

**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 Nos. WM-2020-0282
and Sewer Assets, and For Certificates)
of Convenience and Necessity)

**CONFLUENCE RIVERS RESPONSE TO ORDER DIRECTING RESPONSES
AND SUPPLEMENT TO APPLICATION**

COMES NOW Confluence Rivers Utility Operating Company, Inc., (“Confluence Rivers” or “Company) and, in response to the Missouri Public Service Commission’s (“Commission”) *Order Directing Responses Regarding Confluence Rivers’ Application*, and as a Supplement to its Application, states to the Commission as follows:

1. On September 23, 2020, the Commission issued its *Order Directing Responses Regarding Confluence Rivers’ Application* (“Order”). The *Order*, among other things, directed that no later than October 7, 2020, Confluence Rivers shall respond to the Commission’s inquiries above with a verified supplement to its application or a request for additional time, specifying when it will be able to respond in full.

2. Below are verified responses to the Commission’s inquiries. Confluence Rivers requests that the Commission treat these responses as a supplement to Confluence Rivers’ Application in this case.

RESPONSES TO INQUIRIES AND SUPPLEMENT TO APPLICATION

A. In regard to Confluence Rivers’ application, Appendix W-C, Page 1, labeled “Pro-Forma Balance Sheet – Confluence Rivers Utility Operating Company, LLC”:

A1: The applicant in this case is Confluence Rivers Utility Operating Company, Inc. Is the reference to the company as an “LLC” an error, or does the balance sheet apply to a different entity?

RESPONSE:

The reference to “Confluence Rivers Utility Operating Company, LLC” in the balance sheet was an error. The balance sheet applies to Confluence Rivers Utility Operating Company, Inc.

A2: “Total assets” do not equal “Total Capitalization and Liabilities” in the “Confluence Rivers UOC” or “Confluence Rivers UOC Post Acquisition” columns. Please clarify and explain why the balance sheet does not appear to follow standard accounting practices.

RESPONSE:

Please see the confidential Appendix A for an updated pro-forma balance sheet that follows standard accounting practices. The Company was working off of unaudited financials provided by the seller and was unable to find the correct information to balance the financials in the original application. The updated Pro-Forma attached as Appendix A was reviewed by Brent Thies, Confluence Rivers’ controller.

Appendix A has been identified as “Confidential” in accordance with Commission Rule 20 CSR 4240-2.135(2)(A)(3) and (6), as it contains market specific information and information representing strategies employed in contract negotiations.

A3: Who prepared and reviewed the pro-forma balance sheet?

RESPONSE:

The pro-forma balance sheet was prepared and reviewed by Aaron Silas (Business Analyst).

A4: In regard to Branson Cedars, please specify what amount of the “Total Plant in Service” figure is the depreciated original cost versus the purchase price.

RESPONSE:

Of the “Total Plant in Service” figure, \$167,439 is the depreciated net book value as of Branson Cedars’ most recent annual report. The Purchase Price is **\$ _____ **. The difference between these two numbers is **\$ _____ **.

A5: In regard to Branson Cedars, does the “Total Plant in Service” figure comply with the National Association of Regulatory Utility Commissioners Uniform System of Accounts, as adopted by the Commission?

RESPONSE:

Yes

A6: Please explain why a pro-forma balance sheet is not provided for the Fawn Lake, Prairie Heights, Freeman Hills and DeGuire systems.

RESPONSE:

Branson Cedars is an existing public utility. Commission Rule 20 CSR 4240-10.105, which governs this transaction, requires in part as follows:

(1) In addition to the requirements of 4 CSR 240-2.060(1), applications for authority to sell, assign, lease, or transfer assets shall include:

(E) If the purchaser is subject to the jurisdiction of the commission, a balance sheet and income statement with adjustments showing the results of the acquisitions of the property;

The other referenced entities are not public utilities and thus Rule 20 CSR 4240-10.105 does not apply. Commission Rules 20 CSR 4240-3.305 and 20 CSR 4240-3.600 (applications for CCNs) do not require a pro-forma balance sheet.

A7: What is the date of the pro-forma balance sheet?**RESPONSE:**

The pro-forma balance sheet from the application is as of December 31, 2019. The updated pro-forma balance sheet attached as Appendix A is as of July 31, 2020.

A8: Please identify all of the utility systems included in the “Confluence Rivers UOC” column.**RESPONSE:**

The systems included are as follows:

Auburn Lake, Calvey Brook, Eugene, Evergreen Lakes, Gladlo, Lake Virginia, Majestic Lakes, Mill Creek, Roy-L, Smithview, Villa Ridge, and Willows.

A9: In regard to Branson Cedars, is capitalization based on projected actuals or a hypothetical capital structure? Please explain how “Company Capitalization” was calculated for Branson Cedars.**RESPONSE:**

Capitalization is based on a hypothetical capital structure consisting of 50% debt and 50% equity.

A10: Please identify the documentation, if any, provided to Staff to support the amounts stated on the pro-forma balance sheet.

RESPONSE:

Staff had annual reports from Confluence Rivers and Branson Cedars available to work from. Additionally, the Company supplied financial statements in response to DR 0026 and information regarding Branson Cedars to DR 0030.

B. In regard to Confluence Rivers' application, Appendix W-C, Page 2, labeled "Pro-Forma Income Statement – Confluence Rivers Utility Operating Company, LLC":**B1: What time period is reflected in the pro-forma income statement?****RESPONSE:**

The time period reflected in the pro-forma income statement is calendar year 2019.

B2: Who prepared and reviewed the pro-forma income statement?**RESPONSE:**

The pro-forma income statement was prepared the reviewed by Aaron Silas (Business Analyst).

B3: Please identify the sources for the amounts included in the "Confluence Rivers UOC" column.**RESPONSE:**

These amounts were taken from an income statement prepared by Confluence Rivers UOC.

B4: The Commission approved a rate increase for Confluence Rivers in File No. WR-2020-0053. Does the rate increase change the figures stated in the "Confluence Rivers UOC" column? As of July 1, 2020, please provide an update of the figures stated for "Confluence Rivers UOC" to reflect the rate increase approved in File No. WR-2020-0053, with an explanation of how the calculation is made.**RESPONSE:**

The rate case does change the figures stated in the Confluence Rivers UOC column. Please see the updated pro-forma income statement for figures reflecting the rate increase by utilizing the revenue requirements.

B5: Please identify the sources for the amounts included in the "Branson Cedars Water & Sewer Acquisition" column.**RESPONSE:**

These amounts came from the Branson Cedars 2018 annual report.

B6: In regard to Branson Cedars, please report operating and maintenance expenses included on the pro-forma income statement at the level of detail reported in annual reports to the Commission.

RESPONSE:

These amounts were taken directly from the Branson Cedars 2018 annual report.

B7: In regard to Branson Cedars, please explain the calculation of depreciation and amortization expenses compared to “Confluence Rivers UOC,” given the difference in plant in service amounts.

RESPONSE:

These amounts were taken directly from the Branson Cedars 2018 annual report.

B8: In regard to Branson Cedars, please explain the calculation of operating income. Please specify whether operating income should equal the amount from current rates multiplied by the number of current customers multiplied by 12.

RESPONSE:

These amounts were taken directly from the Branson Cedars 2018 annual report.

B9: In regard to Branson Cedars, please explain why the pro-forma income statement for does not include projections for years 1, 2 and 3.

RESPONSE:

Commission Rule 20 CSR 4240-10.105 does not call for such projections.

B10: Please identify the documentation, if any, provided to Staff to support the amounts stated on the pro-forma income statement.

RESPONSE:

Staff was able to utilize the annual reports of both Confluence Rivers and Branson Cedars.

C. In regard to Confluence Rivers’ application, Appendix X-C, variously labeled “WACC Proj Cash Flow Statement”:

C1: Please state whether projected cash flow statements are offered as feasibility studies in support of Confluence Rivers' application for CCNs to serve Fawn Lake, Prairie Heights, Freeman Hills, and DeGuire. If so, please explain to what extent the statements satisfy the elements of a feasibility study, required by 20 CSR 4240-3.305(1)(A)5 and 20 CSR 4240-3.600(1)(A)5.

RESPONSE:

The cash flow studies are offered to satisfy some of the feasibility study requirements. The referenced rules require:

A feasibility study containing plans and specifications for the utility system and estimated cost of the construction of the utility system during the first three (3) years of construction; plans for financing; proposed rates and charges and an estimate of the number of customers, revenues and expenses during the first three (3) years of operations;

This rule provision is an uncomfortable fit for the circumstance where the requested CCN is for a previously constructed and operational system that is not being operated as a public utility. The rules seem to have been written with new construction/expansion in mind.

Having said that, the cash flow statements are offered to provide "estimates of the number of customers, expenses and revenues during the first three (3) years of operation by Confluence Rivers."

Paragraph 47 of the Application address the plans for financing, the fact that the system themselves are already constructed, and requests a waiver from the provision of "plans and specifications related to the construction of the distribution and collection systems." Proposed rates and charges are addressed by paragraphs 50-58 of the Application address the "proposed rates and charges."

C2: Who prepared and reviewed each of the projected cash flow statements at Appendix X-C?

RESPONSE:

The projected cash flow statements were prepared and reviewed by Aaron Silas (Business Analyst).

C3: Addressing Fawn Lake, Prairie Heights, Freeman Hills and DeGuire individually, please explain how "Customer Revenue" was determined for Year 1, Year 2 and Year 3.

RESPONSE:

Customer revenue was determined for Year 1 by consulting previous owners and determining annual revenue amounts based on information they provided.

Customer Revenues were derived for Years 2 and 3 by multiplying the customer count by Confluence Rivers' projected rates and then annualizing.

C4: Addressing Fawn Lake, Prairie Heights, Freeman Hills and DeGuire individually, please explain how "Total Operating Expense" was determined for Year 1, Year 2 and Year 3.

RESPONSE:

Total operating expense was determined by projecting operations and maintenance expenses, repairs, power, and chemicals. These projections were determined based on annual report data and comparisons to systems of similar sizes.

C5: Staff's recommendation states confidential figures for the purchase price of each system. In addition, the memo states confidential estimated costs of proposed improvements for Fawn Lake, Prairie Heights, Freeman Hills and DeGuire. Addressing Fawn Lake, Prairie Heights, Freeman Hills and DeGuire individually, please explain why the "Total Cost of Project," plus "Loan Principal" stated for Year 0 in the projected cash flow statement for each system, does not equal the purchase price plus the cost of improvements, as reported by Staff.

RESPONSE:

The "Total Cost of Project" is equal to the best estimates for planned improvements available at the time the application was filed plus the purchase price for each system. The costs of proposed improvements found in Staff's memo include the most up to date planned improvement costs.

C6: Addressing Fawn Lake, Prairie Heights, Freeman Hills and DeGuire individually, please explain how depreciation expense was calculated for Year 1, Year 2 and Year 3.

RESPONSE:

Depreciation expense was calculated by taking the total cost of planned capital projects and assuming an average 4.5% depreciation rate of 4.5%.

C7: Addressing Fawn Lake, Prairie Heights, Freeman Hills and DeGuire individually, what are the presumed rates reflected in the calculations for Year 1, Year 2 and Year 3?

RESPONSE:

The rates in Year 1 were taken from annual revenue information collected from each of the sellers. The rate in Year 2 is based on a projected step rate of \$57.22 and the rate in Year 3 is based on a projected final rate of \$77.43.

C8: Addressing DeGuire, please explain why the projected cash flow statement does not state any “Commercial Revenue,” when Confluence Rivers’ application indicates DeGuire has four commercial customers.

RESPONSE:

Confluence Rivers had requested rate information from DeGuire but hadn’t received this information by the time the application was filed. The Company utilized an assumption that commercial customers were being charged the same as residential customers.

C9: Addressing DeGuire, please explain why the “Customer Revenue” amount is stated as \$3,800 for Year 1, when the application indicates DeGuire has 24 residential customers at a monthly rate of \$20 and four commercial customers at a monthly rate of \$30.

RESPONSE:

See the Company’s response to C8. Company utilized an assumption that revenues would be similar to the Freeman Hills system as they are comparable in size and customer count.

D. In regard to system improvements proposed by Confluence Rivers for Branson Cedars:

D1: Please advise whether any of the proposed improvements to the water system should be given priority and for what reason. Please also advise whether, and for what reason, proposed improvements should be completed within a particular period, and whether any of the proposed improvements should be deferred.

RESPONSE:

At this time, we believe all improvements listed are necessary upon acquisition and plan to move forward with construction after acquisition. As mentioned in the preliminary engineering memos, there are unknowns about the exact operation, flows and conditions within the system that we will be able to clarify after acquisition. These clarifications could impact our capital project scope if any components or processes are found to be better or worse than indicated by our pre- acquisition due diligence.

D2: Please advise whether Confluence Rivers has conducted any analyses or feasibility studies to evaluate alternative technical solutions to improve the water system.

RESPONSE:

The current scope of proposed capital projects is our best estimate of repairs and improvements to the current system necessary to improve current operations and meet the Missouri Department of Natural Resources’ (DNR) minimum design standards. After Confluence Rivers acquires the system, if any alternate technical solution is determined to be more cost-effective, the company would pursue that alternative.

D3: Please advise whether any of the proposed improvements to the sewer system should be given priority and for what reason. Please also advise whether, and for what reason, proposed improvements should be completed within a particular period, and whether any of the proposed improvements should be deferred.

RESPONSE:

There has been an ongoing project to eventually connect Branson Cedars to the City of Hollister's sewer system, which is why Branson Cedars has installed a large holding tank next to the existing wastewater treatment facility, which the current owner planned eventually to convert to a lift station to pump raw sewage to the City of Hollister's collection system. Depending on the timing of completion of that project and if approved by DNR as part of Confluence Rivers' *Agreement on Consent and Corrective Action Plan* timeline, we believe process improvements could be deferred until the City of Hollister's sewer is installed to a location near Branson Cedars. Other portions of the improvements, such as flow metering and monitoring, should proceed soon after acquisition because the equipment can eventually be moved to the lift station and reused. If and when Branson Cedars is tied onto the City of Hollister's collection system, a project to decommission the existing wastewater facility would need to be completed.

D4: Please advise whether Confluence Rivers has conducted any analyses or feasibility studies to evaluate alternative technical solutions to improve the sewer system.

RESPONSE:

See response to D3.

D5: Please identify the factors that should determine whether the existing sewer system is upgraded or replaced.

RESPONSE:

See response to D3.

E. In regard to system improvements proposed by Confluence Rivers for Fawn Lake:

E1: 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.

RESPONSE:

At this time, we believe all improvements listed are necessary upon acquisition and plan to move forward with those improvements.

E2: Please advise whether Confluence Rivers has conducted any analyses or feasibility studies to evaluate alternative technical solutions to improve the system.

RESPONSE:

The current scope of proposed capital projects is our best estimate of repairs and improvements to the current system necessary to improve current operations and meet the DNR's minimum design standards. After Confluence Rivers acquires the system, if any alternate technical solution is determined to be more cost-effective, the company would pursue that alternative.

F. In regard to system improvements proposed by Confluence Rivers for Prairie Heights:

F1: 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.

RESPONSE:

At this time, we believe all improvements listed are necessary upon acquisition and plan to move forward with those improvements after acquisition.

F2: Please advise whether Confluence Rivers has conducted any analyses or feasibility studies to evaluate alternative technical solutions to improve the system.

RESPONSE:

The current scope of proposed capital projects is our best estimate of repairs and improvements to the current system necessary to improve current operations and meet the DNR's minimum design standards. After Confluence Rivers acquires the system, if any alternate technical solution is determined to be more cost-effective, the company would pursue that alternative.

G. In regard to system improvements proposed by Confluence Rivers for Freeman Hills:

G1: 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.

RESPONSE:

At this time, we believe all improvements listed are necessary upon acquisition and plan to move forward with those improvements after acquisition.

G2: Please advise whether Confluence Rivers has conducted any analyses or feasibility studies to evaluate alternative technical solutions to improve the system.

RESPONSE:

See response to G4

G3: Please explain how geographic information system (GIS) mapping will be used for this system.

RESPONSE:

GIS mapping is a standard practice for Confluence Rivers' systems and is essential to buildout of our asset management system. GIS mapping information allows the company to create a cloud-based information center for the entire treatment and collection system, which makes such information immediately available to respond to emergencies and for all current and future operations.

G4: 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, please identify any other technologies considered as an alternative to MBBR for this system.

RESPONSE:

Current capital plans include the addition of a small MBBR system so the system can meet ammonia limits listed in its NPDES permit. Considering the size of the lagoon and the number of customers connected to the system, a small MBBR is a very cost-effective method to meet the NPDES ammonia limits. Lagoon aeration was a consideration, but due to the age of the lagoon and its unknown sludge makeup and levels, aeration was determined not to be a sufficient process upgrade method of treatment. Aerators are unlikely to consistently meet ammonia limits listed in the NPDES permit throughout the year. Also, due to the age and likely sludge buildup in the lagoon, implementation of aerators may still require some amount of sludge removal, which adds significant cost to system operations. In contrast, an MBBR system will break down a significant amount of the accumulated sludge during its regular operation, thus eliminating the need for additional sludge hauling.

H. In regard to system improvements proposed by Confluence Rivers for DeGuire:

H1: 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.

RESPONSE:

DeGuire has not had a valid permit since 2006, so Confluence Rivers' current plan for process improvements is solely based on assumptions that considered permitted limits from other similar treatment facilities. The final scope of work for process improvements will not be known until a new permit is issued by DNR.

H2: Please advise whether Confluence Rivers has conducted any analyses or feasibility studies to evaluate alternative technical solutions to improve the system

RESPONSE:

Since there is no current NPDES permit for this facility, the final decision on a process improvement or alternative analysis cannot be made at this time.

H3: Please explain how GIS mapping will be used for this system.

RESPONSE:

GIS mapping is a standard practice for Confluence Rivers' systems and is essential to buildout of our asset management system. GIS mapping information allows the company to create a cloud-based information center for the entire treatment and collection system, which makes such information immediately available to respond to emergencies and for all current and future operations.

H4: Please specify whether Confluence Rivers proposes to use MBBR in conjunction with the existing system or to replace the existing system. In addition, please identify any other technologies considered as an alternative to MBBR for this system.

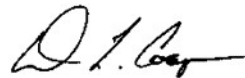
RESPONSE:

See response to Commission Query H2.

WHEREFORE, Confluence Rivers Utility Operating Company, Inc., respectfully requests the Commission consider this filing to comply with the *Order*.

Respectfully submitted,

BRYDON, SWEARENGEN & ENGLAND P.C.

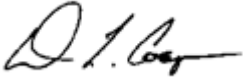


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**ATTORNEYS FOR CONFLUENCE RIVERS
UTILITY OPERATING COMPANY, INC.**

CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing was served by electronic mail on this 7th day of October, 2020 to all counsel of record.



APPENDIX A

**HAS BEEN IDENTIFIED AS
CONFIDENTIAL
IN ITS ENTIRETY**