opportunity to become a wholesale customer; even site specific geologic conditions that are not yet known at this time can influence the upgrades ultimately made. While, based upon its inspection of the system and review of the Company's application, Staff has concluded Confluence River's proposed technical solutions appear reasonable, should the Commission approve its application, Staff will make a determination of the prudence of the expenditures associated with system upgrades once the upgrades have actually been made, and Confluence Rivers requests to recover the associated costs in rates. Once this has occurred, Staff will conduct a complete audit and investigation of any expenditures and will determine whether to propose any disallowance at that time.

*ii. Is Staff aware of any other technical solutions that could be used to improve the system? If so, please identify those alternatives and any advantages or disadvantages now known to Staff.*

**STAFF RESPONSE:** Not at this time.

Staff reviewed the application presented to the Commission by Confluence Rivers and concluded the preliminary technical solutions outlined by the Company are reasonable. Should the Commission approve Confluence Rivers' application, the ultimate upgrades to the system will be the decision of the utility's management based upon the needs of the system at that time. Once those upgrades have been made, and recovery of the



associated costs requested through the filing of a rate case, Staff will thoroughly review the utility's chosen upgrades and capital expenditures.

*iii. Has Staff analyzed the likely cost of system improvements proposed by Confluence Rivers and any alternative technical solutions known to Staff? If so, please describe that analysis and disclose any conclusions.*

**STAFF RESPONSE:** As stated above, Staff performed an inspection of the sewer system, discussed proposed capital improvements with Confluence Rivers' personnel, reviewed the Engineering Memorandum developed by 21 Design for the system, and determined the solutions proposed by Confluence Rivers appear reasonable. Staff also reviewed the "Construction Cost Estimate for Water System Improvements" for the Prairie Heights water system developed by 21 Design, as provided by Confluence Rivers. Based on Staff's expert knowledge and previous experience with similar, preliminary cost estimates, Staff considers this cost estimate to be reasonable at this time. However, Staff did not independently create feasibility studies with cost estimates or investigate other alternative technical solutions, nor has it performed a complete cost analysis of Confluence Rivers' proposed improvements. Staff views all costs and all improvements proposed by Confluence Rivers to be hypothetical in nature and as such, a complete analysis is not appropriate at this time. As noted in the Staff Recommendation, these preliminary cost estimates are provided by Staff for informational purposes only. If the application is approved, as Confluence Rivers assumes ownership and operation of the system any actual maintenance or system upgrades will be re-evaluated by Confluence Rivers. Once the maintenance or system upgrades are completed, Confluence Rivers

may request the associated costs be included into rates. At that time, Staff will conduct a full and complete audit of those upgrades and the associated costs, and propose any necessary adjustments.

*iv. Please advise whether any of the proposed improvements should be given priority and for what reason. Please also advise whether, and for what reason, proposed improvements should be completed together within a particular period, and whether any of the proposed improvements should be deferred.*

**STAFF RESPONSE:** While some repairs and maintenance concerns may be more immediate than others, Staff is not aware of any customers on this system that are receiving service that is unsafe or inadequate. As such, Staff does not have an opinion at this time as to which improvements should be given priority, or which improvements should be completed together or deferred. Confluence Rivers has experience in taking ownership and repairing and maintaining these types of systems and it is Confluence Rivers that will prioritize the order of repairs. As noted in Staff's Recommendation, some prioritization will depend upon negotiations between the company and DNR. If Staff becomes aware of new information in the future that makes an improvement at a system become a higher priority, Staff will work with Confluence to ensure adequate attention is given to this effort.

Staff's investigation is a point in time inspection designed to capture the condition of the system at the time of purchase by Confluence Rivers. Actual system improvements require consistent observation of a facility's operations. Staff takes the opportunity during its review of the application and inspections to review a utility's management decisions to

determine if certain proposed actions seem appropriate/inappropriate prior to the utility taking action. However, this is only a preliminary review and does not constitute any indication of pre-support.

g. In regard to Freeman Hills:

- i. Has Staff assessed the technical solutions proposed by Confluence Rivers to improve the system? If so, please describe the assessment and disclose any conclusions.*

**STAFF RESPONSE:** As part of its investigation, Staff assessed the condition of the system, including its performance and compliance with wastewater and environmental regulations. Staff reviewed information from DNR's records, including operating permits, inspections, notices of violation, and letters of warning. Staff performed an inspection of the system, which included an on-site review of the current condition of each system and a discussion with Confluence Rivers' personnel on proposed capital improvements. Staff also reviewed the Engineering Memorandum for the system developed by 21 Design for the system, as provided by Confluence Rivers. As stated in Staff's Recommendation, the solutions proposed by Confluence Rivers appear reasonable based on Staff's investigation and the current condition of the system.

However, a full assessment of potential technical solutions is not appropriate at this time. In general, Staff's investigation is a point in time inspection designed to capture the condition of the system at the time of purchase by Confluence Rivers and a review of Confluence Rivers' plan to maintain and upgrade the system. Currently, Confluence Rivers' proposed technical solutions are hypothetical in nature, and as such, Confluence may or may not actually complete each proposed solution. Since Confluence Rivers does

not currently operate the system, Confluence Rivers will reassess all operations and proposed capital expenditures after it has acquired the system. Confluence Rivers will then make any upgrades it deems necessary.

The eventual upgrades Confluence chooses to make may be influenced by conditions that are not known at this time. These could potentially include changes to Department of Natural Resources regulations or the future availability of a connection to a larger facility, creating the opportunity to become a wholesale customer; even site specific geologic conditions that are not yet known at this time can influence the upgrades ultimately made. While, based upon its inspection of the system and review of the Company's application, Staff has concluded Confluence River's proposed technical solutions appear reasonable, should the Commission approve its application, Staff will make a determination of the prudence of the expenditures associated with system upgrades once the upgrades have actually been made, and Confluence Rivers requests to recover the associated costs in rates. Once this has occurred, Staff will conduct a complete audit and investigation of any expenditures and will determine whether to propose any disallowance at that time.

*ii. Is Staff aware of any other technical solutions that could be used to improve the system? If so, please identify those alternatives and any advantages or disadvantages now known to Staff.*

**STAFF RESPONSE:** Not at this time.

Staff reviewed the application presented to the Commission by Confluence Rivers and concluded the preliminary technical solutions outlined by the Company are reasonable. Should the Commission approve Confluence Rivers' application, the ultimate upgrades

to the system will be the decision of the utility's management based upon the needs of the system at that time. Once those upgrades have been made, and recovery of the associated costs requested through the filing of a rate case, Staff will thoroughly review the utility's chosen upgrades and capital expenditures.

*iii. Has Staff analyzed the likely cost of system improvements proposed by Confluence Rivers and any alternative technical solutions known to Staff? If so, please describe that analysis and disclose any conclusions.*

**STAFF RESPONSE:** As stated above, Staff performed an inspection of the sewer system, discussed proposed capital improvements with Confluence Rivers' personnel, reviewed the Engineering Memorandum developed by 21 Design for the system, and determined the solutions proposed by Confluence Rivers appear reasonable. Staff also reviewed the "Construction Cost Estimate for WWTF Improvements" for the Freeman Hills wastewater system developed by 21 Design, as provided by Confluence Rivers. Based on Staff's expert knowledge and previous experience with similar, preliminary cost estimates, Staff considers this cost estimate to be reasonable at this time. However, Staff did not independently create feasibility studies with cost estimates or investigate other alternative technical solutions, nor has it performed a complete cost analysis of Confluence Rivers' proposed improvements. Staff views all costs and all improvements proposed by Confluence Rivers to be hypothetical in nature and as such, a complete analysis is not appropriate at this time. As noted in the Staff Recommendation, these preliminary cost estimates are provided by Staff for informational purposes only. If the application is approved, as Confluence Rivers assumes ownership and operation of the

system any actual maintenance or system upgrades will be re-evaluated by Confluence Rivers. Once the maintenance or system upgrades are completed, Confluence Rivers may request the associated costs be included into rates. At that time, Staff will conduct a full and complete audit of those upgrades and the associated costs, and propose any necessary adjustments.

*iv. Please advise whether any of the proposed improvements should be given priority and for what reason. Please also advise whether, and for what reason, proposed improvements should be completed together within a particular period, and whether any of the proposed improvements should be deferred.*

**STAFF RESPONSE:** While some repairs and maintenance concerns may be more immediate than others, Staff is not aware of any customers on this system that are receiving service that is unsafe or inadequate. As such, Staff does not have an opinion at this time as to which improvements should be given priority, or which improvements should be completed together or deferred. Confluence Rivers has experience in taking ownership and repairing and maintaining these types of systems and it is Confluence Rivers that will prioritize the order of repairs. As noted in Staff's Recommendation, some prioritization will depend upon negotiations between the company and DNR. If Staff becomes aware of new information in the future that makes an improvement at a system become a higher priority, Staff will work with Confluence to ensure adequate attention is given to this effort.

Staff's investigation is a point in time inspection designed to capture the condition of the system at the time of purchase by Confluence Rivers. Actual system improvements

require consistent observation of a facility's operations. Staff takes the opportunity during its review of the application and inspections to review a utility's management decisions to determine if certain proposed actions seem appropriate/inappropriate prior to the utility taking action. However, this is only a preliminary review and does not constitute any indication of pre-support.

*v. Please explain how GIS mapping will be used for this system.*

**STAFF RESPONSE:** GIS mapping will be used to map the location of the collection sewer system including street crossings, pipelines, manholes and cleanouts. It may also be used to develop the legal description of utility easements where none exist.

*vi. Please specify whether Confluence Rivers proposes to use a moving bed biological reactor (MBBR) in conjunction with the existing system or to replace the existing system. In addition, if known to Staff, please identify any other technologies Confluence Rivers considered as an alternative to MBBR for this system.*

**STAFF RESPONSE:** It is Staff's understanding that Confluence Rivers is proposing a phased approach to system improvements. As part of a first phase, system operating conditions would be monitored and assessed, followed by system improvements. A likely outcome is that Confluence Rivers will use the MBBR in conjunction with the existing lagoon system. Most likely some modification to the lagoon and berms will be necessary to provide for access, electricity, and the footprint of equipment. In general, this approach is more cost effective than closing the lagoons and installing a new system.

Staff reviewed the Engineering Memorandum for the system as developed by 21 Design on behalf of Confluence Rivers. This document proposes a phased approach to system improvements. Staff has no information concerning what other technologies Confluence Rivers may have considered.

h. In regard to DeGuire:

*i. Has Staff assessed the technical solutions proposed by Confluence Rivers to address improvement of the system? If so, please describe the assessment and disclose any conclusions.*

**STAFF RESPONSE:** As part of its investigation, Staff assessed the condition of the system, including its performance and compliance with wastewater and environmental regulations. Staff reviewed information from DNR's records, including operating permits, inspections, notices of violation, and letters of warning. Staff performed an inspection of the system, which included an on-site review of the current condition of each system and a discussion with Confluence Rivers' personnel on proposed capital improvements. Staff also reviewed the Engineering Memorandum for the system developed by 21 Design, as provided by Confluence Rivers. As stated in Staff's Recommendation, the solutions proposed by Confluence Rivers appear reasonable based on Staff's investigation and the current condition of the system.

However, a full assessment of potential technical solutions is not appropriate at this time. In general, Staff's investigation is a point in time inspection designed to capture the condition of the system at the time of purchase by Confluence Rivers and a review of Confluence Rivers' plan to maintain and upgrade the system. Currently, Confluence



Rivers' proposed technical solutions are hypothetical in nature, and as such, Confluence may or may not actually complete each proposed solution. Since Confluence Rivers does not currently operate the system, Confluence Rivers will reassess all operations and proposed capital expenditures after it has acquired the system. Confluence Rivers will then make any upgrades it deems necessary.

The eventual upgrades Confluence chooses to make may be influenced by conditions that are not known at this time. These could potentially include changes to Department of Natural Resources regulations or the future availability of a connection to a larger facility, creating the opportunity to become a wholesale customer; even site specific geologic conditions that are not yet known at this time can influence the upgrades ultimately made. While, based upon its inspection of the system and review of the Company's application, Staff has concluded Confluence River's proposed technical solutions appear reasonable, should the Commission approve its application, Staff will make a determination of the prudence of the expenditures associated with system upgrades once the upgrades have actually been made, and Confluence Rivers requests to recover the associated costs in rates. Once this has occurred, Staff will conduct a complete audit and investigation of any expenditures and will determine whether to propose any disallowance at that time.

- ii. Is Staff aware of any other technical solutions that could be used to improve the system? If so, please identify those alternatives and any advantages or disadvantages now known to Staff.*

**STAFF RESPONSE:** Not at this time.

Staff reviewed the application presented to the Commission by Confluence Rivers and concluded the preliminary technical solutions outlined by the Company are reasonable. Should the Commission approve Confluence Rivers' application, the ultimate upgrades to the system will be the decision of the utility's management based upon the needs of the system at that time. Once those upgrades have been made, and recovery of the associated costs requested through the filing of a rate case, Staff will thoroughly review the utility's chosen upgrades and capital expenditures.

*iii. Has Staff analyzed the likely cost of system improvements proposed by Confluence Rivers and any alternative technical solutions known to Staff? If so, please describe that analysis and disclose any conclusions.*

**STAFF RESPONSE:** As stated above, Staff performed an inspection of the sewer system, discussed proposed capital improvements with Confluence Rivers' personnel, reviewed the Engineering Memorandum developed by 21 Design for the system, and determined the solutions proposed by Confluence Rivers appear reasonable. Staff also reviewed the "Construction Cost Estimate for WWTF Improvements" for the DeGuire wastewater system developed by 21 Design, as provided by Confluence Rivers. Based on Staff's expert knowledge and previous experience with similar, preliminary cost estimates, Staff considers this cost estimate to be reasonable at this time. However, Staff did not independently create feasibility studies with cost estimates or investigate other

alternative technical solutions, nor has it performed a complete cost analysis of Confluence Rivers' proposed improvements. Staff views all costs and all improvements proposed by Confluence Rivers to be hypothetical in nature and as such, a complete analysis is not appropriate at this time. As noted in the Staff Recommendation, these preliminary cost estimates are provided by Staff for informational purposes only. If the application is approved, as Confluence Rivers assumes ownership and operation of the system any actual maintenance or system upgrades will be re-evaluated by Confluence Rivers. Once the maintenance or system upgrades are completed, Confluence Rivers may request the associated costs be included into rates. At that time, Staff will conduct a full and complete audit of those upgrades and the associated costs, and propose any necessary adjustments.

*iv. Please advise whether any of the proposed improvements should be given priority and for what reason. Please also advise whether, and for what reason, proposed improvements should be completed together within a particular period, and whether any of the proposed improvements should be deferred.*

**STAFF RESPONSE:** While some repairs and maintenance concerns may be more immediate than others, Staff is not aware of any customers on this system that are receiving service that is unsafe or inadequate. As such, Staff does not have an opinion at this time as to which improvements should be given priority, or which improvements should be completed together or deferred. Confluence Rivers has experience in taking ownership and repairing and maintaining these types of systems and it is Confluence Rivers that will prioritize the order of repairs. As noted in Staff's Recommendation, some

prioritization will depend upon negotiations between the company and DNR. If Staff becomes aware of new information in the future that makes an improvement at a system become a higher priority, Staff will work with Confluence to ensure adequate attention is given to this effort.

Staff's investigation is a point in time inspection designed to capture the condition of the system at the time of purchase by Confluence Rivers. Actual system improvements require consistent observation of a facility's operations. Staff takes the opportunity during its review of the application and inspections to review a utility's management decisions to determine if certain proposed actions seem appropriate/inappropriate prior to the utility taking action. However, this is only a preliminary review and does not constitute any indication of pre-support.

*v. Please explain how GIS mapping will be used for this system.*

**STAFF RESPONSE:** GIS mapping will be used to map the location of the collection sewer system including street crossings, pipelines, manholes and cleanouts. It may also be used to develop the legal description of utility easements where none exist.

*vi. Please specify whether Confluence Rivers proposes to use MBBR in conjunction with the existing system or to replace the existing system. In addition, if known to Staff, please identify any other technologies Confluence Rivers considered as an alternative to MBBR for this system.*

**STAFF RESPONSE:** It is Staff's understanding that Confluence Rivers is proposing a phased approach to system improvements. As part of a first phase, an application for a

new operating permit would be submitted to Missouri DNR, and system operating conditions would be monitored and assessed, followed by system improvements. A likely outcome is that Confluence Rivers will use the MBBR in conjunction with the existing lagoon. Most likely some modification to the lagoon and berm will be necessary to provide for access, electricity, and the footprint of equipment. In general, this approach is more cost effective than closing the lagoons and installing a new system.

Staff reviewed the Engineering Memorandum for the system as developed by 21 Design on behalf of Confluence Rivers. This document proposes a phased approach to system improvements. Staff has no information concerning what other technologies Confluence Rivers may have considered. The final technology selection will depend upon on the new Operating Permit discharge parameters, and the results of the lagoon's performance during phase 1 operations.

**WHEREFORE**, Staff respectfully submits its *Response to Order Directing Responses Regarding Staff's Recommendation* for the Commission's information and consideration.

Respectfully submitted,

**/s/ Mark Johnson**

Mark Johnson,

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**Attorney for the Staff of the  
Missouri Public Service Commission**

**CERTIFICATE OF SERVICE**

I hereby certify that copies of the foregoing have been mailed, hand-delivered, transmitted by facsimile, or electronically mailed to all parties and/or counsel of record on this 7<sup>th</sup> day of October 2020.

**/s/ Mark Johnson**

