

MEMORANDUM

TO: Missouri Public Service Commission
Official Case, Case Nos. WM-2018-0116 and SM-2018-0117

In the Matter of the Application of Confluence Rivers Utility Operating Company, Inc. to Acquire Certain Water and Sewer Assets, For a Certificate of Convenience and Necessity, and, in Connection Therewith, To Issue Indebtedness and Encumber Assets

FROM: James A. Merciel, Jr - Water and Sewer Department
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/s/ James A. Merciel, Jr. 03-06-18
Case Coordinator / Date

/s/ Whitney Payne 03-06-18
Staff Counsel's Office / Date

SUBJECT: Staff Recommends Approval of Transfer of Assets, Transfer of Certificates of Convenience and Necessity, and Issuance of Certificate of Convenience and Necessity

DATE: March 6, 2018

EXECUTIVE SUMMARY

On October 24, 2017, Confluence Rivers Utility Operating Company, Inc. (“CRU”) filed an *Application and Motion for Waiver* (“Application”) with the Missouri Public Service Commission (“Commission”). In the Application, CRU seeks to purchase (transfer) utility assets comprising fifteen (15) separate water and sewer systems from eight (8) regulated utilities that presently provide water and/or sewer service, and one water and sewer utility that is not regulated by the Commission, which is owned and controlled by an association. All of these entities are collectively referred to herein as the “Sellers,” or “Seller” if referring generally to any one of the entities. Along with the transfer of assets of the regulated utilities, CRU requests a transfer of the Certificates of Convenience and Necessity (“CCN”) presently held by each of the specific regulated utilities. CRU also requests that the Commission grant it a new CCN that will apply to the service area presently served by the unregulated association.

Based on its review as described herein, Staff recommends approval of the transfers of assets of Sellers, transfers of the affected CCNs, and issuance of a new CCN, with the conditions and actions as outlined below. Staff further recommends CRU be authorized and ordered to file new water and sewer tariff sheets with a service area map, a service area description, rates and service charges for Majestic Lakes prior to closing on those assets, and to file adoption notice tariff sheets for all of the tariffs currently in effect for the Sellers that are regulated, as described herein.

BACKGROUND OF THE SELLERS, AND SELLERS' UTILITY SYSTEMS

The water and sewer systems CRU proposes to purchase, own and operate are owned by the Sellers, identified as the following entities:

- Smithview H2O Company (water system)
- M.P.B., Inc. (two sewer systems)
- Mill Creek Sewers, Inc. (sewer system)
- Roy-L Utilities, Inc. (one water and one sewer system)
- Port Perry Service Company (one water and one sewer system)
- Gladlo Water & Sewer Co., Inc. (one water and one sewer system)
- The Willows Utility Company (one water and one sewer system)
- Evergreen Lake Water Company (water system)
- Majestic Lakes Homeowners Association, Inc. (one water and one sewer system, currently not a regulated utility)

All of the above entities except the one unregulated entity have existing approved rates. CRU proposes to adopt those existing approved rates and rules initially.

With regard to the systems owned by the unregulated entity, Majestic Lakes Homeowners Association, Inc., CRU seeks a new CCN for authority to provide water and sewer service in a service area that includes a subdivision and some surrounding acreage, as discussed further herein. With the CCN request, CRU seeks approval of monthly water and sewer rates that are identical to those currently charged customers by Majestic Lakes Homeowners Association, Inc.

All of the Sellers have various operations issues that need to be addressed, and are discussed in detail in Attachment A, included with this memorandum and incorporated herein by reference. To summarize and illustrate the types of issues:

- Three of the above regulated utilities are in court-appointed receivership, initiated by action of the Commission.
- Seven of the above entities' sewer systems presently have either current issues regarding permits and compliance with the Missouri Department of Natural Resources, or will be required to upgrade treatment to meet scheduled new

permit requirements. Staff has observed some of these operations issues during its investigations of these utilities related to this case, in prior rate cases, and during inspections.

- Two of the above entities are the subject of formal complaints filed by Staff because of compliance issues involving the Commission’s regulations.
- All of the above entities have aging utility plant facilities, requiring repairs or replacement of certain components.

Staff notes that the resolution of most or all of these issues will require capital improvements to be undertaken in the near future. Some improvements are necessary for compliance, but improvements to all of the involved water and sewer systems, if made, would promote ongoing safe and adequate service, good operations and more reliable utility service for customers, while only maintaining the status quo could lead to further problems.

STAFF’S INVESTIGATION

CRU is a newly formed corporation that exists for the purpose of operating as a regulated water and sewer utility company. The president of CRU has experience with water and sewer systems and is also the president of four affiliates of CRU that are regulated utilities - Hillcrest Utility Operating Company, Inc. (“Hillcrest”), Raccoon Creek Utility Operating Company, Inc. (“Raccoon Creek”), Elm Hills Utility Operating Company, Inc. (“Elm Hills”), and Indian Hills Utility Operating Company, Inc. (“Indian Hills”), which collectively operate a total of nine water and sewer systems. Similar to the plan proposed by CRU, those affiliates purchased the assets of regulated and/or unregulated water and/or sewer systems, have undertaken substantial capital improvements to address compliance and operations issues, improved day-to-day operations of the systems, and improved customer service. With respect to corporate ownership and financing, CRU is set up in a manner that is similar to that of these affiliates.

Technical, Managerial, and Financial Capacity and Tartan Energy Criteria

In studying most situations involving transfers of assets, or new CCNs involving regulated water and/or sewer systems, Staff utilizes the concepts of technical, managerial and financial capacity, or “TMF,” originally developed by the United States Environmental Protection Agency. Staff has reviewed and stated its position regarding TMF regarding each of CRU’s affiliates in previous CCN and transfer of assets cases before the Commission. Staff’s position on TMF remains positive regarding those affiliates, and similarly takes the position that CRU has adequate TMF capability.

When considering a request for a new CCN, the Commission applies criteria originally developed in a CCN case filed by the Tartan Energy Company and referred to now as the “Tartan criteria.” The Tartan criteria contemplate 1) need for service; 2) the utility’s qualifications; 3) the utility’s financial ability; 4) the feasibility of the proposal; and, 5) promotion of the public interest. For its reviews, Staff adds one more criterion, that being whether or not other utility entities are available to provide similar service. Staff has studied these points as they relate to the situations and abilities involving one new CCN and several

transfer cases pertaining to CRU's affiliates. Further, as related to this specific CCN request for CRU's proposed Majestic Lakes service area, Staff takes the position that it is feasible for CRU to operate and manage its water and sewer operations, and it is in the public interest for it to do so. No other utility is readily available to provide water and sewer service except the existing association; and that entity wishes to exit the utility business.

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

Tariff and Rate Impact

In its Application, CRU states that it proposes to adopt existing tariff rules and rates for all of the Sellers that are currently regulated. Staff recommends that within ten (10) days after closing on any of the assets, CRU file Tariff Adoption Notice tariff sheets for the corresponding water and/or sewer tariffs of the regulated Sellers, and that the Commission authorize CRU to provide water and sewer service by the terms of the Sellers' tariffs on an interim basis until the effective date of such Adoption Notices.

Since the Majestic Lakes water and sewer systems are not currently operated as a regulated utility and there are no current tariffs that apply to that service area, CRU requests that rules applying to Majestic Lakes be included within the water and sewer tariffs of Roy-L. This will be accomplished by inserting new tariff sheets depicting the Majestic Lakes service area, and rates applicable to Majestic Lakes into the Roy-L tariffs, however before that can be done, CRU will need new tariff sheets, to be approved by the Commission, including a map and description of the authorized service area, rates, and service charges to go into effect immediately upon closing on the Majestic Lakes assets. Staff therefore recommends that as soon as possible after the effective date of a CCN issued by the Commission for the Majestic Lakes service area, CRU submit new original water tariff sheets and sewer tariff sheets under its own name, showing the map and written description depicting the Majestic Lakes service area, and rate sheets and service charge sheets showing rates and charges applying to Majestic Lakes. These tariff sheets must become effective on or before the date CRU closes on the assets, with expedited approval if necessary.

After closing on both the Majestic Lakes and Roy-L assets, CRU would then file tariff sheets in the adopted Roy-L water and sewer tariffs, and seek to cancel the original Majestic Lakes tariff sheets.

The map and description, proposed by CRU to be approved by the Commission, are described and discussed in the **Majestic Lakes New CCN** section of this memorandum, below.

However, if after filing original tariff sheets applying to Majestic Lakes CRU is unable to follow through with closing on the Majestic Lakes assets, then CRU should withdraw any such pending tariff filing(s), or file replacement tariff sheets as necessary in order to cancel the provisions of any such tariff sheets that may have become effective reflecting the service area, rates and charges applying to Majestic Lakes.

Rate Base

The Auditing Department reviewed information provided by CRU in response to Staff's data requests, its Application with included sale agreement documents, CRU's work papers, as well as the effective tariffs and Annual Reports of the Sellers that are currently regulated.

The total price for all of the assets proposed to be purchased by CRU is ** _____ **. This total amount is determined by adding the purchase prices in all of the sale documents between CRU and each of the Sellers, attached as confidential documents labeled Appendices B-C through K-C to the Application.

Staff is proposing that the net book value as of December 31, 2017 be used to determine the rate base in this case, except for Mill Creek and Majestic Lakes as discussed below. As part of this case CRU is acquiring a total of fifteen (15) different water and sewer systems and consolidating them under single ownership. The Auditing Department, Engineering Analysis Unit and Water and Sewer Department conducted a review of plant in service, depreciation reserve, Contributions in Aid of Construction ("CIAC"), CIAC amortization and other rate base items during their investigation in order to determine CRU's rate base for this case¹. Where possible, Staff's starting point for determining rate base in this case was an analysis of the actual rate base used in each of the Sellers' most recent rate case, and then using each of the Sellers' Annual Reports submitted to the Commission, updating plant in service, depreciation reserve, CIAC and CIAC amortization to December 31, 2017. Alternatively, for any of the Sellers that have not had a rate case since April 2002 (the date that EFIS became operational), Staff used the Annual Reports submitted to the Commission to develop rate base. Port Perry and Willows were the only two systems for which Staff depended strictly on the Annual Reports to develop rate base. For the non-regulated entity, Staff performed an onsite visit and also obtained an engineering study from CRU to develop rate base. The net book value of assets proposed to be purchased by CRU as of December 31, 2017, as determined by Staff, is approximately \$411,433. For a breakdown of the rate base for each entity please refer to Attachment B included with this memorandum and incorporated by reference herein.

Mill Creek, one of the three Sellers that is under the control of the court-appointed receiver, has assets that are located on land not owned by Mill Creek, and the land owner is requesting \$69,000 for necessary right-of-way access. Additionally, Mill Creek has \$6,000 in unpaid receiver expenses, and a \$15,000 capital expense for plant improvements that were made and paid for by the receiver. Accordingly, under the specific facts and circumstances present in this case, Staff is recommending that CRU establish a regulatory asset on its balance sheet in the approximate amount of \$6,000 to be amortized to expense over a 5-year period. This amortization would begin the month after the closing of the sale. This regulatory asset represents a portion of the purchase price, which will be used to satisfy a portion of the outstanding receivership fees owed to Mill Creek's current receiver. Staff is also recommending that the \$69,000 be booked under Account 310, Land and Land Rights, and the \$15,000 for plant

¹ Rate base as determined by Staff for this case is for information only, and reflects only Staff's determination based on its review of this case. No rate base amount has been reviewed by other interested parties including CRU and the Office of the Public Counsel. Rate base determination is subject to change based on positions of other parties, or by additional information not available during Staff's review of this case.

improvements be booked under the applicable plant account for which the improvements were made. Staff’s determination of rate base associated with this system is based on the Company providing the right of way easement contract, an itemized listing of the unpaid receiver expenses and the plant improvements. CRU states to Staff that it will not have these documents until it closes on this property; therefore Staff’s determination of including these items in rate base is conditioned upon the receipt of these documents within sixty (60) days of closing on the Mill Creek assets.

There is virtually no available information concerning the original cost of the Majestic Lakes water and sewer systems, nor the amount of ongoing depreciation charged against those plant assets and any contributed amounts associated with Majestic Lakes’ plant-in-service. To determine a net book value for these systems, Staff visited the Majestic Lakes area to observe the water and sewer systems, and reviewed some engineering drawings that were provided by CRU. The Engineering Analysis Unit and the Water and Sewer Department developed an estimate of the original cost of the Majestic Lakes systems based on their inspections and analysis of these assets, Based on that analysis, Staff has determined the net book value of Majestic Lakes to be approximately \$30,000.

FINANCING REQUEST

Confluence Rivers seeks an order from the Commission granting it the authority to issue up to \$2,600,000 of secured indebtedness. According to the Application, the purpose of this financing will be for the purchase of the assets and to fund the construction necessary to bring the systems into regulatory compliance.

CRU intends to execute a term loan with monthly principal and interest payments amortized over 20 years. Appendix R-C to the Application describes the terms of the loan as follows:

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Some history may provide guidance on CRU’s financing request. As previously noted, the president of CRU is also the president of four affiliates of CRU that are regulated utilities - Hillcrest Utility Operating Company, Inc., Raccoon Creek Utility Operating Company, Inc., Elm Hills Utility Operating Company, Inc., and Indian Hills Utility Operating Company, Inc. All four affiliates have had financing terms decided by the Commission.

Raccoon Creek² - On November 24, 2014, the Commission approved a Stipulation and Agreement (“S&A”) and authorized Raccoon Creek to “enter into, execute and deliver loan agreements with Fresh Start Ventures LLC to incur indebtedness.” The S&A stated “Raccoon Creek and any successors or assigns shall bear the burden of proof, in subsequent rate cases where such financing is at issue, to show that it sought the least cost option available to it as to the proposed financing and ownership structure. If the Commission determines that

² Case No. SM-2015-0014.

Raccoon Creek has not carried this burden, Raccoon Creek understands the Commission may order a hypothetical capital structure and cost of capital consistent with similarly situated small sewer companies in Missouri, or such other capital structure and/or cost of capital that the Commission may find to be appropriate.”³

The Commission approved S&A in Case No. SR-2016-0202 did not explicitly address the financing.

Hillcrest⁴ – On July 12, 2016, in its Report and Order deciding Hillcrest’s rate case the Commission stated,

The Commission has the legal authority to impose for ratemaking purposes a lower cost of debt than a utility’s actual debt cost. However, Staff’s arguments are not persuasive that a hypothetical debt cost should be imposed on Hillcrest in this case. Staff expressed suspicions that the financing agreement with Fresh Start was not an arms-length transaction but did not present sufficient evidence to support that allegation. The interest rate under the financing agreement did not change when the New Investors took over Fresh Start and acquired the majority ownership interest in First Round, but there is not enough information in the record concerning the circumstances surrounding that transaction to reach the conclusion that the transaction was not in good faith. While the Commission expects Hillcrest to be responsive to Staff’s appropriate requests for information, the company should not be penalized because it chooses to utilize a complex or non-traditional investment structure for its own business purposes. With regard to Hillcrest’s compliance with the condition in the stipulation and agreement in File No. WO-2014-0340, Staff did not present evidence that Hillcrest failed to seek a lower-cost financing arrangement. On the contrary, Mr. Cox testified credibly that he made significant efforts, although unsuccessful, to obtain financing from more traditional commercial banks and financial institutions. The Commission concludes that Hillcrest has met its burden of proof to demonstrate that it sought the least-cost financing option available to it.

The Commission is very concerned about the effect dramatically increasing water and sewer rates will have on Hillcrest’s customers. However, as stated in the Bluefield Supreme Court case, in setting just and reasonable rates the Commission must provide a return to the utility that is “reasonably sufficient to assure confidence in the financial soundness of the utility and

³ Stipulation and Agreement, Case No. SM-2015-0014, p. 6, par 17, November 13, 2014.

⁴ Case Nos. WR-2016-0064 and SR-2016-0065.

should be adequate, under efficient and economical management, to maintain and support its credit and enable it to raise the money necessary for the proper discharge of its public duties”.⁸⁵ It is important that utility companies be able to attract sufficient capital to meet their financial obligations and provide adequate service to their customers. Hillcrest acquired these systems when they were in a complete state of disrepair, and the company had to find funds to immediately make necessary improvements to protect the health of its customers and to satisfy MDNR and the Missouri Attorney General. The evidence shows that after diligent efforts to obtain financing from a variety of potential lenders, the only financing available to Hillcrest at that time was the transaction with Fresh Start. Penalizing Hillcrest now for that decision would be unfair and may discourage other companies from acquiring and improving troubled water and sewer utilities in the future, which would be contrary to good public policy. The Commission concludes that the appropriate allowed debt rate to apply to the debt in the ratemaking capital structure is the actual debt cost of 14%. (Footnotes omitted.)

Elm Hills⁵ - On September 19, 2017, the Commission approved a non-unanimous S&A authorizing Elm Hills to finance \$1,250,000 at ** ___ ** with a pre-payment penalty of no more than one-half of the interest owed to the lender and to be in place no longer than one-half of the term of the loan.

Indian Hills⁶ - On February 7, 2018, the Commission issued its Report and Order deciding Indian Hills’ rate case authorizing a 6.75% cost of debt for Indian Hills, stating,

[t]he marketplace does not produce 14 percent interest and a 20-year pre-payment penalty – or even a ten-year pre-payment penalty – so far as the record shows. Therefore the Commission must determine a marketplace interest rate for the loan based on the record...Therefore on the issue of cost of debt, the Commission will order the filing of compliance tariffs according to the OPC position statement.⁷

Office of the Public Counsel’s (“OPC”), position statement states,

OPC recommends 6.75% as a reasonable imputed cost of debt. Mr. Gorman and Mr. Meyer explain why the Company’s financing agreement has not been shown to be prudent. The financing agreement involves affiliate relationships raising the risk of self-dealing; and furthermore, the financing agreement contains a high

⁵ Case Nos. SM-2017-0150 and WM-2017-0151.

⁶ Case No. WR-2017-0259.

⁷ Report and Order, Case No. WR-2017-0259, pp. 57-63.

interest rate and prevents refinancing. These conditions are not beneficial to ratepayers, and it would be unreasonable to pass forward these costs to ratepayers.⁸

As explained by the summary of the history of the 4 affiliates, the Commission has indicated its prior decisions are based on either approval of S&As or the record before it. Much like the previous cases, resolution of the service and compliance issues identified in this memorandum and Attachment A are directly tied to the ultimate financing decision in this case. At this time, the only record before the Commission is the terms of the confidential loan agreement.

DEPRECIATION RATES

The Engineering Analysis Unit performed a review of the depreciation rates for water and sewer utility assets, plant-in-service, and the accumulated depreciation reserves for the Sellers that are regulated utilities. The Auditing Department used these depreciation rates in calculating the recommended rate base discussed above.

Majestic Lakes has no previously approved depreciation rates since it is not owned by a regulated entity. In addition, sewer depreciation rates for The Willows Utility Company could not be determined by Staff due to missing schedule sheets from its last completed rate case in 1995. Furthermore, some new plant that CRU plans to place into service would not be included in the Sellers' prescribed depreciation schedules.

Staff therefore recommends that CRU maintain existing depreciation rates for the Plant Accounts that were previously ordered by the Commission for the regulated Sellers. Staff also, however, recommends that the Commission modify the depreciation schedules by adding additional depreciation rates for Plant Accounts, because CRU intends to make substantial upgrades to the purchased systems that will require Plant Accounts that do not have currently have depreciation rates ordered by the Commission. Staff also recommends that the Commission assign new depreciation rate schedules for the Majestic Lakes water and sewer Plant Accounts, and for the sewer Plant Accounts of The Willows Utility Company.

The proposed depreciation rates, whether previously ordered or newly proposed, are included with this memorandum as Attachment C applying to water assets, and as Attachment D applying to sewer assets, and incorporated herein by reference. Newly-proposed rates are marked within the schedules with an asterisk (*). CRU should then be required to use the newly prescribed depreciation accrual rates for all water and sewer utility plant going forward. Staff intends to review the depreciation schedules again when CRU files for its first rate case.

Majestic Lakes New CCN

Since CRU is seeking a new CCN for the proposed Majestic Lakes service area, it will need the Commission's approval of rates and approval of the Majestic Lakes service area.

⁸ OPC Statement of Position, Case No. WR-2017-0259, p. 7.

In its Application, CRU requests approval of the monthly residential rates customers are currently charged by Majestic Lakes Homeowners Association, Inc. The requested monthly rates are:

| | |
|-------|----------------|
| Water | \$35 flat rate |
| Sewer | \$35 flat rate |

Staff recommends approval of these rates for the CRU Majestic Lakes service area.

There was no map or written description of the Majestic Lakes proposed service area included with the Application, as is required by the Commission's regulations for utilities seeking a CCN⁹. To improve upon the request made in CRU's Application, Staff and CRU worked together to develop a metes and bounds description, and a map to be used for an approved service area boundary. The map is included with this memorandum as Attachment E, and a metes and bounds written description included with this memorandum as Attachment F, both incorporated herein by reference. The proposed service area as reflected in these Attachments includes property that could be developed and served by the Majestic Lakes systems, and the location of and access to the sewage treatment facility. Staff recommends approval of the service area as depicted by the description and map as shown in these Attachments. The description and map should also be included in approved water and sewer tariffs for CRU.

As stated earlier in this memorandum, Staff takes the position that the Tartan Energy Criteria, as applicable to new CCN requests, are met for this case.

Customer Notice/Customer Service

CRU is presently contract managing systems for some but not all of the Sellers. CRU sent an introductory letter dated June 27, 2017 to customers of the five entities for which it is contract managing, in which it mentioned a future sale to be approved by the Commission. Additionally, in the time frame January 8, 2018 through at least January 21, 2018, with the input of Staff, CRU drafted letters to customers regarding this pending case along with contact information for Staff and OPC, inviting public comments. Staff was informed by CRU that these letters were sent to customers on or prior to March 2, 2018. Staff recommends that the Commission not take any action approving this matter until March 20, 2018, to allow time for customers to receive communication and respond via Public Comments to information pertaining to this case. Staff will review any Public Comments that customers might send, and will file a subsequent memorandum to make additional or modified recommendations if necessary.

OTHER ISSUES

Staff recommends and encourages Central States Water Resources, Inc. (CSWR), in the future, to consider having all of the regulated utility affiliates that are owned and operated by or through CSWR submit rate cases concurrently. These operations, although they are individual utility entities, share certain corporate resources for which corporate allocations must be made to the individual utilities. Such allocations would be more accurate if each of the affiliated utilities

⁹Reference 4 CSR 240-3.305(1)(A)3 and 4; and, 4 CSR 240-3.600(1)(A)3 and 4.

were reviewed and the allocations made at the same time. Should CSWR not submit concurrent rate cases as recommended and encouraged, Staff may exercise its options to bring all CSWR affiliates before the Commission.

For each of the entities comprising the Sellers, the following issues are addressed in Attachment A:

- Corporation status, according to documentation on the Missouri Secretary of State (SOS) website;
- Annual report filings, according to information as posted on the Commission's Electronic Filing Information System (EFIS);
- Annual assessments, as posted internally by the Commission's Budget and Fiscal Services Department; and,
- Other pertinent pending formal cases before the Commission.

The other pending cases involving any of the Sellers will not have direct impact upon this case. Approval of the transfers of assets and issuance of a new CCN will not adversely impact the other pending cases.

STAFF'S RECOMMENDATION SUMMARY AND CONCLUSIONS

Staff's position, based on its review as described herein, is that the transfers of utility assets as requested are not detrimental to the public interest, and issuance of a new CCN is not detrimental to the public interest. CRU's proposal to adopt the existing tariffs, rates and charges of the regulated Sellers, to adopt the existing rates charged to customers in Majestic Lakes as described herein, and to include the Majestic Lakes rates and service area in the Roy-L water and sewer tariffs after adoption by CRU are all reasonable. Staff recommends CRU be authorized and ordered to file new water and sewer tariff sheets with a service area map, a service area description, rates and service charges for Majestic Lakes prior to closing on those assets, and to file adoption notice tariff sheets for all of the tariffs currently in effect for the Sellers that are regulated, as described herein. CRU should provide notice to the Commission of closing on the assets of each of the Sellers, and status reports as necessary describing the status of closing on the assets. Staff therefore recommends approval of the transfers of assets of Sellers, transfers of the affected CCNs, and issuance of a new CCN, with the conditions and actions as outlined herein.

Staff's Recommendations

Based upon the foregoing, Staff recommends that the Commission:

1. Wait until after March 20, 2018 before taking action regarding approval of this matter, to allow time for customers to receive notice of the proposals in this case and provide Public Comments on this case, if they so desire, with further filings from Staff to address any new issues if deemed necessary;

2. Authorize the regulated Sellers to sell and transfer utility assets to CRU, and transfer the CCN's currently held by the regulated Sellers to CRU upon closing on any of the respective systems;
3. Require CRU to file adoption notice tariff sheets for each tariff currently in effect for the regulated Sellers, as 30-day filings, within ten (10) days of closing on the respective assets;
4. Upon closing on each of the water and sewer systems, authorize the respective Seller CRU to cease providing service, and authorize CRU to begin providing service;
5. Upon closing on each of the water and sewer systems, authorize CRU to provide service by applying, on an interim basis, the existing rates, rules and regulations as outlined in the tariff document(s) of the respective regulated Sellers, until the effective date of respective adoption notice tariff sheets, as recommended in No. 3, above;
6. Order CRU to submit to Staff the confidential post-closing rate base information within sixty (60) days following closing on the Mill Creek assets;
7. Issue a new CCN to CRU to provide water and sewer service in the proposed Majestic Lakes service area, as depicted on Attachments E and F, with CRU to begin providing such service upon closing on the assets;
8. Approve rates of \$35 per month for water service, and \$35 per month for sewer service, for CRU applicable to customers in the Majestic Lakes service area;
9. Authorize CRU to provide water and sewer service in the Majestic Lakes service area in accordance with the water and sewer tariffs applicable to Roy-L but at the current water and sewer rates of Majestic Lakes, not the water and sewer monthly rates and service charges currently in effect for Roy-L;
10. Approve depreciation schedules for CRU, as shown on Attachments C and D, and order CRU to depreciate its plant accounts for the appropriate systems as specified by the depreciation schedules;
11. Require CRU to ensure adherence to Commission Rule 4 CSR-13 with respect to the Sellers' customers;
12. Require CRU to provide an example of its actual communication with each of the Sellers' service areas regarding its acquisition and operations of the CRU system assets, and how customers may reach CRU regarding water and sewer matters, within ten (10) days after closing on the assets;
13. Require CRU to distribute to the Sellers' customers prior to the first billing from CRU an informational brochure detailing the rights and responsibilities of the utility and customers regarding its water and sewer service, consistent with the requirements of Commission Rule 4 CSR 240-13.040(2)(A-L) within ten (10) days after closing on the assets;

14. Require CRU to provide to the Customer Experience Department staff a sample of ten (10) billing statements of bills issued to the Sellers' customers (from each service area acquired) within thirty (30) days of such billing;
15. Authorize CRU to finance ** _____ ** consistent with Appendix R-C to the Application; and,
16. Make no finding that would preclude the Commission from considering the ratemaking treatment to be afforded any matters pertaining to the transfers or granting of the CCN to CRU, including past expenditures or future expenditures related to providing service in any of the applicable service areas, in any later proceeding.

Staff will submit further recommendations as necessary regarding Public Comments, and regarding the tariff sheets to be filed by CRU in this matter.

ATTACHMENTS

- A. Description of the Current Regulated Utilities, and Systems
- B. Rate Base Detail for Each System Proposed to be Purchased by CRU
- C. Proposed Depreciation Accrual Rates for Water Accounts
- D. Proposed Depreciation Accrual Rates for Sewer Accounts
- E. Map of the Proposed Majestic Lakes Service Area
- F. Metes and Bounds Description of the Proposed Majestic Lakes Service Area

Confluence Rivers Utility Operating Company, Inc.
Case Nos. WM-2018-0016 and SM-2018-0117

Attachment A –

- **Overview of Sellers and Systems**
- **Compliance - including Department of Natural Resources (DNR) Regulations**
- **Existing Rates**
- **Other Pending Cases, if Any**
- **Planned Future Improvements**

Smithview H2O Company (Smithview) (water) - Originally named Suburban Water and Sewer Company, Inc. before a corporation name change to Smithview H2O Company on May 27, 2011 as authorized in Case No. WN-2011-0353, the Commission granted a CCN to Smithview on April 12, 1973 in Case No. 17,652. Smithview currently provides water service to approximately 105 residential and apartment customers in Bon-Gor Lake Estates north of Columbia in Boone County. Some apartment units are individually metered, and some multi-unit apartment buildings have water service through one meter. The source of water is a single well with a 100 gallon per minute submersible pump along with chlorine disinfection. Water is stored in a 110 foot tall standpipe with a total volume of 41,000 gallons, and usable volume of approximately 24,000 gallons below which level gravity water pressure is inadequate. There is a physical wholesale connection with a local public water district, Consolidated Public Water District No. 1. The connection was originally intended for interim emergency or backup use, however CPWSD1 currently is prohibiting Smithview any use of the connection.

The water system, being approximately 45 years old, is largely degraded due to age. The wellhouse is not weather-tight and has electrical hazards. A portable chlorine disinfection system is in place but a permanent chlorinator is needed. Also, due to a lack of good operations for several years the Missouri Department of Natural Resources has dealt with issues regarding water quality especially inadequate disinfection and boil orders. The owner of Smithview also has effectively walked away from this system. Because of issues regarding violating the Commission's statutes and rules related to the filing of annual reports, payment of annual assessments, provision of safe and adequate service, and provision of unauthorized services (providing of utility service by an affiliated company) Staff filed Case No. WC-2016-0141, in which Staff has requested a stay of proceedings until this pending transfer case filed by CRU is disposed. Smithview currently has a contract for operations and management by an affiliate of CRU, Smithview Utility Operating Company, Inc., and through contract operations/management is providing service as best as possible with available revenue and resources by undertaking day-to-day operations, responding to main breaks and leaks, and handling billing and customer service.

The current monthly water rates for Smithview, which have been in effect since May 27, 2011 are as follows: Customer Charge \$5.31 Commodity Charge \$3.36 per 1,000 gallons.

CRU states to Staff that it estimates the cost of necessary capital improvements to be \$146,000, for wellhouse replacement, permanent chlorination, and other system repairs and upgrades. Meter testing to comply with Commission regulations is also an issue.

Smithview is “Administratively Dissolved” with the Missouri Secretary of State (SOS). It is current with payments of annual assessments since fiscal year 2016 and current with filing annual reports since calendar year 2016, but is past due for some previous years, as addressed in WC-2016-0141.

M.P.B., Inc. (MPB) (2 sewer systems) - The Commission granted MPB a CCN for the Lake Virginia sewer system on December 17, 1985 in Case No. SM-86-72, authorizing the sale and transfer of Virginia Properties Inc.’s sewer franchise, works and system to MPB. In Case No. SM-87-52, The Commission granted MPB a CCN for the Villa Ridge sewer system on January 16, 1987, in which it authorized the sale and transfer of L and K Sewer System, Inc.’s sewer franchise, works and system to MPB. MPB is currently operating under the control of an interim receiver, Johansen Consulting Services, LLC, pursuant to an order of the Commission in Case No. SO-2014-0052, which became effective on September 7, 2013.

The current monthly flat sewer rate for Villa Ridge is \$24.24. The current flat rate for Lake Virginia is \$13.33. These rates have been in effect since November 1, 2014.

MPB is currently “Administratively Canceled – Agent” with SOS. There are no other pending cases involving MPB before the Commission. MPB has past due annual assessments from fiscal year 2014 and several prior years before it was placed into receivership. From 2015 to the present fiscal year while in receivership, MPB is current with its annual assessments, and current with annual report filings.

CRU proposes an estimated expenditure of at least \$300,000 to address the problems, and proposed improvements, as outlined below for each of its two sewer systems. However CRU states that the Villa Ridge system also has property ownership issues and because of this upgrade cost estimates are not yet accurate.

Villa Ridge

The Villa Ridge sewer system has approximately 168 customer connections in the Villa Ridge subdivision in Franklin County. The treatment facility is an extended air plant with chlorination. The collecting sewers are all eight inch pipes of various materials which gravity feed to the treatment plant. On June 5, 2017, Central States Water Resources, Inc. (CSWR) and MPB entered into an operations contract specific to the Villa Ridge system.

DNR Permit Review:

The Villa Ridge wastewater treatment facility’s Missouri State Operating Permit MO-0038237 was last issued on March 25, 2011, and expired on March 24, 2016. This facility is currently considered to be operating without a permit, in violation of the Missouri Clean Water Law.¹

¹ Missouri Department of Natural Resources Notice of Violation #SL170206 Report of Inspection p. 1.

DNR Inspections:

Since 2007, several DNR inspections of the facility have reported wastewater sludge in the receiving stream, poor operations and violations of the permitted effluent limitations.² The most recent DNR inspection was conducted on June 2, 2017. The facility was found to be in non-compliance with the Missouri Clean Water Law, the Missouri Clean Water Commission regulations, and its Missouri State Operating Permit DNR issued Notice of Violation (NOV) #SL170206. The NOV listed the following violations:

- Caused pollution of the Wet Weather Branch of Pin Oak Creek
- Discharged water contaminants and wastewater sludge into waters of the state
- Operated a wastewater treatment facility without a permit
- Failed to submit timely discharge monitoring reports
- Failed to meet design requirements for aerial stream crossings³

CRU's proposed improvements for this system include:

- Upgrading the existing plant to meet effluent limits for ammonia and e coli.
- Refurbishing the structure of the plant to prevent inflow and infiltration.
- Cleaning out the chlorine contact chamber.
- Replacing the blowers and rebuilding the aeration system.
- Performing repairs to the collection system to minimize inflow and infiltration.

Lake Virginia

The Lake Virginia sewer system has approximately 37 customer connections in the Lake Virginia subdivision, located outside the city limits of Festus and north of Hematite in Jefferson County. There are actually two adjacent sewer systems at present – some of the customers are connected to a single cell “no-discharge” lagoon which does not require a permit from DNR, and the remainder of the customers are connected to a two-cell lagoon that does require a discharge permit. The collecting sewers are eight inch and six inch pipes comprised of PVC and truss pipe, another type of plastic pipe, which gravity feed to either of the two lagoons. After CRU and MPB entered into a sale agreement for this system, separate from the sale agreement for the Villa Ridge system, CSWR and MPB entered into an operations contract specific to the Villa Ridge system.

DNR Permit Review:

The Lake Virginia wastewater treatment facility's Missouri State Operating Permit MO-0101672 was last issued on February 22, 2008, and expired on March February 21, 2013. This facility is considered to be operating without a permit, in violation of the Missouri Clean Water Law.⁴

² Ibid p.1.

³ Ibid p. 5, 6.

⁴ Missouri Department of Natural Resources Notice of Violation #SL170134 Report of Inspection p. 1.

DNR Inspections:

The most recent DNR inspection was conducted on March 8, 2017. The facility was found to be in non-compliance with the Missouri Clean Water Law, the Missouri Clean Water Commission regulations, and its Missouri State Operating Permit. DNR issued Notice of Violation (NOV) #SL170134. The NOV listed the following violations:

- Discharge of domestic wastewater from a non-permitted outfall.
- Failed to provide a method to dechlorinate the effluent following the chlorine contact chamber
- Failed to provide a lockable gate.
- Failed to provide adequate fencing.
- Failed to maintain the inner slopes of the lagoon.⁵

CRU's proposed improvements for the waste water system include:

- Making repairs to the lagoons to get them in compliance.
- Converting the entire Lake Virginia system to a “no-discharge” system.

Mill Creek Sewers, Inc. (Mill Creek) (sewer) - Mill Creek Sewers, Inc. received its CCN on May 7, 1973, in Case No. 17,666. Mill Creek is currently operating under the control of an interim receiver, Heartland Utilities, LLC, pursuant to an order of the Commission in Case No. SO-2010-0237, which became effective on March 13, 2010.

Mill Creek provides sewer service to approximately 75 customers in the Castlereagh Estates area within the city limits of Florissant in St. Louis County. The wastewater treatment plant is an extended air plant. The collecting sewers are all eight inch pipes believed to be clay tile which gravity feed to the treatment plant. This plant is currently under a DNR schedule of compliance.

The current sewer rate for Mill Creek, which has been in effect since October 12, 2005, is a flat rate of \$30.11.

CRU proposes to immediately incur costs of \$69,000 for an easement issue regarding access to the treatment facility, \$6,000 to reimburse the receiver for accounts payable, and \$15,000 to reimburse the receiver for system improvements already undertaken. CRU estimates future capital expenses of \$290,000 for system improvements that will include upgrading the treatment facility to meet new effluent limits for ammonia and e coli, installation of an ultra-violet disinfection system, and refurbishing collecting sewers to reduce inflow and infiltration.

Mill Creek is currently in “Good Standing” with SOS. There are no other pending cases involving Mill Creek before the Commission. Mill Creek is current with its annual assessments through Fiscal Year 2018, and current with its annual report through 2016.

⁵ Ibid p. 4.

DNR Permit Review:

The Mill Creek wastewater treatment facility's Missouri State Operating Permit MO-0084484 was last issued on March 12, 2013, and expired on October 31, 2017. This facility is considered to be operating without a permit, in violation of the Missouri Clean Water Law.

DNR Inspections:

The most recent DNR inspection was conducted on August 11, 2015. Currently, the facility is in non-compliance for failure to pay the annual operating permit fee. In addition, the discharge from the facility does not consistently comply with permitted effluent limitations for E. coli.

Roy-L Utilities, Inc. (Roy-L) (water and sewer) - The Commission granted Roy-L its Certificates of Convenience and Necessity (CCN) to provide water and sewer service on August 27, 1968 in Case Nos. 16,379 and 16,380. Roy-L currently provides utility service to approximately 59 water customers and 56 sewer customers, 21 of which are full-time residents, in the Golden Eagle Reserve subdivision near the city of High Hill in Montgomery County. The source of water is a single well with a 120 gallon per minute submersible pump. The well does not require chlorine disinfection. Water is stored in an 18,000 gallon ground storage tank, with a high service pump and a 116 gallon hydropneumatic tank to normalize distribution system water pressure. Currently 32 water customers are metered and 28 water meters are yet to be installed.

The wastewater is treated by a single cell lagoon. The collecting sewers are eight inch pipes comprised of PVC and clay tile which gravity feed to the treatment plant. Roy-L currently experiences surface water inflow and ground water infiltration issues due to the age and design of the system. The wastewater system is currently under a DNR schedule of compliance to meet ammonia limits in its effluent. Roy-L is also under a directive from the Commission, by the terms of a stipulation from its last rate case, to inspect and repair collecting sewers to reduce inflow and infiltration.

The current monthly water and sewer rates for Roy-L, have been in effect since May 23, 2014. Non-Metered flat rates for full-time customers of \$50.16, and for part-time customers of \$32.99. Metered rates consist of a customer charge of \$33.24 for full-time customers, and \$29.92 for part-time customers, each with a commodity charge of \$3.08 per 1,000 gallons. Sewer flat rates are \$36.04 for full-time customers and \$32.58 for part-time customers.

Roy-L is in "Good Standing" with SOS. There are no other pending cases involving Roy-L before the Commission. Roy-L is current on its annual assessments through the 3rd quarter of fiscal year 2018, and current on annual report filings through 2016.

DNR Permit Review

Roy-L's wastewater treatment facility's Missouri State Operating Permit is MO-0087211 and was last issued on August 1, 2016, and expires on June 30, 2019. The facility failed to comply with effluent limitations for Total Residual Chlorine in 2017. The current permit requires effluent to comply with final limitations for Ammonia as Nitrogen by August 1, 2020. The ammonia monitoring data provided to DNR indicates that the current lagoon treatment facility will not be able to produce an effluent that will comply with DNR's standards.

Roy-L's drinking water system operates under the identification number MO6251710. Roy-L is required to sample the drinking water supplied to its customers for lead and copper once per year but has not completed sampling since 2013.

CRU's proposed improvements for the water system are estimated to cost \$90,000, and include:

- Adding a second chlorine pump.
- Enclosing the chlorine and pumping equipment in a separate room.
- Install a second high service pump.
- Install remote water system operations monitoring.

CRU's proposed improvements for the waste water system are estimated to cost \$130,000, and include:

- Either converting the lagoon to a "no-discharge" system, or constructing a moving bed bio reactor to supplement wastewater treatment.
- Performing repairs to the collection system to minimize inflow and infiltration.

Port Perry Service Company (Port Perry) (water and sewer) - The Commission granted Port Perry a CCN to provide water service on May 18, 1973 in Case No. 17,681, and granted a CCN to provide sewer service on June 7, 1973 in Case No. 17,642. Utility services are currently provided to approximately 267 water customers and 107 sewer customers in the Port Perry subdivision near the city of Perryville in Perry County. The source of water is two wells. Well #1 produces 60 gallons per minute from a submersible pump and has chlorine disinfection. Well #2 is operated as an emergency well, it has a submersible pump producing 270 gallons per minute. The water system has a 223,000 gallon ground storage tank, with high service pumps and three 800 gallon hydropneumatic tanks to normalize distribution system water pressure. All water customers are metered.

The wastewater treatment system is a "no-discharge" system with land irrigation, consisting of a four cell lagoon with the discharge over one acre of land. Three additional acres are available for irrigation. The collecting sewers are PVC pipe. About half of the collecting sewers are 2 or 2.5 inch pressure sewers, and the other half are 4 inch small diameter gravity sewers. The pressure collecting sewers operate with "pump units" on each customers' premises.

The current monthly water and sewer rates for Port Perry have been in effect since May 15, 2002. Water rates for a residential customer with a 5/8" meter consists of a customer charge of \$13.23 (includes 2,000 gallons), and commodity charge for over 2,000 gallons \$3.58 per 1,000 gallons. Other customer charge rates apply for larger meter sizes. Sewer flat rates for full-time residential customers are \$18.94, for part-time residential customers \$14.21, and for part-time trailer or camper sites with sewer service \$14.21.

Port Perry is in "Good Standing" with SOS. Port Perry is current on its annual assessments through fiscal year 2018, and is current with filing annual reports through 2016.⁶

⁶ Formal complaints were filed by Staff against Port Perry, WC-2018-0002 and SC-2018-0003 for failure to file an annual report for 2016. However Staff considers these cases to be resolved, by Port Perry having submitted the annual report. The Commission has recognized Staff's Motion to Dismiss, but the cases appear to remain open on the Commission's Electronic Filing and Information System at this time.

DNR Permit Review:

The Port Perry's DNR wastewater Operating Permit MO-0116998 was last issued on December 1, 2013, and expires on November 30, 2018. An inspection was conducted by DNR Staff on December 14, 2016, and the facility was found to be in compliance.

The Port Perry water system operates under DNR Operating Permit MO4036132. DNR found it to be in compliance based on observations on December 14, 2017.

CRU's proposed improvements for the water system, estimated to cost \$150,000, include:

- Installing chlorine equipment.
- Improving access roads to the facilities.
- Repairing the well house.
- Overhauling the backup wellhead.
- Installing remote operations monitoring

CRU's proposed improvements for the waste water system, estimated to cost \$200,000, include:

- Installing a second irrigation pump.
- Installing an all-weather access road and repairing fencing.
- Performing repairs to the collection system to minimize inflow and infiltration.
- Repairing irrigation sprinkler heads that are not currently operating.
- Removing trees growing inside the lagoon fenced area and in the lagoon cells.

Gladlo Water & Sewer Co., Inc. (Gladlo) (water and sewer)

The Commission granted Gladlo a CCN to provide water and sewer services in October, 1972 in Case Nos. 17,458 and 17,459. Gladlo has been in receivership for nine years. Gladlo currently provides service to approximately 69 water customers and 65 sewer customers in the Whispering Pines subdivision near the city of Rolla in Phelps County. The source of water is a single well with a 50 gallon per minute submersible pump. The well does not require chlorine disinfection. The water system has a 1,000 gallon pneumatic tank to normalize distribution system water pressure. A concrete storage tank, adequate to provide a one-day volume of water along with high service pumps, is degraded and is no longer in service. All water customers are metered. The wastewater is treated by a three cell lagoon. The collecting sewers are all eight inch clay tile which gravity feed to the lagoon.

The current monthly water and sewer rates for Gladlo, which have been in effect since May 18, 2017, are as follows: Water - Customer Charge \$17.25, plus Commodity Charge \$2.15 per 1,000 gallons. Sewer – Flat rate \$37.67.

Gladlo is in "Good Standing" with SOS. There are no other pending cases involving Gladlo before the Commission. Gladlo is current on its annual assessments through the 3rd quarter of fiscal year 2018, and current with its annual reports through 2016.

DNR Permit Review:

Gladlo's wastewater treatment facility's Missouri State Operating Permit is MO-0084191, was last issued on January 1, 2016, and expires on December 31, 2020. The facility failed to comply with effluent limitations for Total Residual Chlorine in 2017. The facility will need to meet new permit requirements for ammonia beginning January 1, 2020.

CRU's proposed improvements for the waste water system, estimated to cost \$150,000, include:

- Installing a moving bed bioreactor to meet new discharge limits.
- Installing aeration equipment in the second cell of the lagoon for adequate treatment.
- Installing remote operations monitoring.
- Making repairs to the all-weather access road.

Gladlo's drinking water system operates under the identification number MO3036151. There are no outstanding DNR violations associated with Gladlo's drinking water system, but Staff observes that general maintenance is needed, and it is desirable for the concrete storage tank to be rehabilitated or replaced, along with high service pumps. Gladlo has experience electrical problems in the past, and the current receiver has worked with the electric supplier and undertaken some improvements.

CRU's proposed improvements for the water system, estimated to cost \$85,000, include:

- Repairing the well house.
- Making further upgrades to electrical components.
- Installing chlorine equipment.
- Repairing and painting the existing hydropneumatic tank.
- Installing remote monitoring operations equipment.
- Possibly rehabilitating, or replacing the concrete ground storage tank, along with other components necessary to put it back into service.

The Willows Utility Company (Willows) (water and sewer) – The Commission granted Willows a CCN to provide water and sewer service on December 27, 1979, in Case No. WA-80-86. Willows is currently providing water and sewer service to approximately 151 water customers and 124 sewer customers located in the Chalet City West subdivision and mobile home park in Republic, Missouri. The source of water is a single well with a 200 gallon per minute submersible pump along with chlorine disinfection. Water is pumped directly into the distribution system without chlorine contact time. An 80 foot tall standpipe is located remotely from the well. It has a total volume of approximately 47,000 gallons, approximately half of which is usable due to a minimum water level needed to maintain distribution system water pressure by gravity. Only about 30 water customers are metered,⁷ but many customers are tenants of the mobile home park, which is owned by the owner of Willows.

⁷ Staff is uncertain how bills are determined for non-metered customers. Willows has not filed a rate case since 1995 and Staff has not conducted an audit since that time. Based on periodic system inspections, however, Staff surmises that the owner of the mobile home park, who also owns Willows, provides adequate revenue supplementing revenue from metered residential customers for operation of the corporation.

The wastewater treatment plant is an extended air plant, with sand filter, chlorination and dechlorination system. The collecting sewers are reportedly all ten inch transite (asbestos-cement composite) pipes which gravity feed to a lift station that pumps all of the wastewater to the above-ground treatment facility.

Willow's monthly rates have been in effect since April 1995. Water rates consist of a customer charge of \$5.23 for the first 1,000 gallons, plus \$1.23 per each additional 1,000 gallons. The sewer flat rate for residential customers is \$15.00.

Willows is in "Good Standing" with SOS. There are no other pending cases involving Willows before the Commission. Willows is current with its annual assessments through fiscal year 2018, and current with annual reports through 2016.

DNR Permit Review:

The Willows wastewater treatment facility's Missouri State Operating Permit MO-0052281 was last issued on June 1, 2017, and expires on June 30, 2021. Data submitted to DNR shows that the effluent discharged from The Willows wastewater treatment facility failed to consistently comply with permitted effluent limitations for Biochemical Oxygen Demand, E. coli, and Ammonia as Nitrogen. Staff has observed that the discharge from the treatment facility consistently appears to have a poor environmental impact.

The Willows drinking water system operates under Missouri State Operating Permit MO5048099. There are no outstanding violations associated with The Willows' drinking water system, but Staff has received calls from customers regarding system reliability.

CRU's proposed improvements for the water system, estimated to cost \$120,000, include:

- Making repairs of the well house, inside piping, and pump controls inside the well house.
- Adding a second chlorine pump.
- Enclosing the chlorine and pumping equipment in a separate room.
- Having the standpipe inspected and potentially cleaned and painted.
- Making repairs to the overflow pipe and vent.

CRU's proposed improvements for the waste water system, estimated to cost \$225,000, include:

- Making repairs to the treatment plant, or potentially pumping to the City of Republic for wholesale treatment service.

Evergreen Lake Water Company (Evergreen) (water) - On June 15, 1970, in Case No. 16,916 the Commission granted a CCN to Evergreen Lake Water Company a division of Evergreen Lake, Inc. Evergreen Lake Water Company is not a registered name with SOS. Evergreen Lake, Inc. is dissolved as of 1996. In 1990 one of the owners of Evergreen Lake Water Company formed Evergreen Lakes Water Supply Co. and although there was never any case before the Commission seeking approval of a transfer of assets, this is the corporation that presently owns and operates the water utility assets. That corporation is in "Good Standing" with SOS, and has made appropriate filings and payments.

Evergreen provides water service to approximately 52 customers in the Evergreen Lake Subdivision near Cedar Hill, in Franklin County. The source of water is a single well with a 230 gallon per minute submersible pump along with chlorine disinfection. Water is stored in a concrete ground storage tank adjacent to the well house which has a capacity of 27,000 gallons. The tank is located on a hill and pressure to the customers is maintained by gravity. Each residential customer is metered. One customer is a mobile home park, served through one water meter, with approximately 40 mobile home living units.

The current monthly water rates for Evergreen, which have been in effect since October 27, 2005, are as follows: Residential - Customer Charge \$7.71, Commodity Charge per 1,000 gal \$2.54, Commercial - Customer Charge \$7.71, and Commodity Charge per 1,000 gal \$2.54.

As stated, Evergreen has issues regarding its corporate status. There are no other pending cases involving Evergreen before the Commission. It is current with payments of annual assessments through fiscal year 2018 and current with filing annual reports through calendar year 2016.

CRU states to Staff that it estimates the cost of necessary capital improvements for Evergreen to be \$100,000 for repairs and upgrades to this aging water system.

Majestic Lakes Homeowners Association, Inc. (Majestic Lakes) (water and sewer) - Majestic Lakes is an existing unregulated water and wastewater operation located in Lincoln County approximately two miles southeast of the city of Moscow Mills. Majestic Lakes' water and sewer systems currently serve approximately sixty residential customers. CRU has proposed a service area which would include approximately 140 platted lots where water mains and collecting sewers exist, along with potential of additional customers on platted lots upon which homes have not yet been constructed; and to also include undeveloped land north of the platted lots, owned by the same developer that owns most or all of the empty lots. Except that water mains and collecting sewers are not yet in place in the undeveloped area, the water and sewer systems generally have enough capacity to provide service in both the developed and undeveloped areas of the proposed service area.

Water System:

The water system, dating to approximately 2004, is comprised of a deep well, well house with chlorination room and a 420,000 gallon standpipe, of which approximately 244,000 gallons is usable, to maintain minimum water pressure by gravity. Ground water is pumped from a twelve inch, 1,500 foot deep well, with a 60 horse power submersible pump set at a depth of approximately 150 feet. As it is pumped from the well, water is chlorinated and then stored in the stand pipe. The stand pipe is bolted steel construction, and is showing signs of rust on the outside. There is a small leak in the stand pipe approximately three quarters of the way up. There are currently no water meters on any of the customers' service lines and CRU is not proposing to install meters at this time.

CRU proposes to make necessary repairs to the standpipe, which includes replacing some bolts and possibly some of the steel panels. CRU also states to Staff it will install a second chlorine pump for redundancy, and add a chlorine monitoring system in conjunction with a SCADA remote operation/monitoring system.

Waste Water Systems:

The Majestic Lakes sewer system is currently under enforcement action by the Missouri Attorney General's Office, prohibiting further home construction and new customer connections, due to the insufficient structural integrity of the concrete walls in the waste water treatment facility.

The collection system consists of 8" PVC gravity collecting sewers with manholes, which drains to a lift station. The lift station then pumps the sewage via 6" inch force main to the waste water treatment facility which is located approximately 125 yards away on the other side of a creek. The treatment plant was designed to be a "sequencing batch reactor" which treats and discharges sewage in limited quantities at a time. Because of failing parts and structure however, it is currently being operated as "extended aeration" plant. The treatment facility is cast-in-place concrete construction. During its inspection, Staff observed large cracks in the concrete walls of the plant structure. Structural steel has been added to the exterior of the wall in an attempt to shore it up. A backup generator is located at the lift station but was rendered unusable after it was flooded and damaged in 2008.

CRU has proposed further reinforcing the failing concrete walls of the treatment facility, and then lining them to prevent leaks. Until the treatment plant is drained the true extent of damage is unknown.

The current water and sewer rates for Majestic Lakes (which have been in effect since October 27, 2005 from the Homeowners Association) are as follows: Water - \$35.00, and Sewer - \$35.00.

Since it is not presently regulated by the Commission, Majestic Lakes has no obligations regarding annual assessments and annual reports, and there are no other pending cases involving Majestic Lakes before the Commission.

CRU states to Staff that it estimates the cost of necessary capital improvements for the water system to be \$120,000, and for the sewer system to be \$300,000 for repairs and/or reconstruction.

There are no plant records for Majestic Lakes. Staff has studied the plant components that are in service, took into consideration that the capital costs were incurred by the subdivision developer who likely wrote-off most of the capital expenditures against lot sales, and estimated current rate base.

| | Evergreen Water | Gladlo Water | Gladlo Sewer | Majestic Lakes Water** | Majestic Lakes Sewer** | Mill Creek Sewer* | MPB Villa Ridge Sewer | MPB Lake Virginia Sewer | Port Perry Water | Port Perry Sewer | Roy L Water | Roy L Sewer | Smithview Water | Willows Water | Willows Sewer |
|-----------------------------|-----------------|--------------|--------------|------------------------|------------------------|-------------------|-----------------------|-------------------------|------------------|------------------|-------------|-------------|-----------------|---------------|---------------|
| Total Plant | \$122,661.00 | \$54,595.00 | \$55,706.00 | \$1,058,730.00 | \$911,600.00 | \$142,467.00 | \$5,450.00 | \$6,430.00 | \$263,713.66 | \$268,318.00 | \$62,378.00 | \$52,186.00 | \$177,362.00 | N/A | N/A |
| Total Reserves | \$108,647.06 | \$22,868.49 | \$41,736.03 | \$356,971.32 | \$544,752.00 | \$81,397.73 | \$7,466.00 | \$8,270.80 | \$240,166.59 | \$142,283.96 | \$11,448.23 | \$9,440.11 | \$89,905.30 | N/A | N/A |
| Total CIAC | \$0.00 | \$12,252.00 | \$0.00 | \$1,058,730.00 | \$911,600.00 | \$0.00 | \$0.00 | \$0.00 | \$143,639.00 | \$152,316.00 | \$3,584.00 | \$0.00 | \$0.00 | N/A | N/A |
| Total Amortized CIAC | \$0.00 | \$1,880.72 | \$0.00 | \$356,971.32 | \$544,752.00 | \$0.00 | \$0.00 | \$0.00 | \$123,570.70 | \$86,811.04 | \$535.22 | \$0.00 | \$0.00 | N/A | N/A |
| Net Plant, Workbook | \$14,013.94 | \$21,355.22 | \$13,969.97 | \$0.00 | \$0.00 | \$61,069.28 | -\$2,016.00 | -\$1,840.80 | \$3,478.77 | \$60,529.08 | \$47,880.99 | \$42,745.89 | \$87,456.71 | N/A | N/A |
| Net Plant, Proposed | \$14,013.94 | \$21,355.22 | \$13,969.97 | \$15,000.00 | \$15,000.00 | \$90,000.00 | \$0.00 | \$0.00 | \$3,478.77 | \$60,529.08 | \$47,880.99 | \$42,745.89 | \$87,456.71 | \$1.00 | \$1.00 |

Total Net Plant: \$411,432.58

*Rate base determined by cost for land, unpaid AP and improvements, as discussed in memo.

**Rate Base for Majestic Lakes systems (water and sewer) is offset with the assumption that CIAC paid for all system components, and that Confluence simply paid for the land; so the rate base for both systems is \$30,000.

Confluence Rivers Utility Operating Company
SCHEDULE of DEPRECIATION RATES
(WATER Class C & D)
WM-2018-0116 Attachment C

| NARUC USOA ACCOUNT NUMBER | ACCOUNT DESCRIPTION | <u>Evergreen</u> Depreciation Rate | <u>Gladlo</u> Depreciation Rate | <u>Port Perry</u> Depreciation Rate | <u>Roy-L</u> Depreciation Rate | <u>Willows</u> Depreciation Rate | <u>Smithview</u> Depreciation Rate | <u>Majestic Lakes</u> Depreciation Rate |
|--------------------------------------|--|--|---------------------------------------|---|--------------------------------------|--|---------------------------------------|--|
| Source of Supply | | | | | | | | |
| 311 | Structures & Improvements | 2.5%* | 10.0% | 2.5%* | 2.5%* | 2.5%* | 2.5%* | 2.5%* |
| 314 | Wells & Springs | 2.0% | 0.0% | 2%* | 2.0% | 2%* | 2.0% | 2%* |
| Pumping Plant | | | | | | | | |
| 321 | Structures & Improvements | 0.0% | 2.5%* | 2.5%* | 2.5% | 2.5%* | 2.5% | 2.5%* |
| 325/325.1 | Elec. Submersible Pumping Equipment | 10.0% | 10.0% | 10.0%* | 10.0% | 10.0% | 10.0% | 10.0%* |
| 325.2 | High Service or Booster Pumping Equip. | 6.7%* | 6.7%* | 6.7%* | 6.7%* | 6.7%* | 6.7%* | 6.7%* |
| WaterTreatment Plant | | | | | | | | |
| 331 | Structures & Improvements | 2.5%* | 2.5%* | 2.5%* | 2.5%* | 2.5%* | 2.5%* | 2.5%* |
| 332 | Water Treatment Equipment | 2.9%* | 2.9%* | 2.9%* | 10.0% | 2.9%* | 2.9% | 2.9%* |
| Transmission and Distribution | | | | | | | | |
| 341 | Structures & Improvements | 2.5%* | 2.5%* | 2.5%* | 2.5% | 2.5%* | 2.5%* | 2.5%* |
| 342 | Distribution Reservoirs & Standpipes | 2.5% | 2.5% | 2.5%* | 2.5% | 2.5%* | 2.5% | 2.5%* |
| 343 | Transmission & Distribution Mains | 2.0% | 2.0% | 2.0% | 2.0% | 2.0%* | 2.0% | 2.0%* |
| 345 | Customer Services | 2.5%* | 2.5%* | 2.5%* | 2.5% | 2.5%* | 2.5%* | 2.5%* |
| 346 | Customer Meters, Bronze (Calibrate) | 0.0% | 3.3% | 3.3%* | 5.0% | 5.0% | 3.3% | 3.3%* |
| 346.1 | Customer Meters, Plastic (Throw Aways) | 10.0%* | 10.0%* | 10.0%* | 10.0% | 10.0%* | 10.0%* | 10.0%* |
| 347 | Customer Meter Pits & Installation | 2.5%* | 2.5%* | 2.5%* | 2.5% | 5.0% | 2.5% | 2.5%* |
| 348 | Hydrants | 2.0%* | 2.0%* | 2.0%* | 2.0%* | 2.0%* | 2.0%* | 2.0%* |
| General Plant CLASS D | | | | | | | | |
| 371 | Structures & Improvements | 2.5%* | 2.5%* | 2.5%* | 2.5%* | 2.5%* | 2.5%* | 2.5%* |
| 372 | Office Furniture & Equipment | 5.0%* | 5.0%* | 5.0%* | 5.0% | 5.0%* | 5.0%* | 5.0%* |
| 372.1 | Office Electronic & Computer Equip. | 20.0%* | 20.0%* | 20.0%* | 20.0% | 20.0%* | 20.0%* | 20.0%* |
| 373 | Transportation Equipment | 13.0%* | 13.0%* | 13.0%* | 13.0%* | 13.0%* | 13.0%* | 13.0%* |
| 379 | Other General Equipment (tools, shop equip., backhoes, trenchers, etc.) | 6.7%* | 10.0% | 6.7%* | 10.0% | 6.7%* | 6.7%* | 6.7%* |

*Designates a rate proposed in this case, rather than a rate ordered by the Commission in a previous case.

Confluence Rivers Utility Operating Company

SCHEDULE of DEPRECIATION RATES

(SEWER Class B/C & D)

SM-2018-0117 Attachment D

| ACCOUNT NUMBER | ACCOUNT DESCRIPTION | <u>MPB</u> Depreciation Rates | <u>Mill Creek</u> Depreciation Rates | <u>Gladlo</u> Depreciation Rates | <u>Port Perry</u> Depreciation Rates | <u>Roy-L</u> Depreciation Rates | <u>Willows</u> Depreciation Rates | <u>Majestic Lakes</u> Depreciation Rates |
|---------------------------------------|--|-------------------------------------|--|--|--|---------------------------------------|---|--|
| COLLECTION PLANT | | | | | | | | |
| 311/351 | Structures & Improvements | 4.0% | 2.5% | 4.0%* | 4.0%* | 4.0% | 4.0%* | 4.0%* |
| 352.1 | Collection Sewers (Force) | 2.0% | 2.0%* | 2.0%* | 2.0% | 2.0%* | 2.0%* | 2.0%* |
| 352.2 | Collection Sewers (Gravity) | 2.0% | 2.0%* | 2.0% | 2.0%* | 2.0% | 2.0%* | 2.0%* |
| 354 | Services | 2.0% | 2.0%* | 2.0%* | 2.0%* | 2.0% | 2.0%* | 2.0%* |
| 355 | Flow Measurement Devices | 3.3% | 3.3%* | 3.3%* | 3.3%* | 3.3%* | 3.3%* | 3.3%* |
| PUMPING PLANT | | | | | | | | |
| 361 | Structures and Improvements | 4.0% | 4.0%* | 4.0%* | 4.0%* | 4.0%* | 4.0%* | 4.0%* |
| 362 | Receiving Wells | 4.0% | 4.0%* | 4.0%* | 4.0%* | 4.0%* | 4.0%* | 4.0%* |
| 363 | Electric Pumping Equipment | 10.0% | 10.0%* | 10.0%* | 10.0%* | 10.0%* | 10.0%* | 10.0%* |
| TREATMENT & DISPOSAL PLANT | | | | | | | | |
| 371 | Structures and Improvements | 4.0% | 4.0%* | 4.0%* | 4.0%* | 4.0%* | 4.0%* | 4.0%* |
| 372 | Oxidation Lagoons | 4.0% | 4.0%* | 4.0% | 4.0%* | 4.0% | 4.0%* | 4.0%* |
| 373 | Treatment & Disposal Facilities | 4.5% | 5.0% | 5.0% | 5.0%* | 4.5% | 5.0%* | 5.0%* |
| 374 | Plant Sewers | 2.5% | 2.5%* | 2.5%* | 2.5%* | 2.5%* | 2.5%* | 2.5%* |
| 375 | Outfall Sewer Lines | 2.0% | 2.0%* | 2.0%* | 2.0%* | 2.0% | 2.0%* | 2.0%* |
| GENERAL PLANT | | | | | | | | |
| 390 | Structures and Improvements | 2.5% | 4.0%* | 4.0%* | 4.0%* | 4.0%* | 4.0%* | 4.0%* |
| 391 | Office Furniture & Equipment | 5.0% | 5.0%* | 5.0%* | 5.0%* | 5.0% | 5.0%* | 5.0%* |
| 391.1 | Office Electronic & Computer Equip. | 14.3% | 14.3%* | 14.3%* | 14.3%* | 20.0% | 14.3%* | 14.3%* |
| 392 | Transportation Equipment | 13.0% | 13.0%* | 13.0%* | 13.0%* | 13.0%* | 13.0%* | 13.0%* |
| 393 | Stores Equipment/Other General Equipment | 4.0% | 10.0%* | 10.0% | 10.0%* | 14.3% | 10.0%* | 10.0%* |
| 394 | Tools/Shop/Garage Equip. | 5.0% | 5.0%* | 5.0%* | 5.0%* | 5.0%* | 5.0%* | 5.0%* |
| 395 | Lab Equipment | 5.0% | 5.0%* | 5.0%* | 5.0%* | 5.0%* | 5.0%* | 5.0%* |
| 396 | Power Operated Equipment | 6.7% | 6.7%* | 6.7%* | 6.7%* | 6.7%* | 6.7%* | 6.7%* |
| 397 | Communication Equipment | 6.7% | 6.7%* | 6.7%* | 6.7%* | 6.7%* | 6.7%* | 6.7%* |

*Designates a rate proposed in this case, rather than a rate ordered by the Commission in a previous case.

WM-2018-0116 and SM-2018-0117
Metes and Bounds Description for Majestic Lakes

0240-16 Majestic Lakes Service Area
Lincoln County, Missouri

The area served consists of part of Sections 10, 11 and 15, Township 48 North, Range 1 East of the 5th P.M., Lincoln County, Missouri and being more particularly described as follows:

Beginning at the northeast corner of said Section 15; thence along the east line of said Section 15 S00°59'42"W 1332.37 feet; thence leaving said east line N88°15'24"W 197.30 feet; thence S01°41'03"W 376.36 feet; thence N89°14'34"W 1015.49 feet; thence N01°28'05"E 942.30 feet; thence N79°30'42"W 370.02 feet; thence S01°27'38"W 916.99 feet; thence N87°30'56"W 355.33 feet; thence N89°19'54"W 396.80 feet; thence S58°59'48"W 162.25 feet to the east right-of-way line of Missouri Route "MM"; thence along said east right-of-way line N29°55'58"W 514.00 feet; thence leaving said east right-of-way line N01°33'16"E 440.76 feet; thence N00°38'06"E 837.38 feet; thence N00°38'06"E 1393.35 feet; thence N00°52'17"E 717.14 feet; thence N69°22'02"W 334.89 feet; thence N00°53'53"E 454.40 feet; thence N45°08'32"W 1087.11 feet to the right-of-way line of Rolling Meadows Drive; thence along said right-of-way line along a curve deflecting to the left having a radius of 60.00 feet, an arc length of 32.06 feet, a chord course of N29°33'10"E 31.68 feet; thence leaving said right-of-way line S75°45'08"E 1119.78 feet; thence N01°15'48"E 637.83 feet to the centerline of the Cuivre River; thence along the centerline of the Cuivre River the following courses: S67°31'44"E 770.62 feet, S65°37'42"E 1066.16 feet, S67°23'37"E 490.95 feet, S67°23'40"E 716.99 feet, S54°25'47"E 644.56 feet, S61°43'00"E 986.96 feet, S82°17'04"E 325.80 feet, S73°13'04"E 407.39 feet, N73°48'28"E 423.55 feet; thence leaving said centerline S00°04'18"W 1127.42 feet; thence N89°11'12"W 1882.05 feet; thence S00°06'19"W 364.02 feet; thence S64°57'24"W 834.48 feet to the point of beginning.