

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

In the Matter of the Joint Application of Rogue Creek)
Utilities, Inc. and Missouri-American Water Company,)
for MAWC to Acquire Certain Water and Sewer)
Assets of Rogue Creek Utilities, Inc.)

Case No. WM-2019-0018

STAFF RECOMMENDATION

COMES NOW the Public Service Commission Staff (Staff), by and through counsel, and for its *Staff Recommendation* states that Staff recommends that the Commission approve the transfer of assets from Rogue Creek Utilities, Inc. (RCU), to Missouri-American Water Company (MAWC or Company). In support of this *Staff Recommendation*, Staff states as follows:

1. On July 24, 2018, MAWC, in conjunction with RCU, filed a *Joint Application for Authority to Transfer Assets* (Joint Application) for MAWC to acquire certain water and sewer assets of RCU.

2. On July 25, 2018, the Commission issued its *Order Consolidating Cases, Directing notice, and Directing Filing*. The Commission consolidated the water and sewer cases, and directed that Intervenors should submit their applications to intervene by Friday, August 24, 2018. That *Order* further directed Staff to file on August 24 either its recommendation, or a pleading stating an anticipated date when a recommendation would be filed.

3. On August 24, 2018, the Department of Natural Resources filed its application to intervene, supporting the transfer of assets.

4. MAWC and RCU have filed an application seeking authority to transfer assets. Therefore, the proper statute governing the transfer is § 393.190 RSMo.

When deciding whether to approve a regulated entity's request to transfer assets pursuant to § 393.190 RSMo, the Commission must determine that the transfer is "not detrimental to the public interest."¹ As a part of that consideration, a "detriment [to the public interest] is determined by performing a balancing test where attendant benefits are weighed against direct or indirect effects of the transaction that would diminish the provision of safe or adequate of service or that would tend to make rates less just or less reasonable."²

5. RCU has been in receivership since November 9, 2007, due to significant operational and managerial problems with both the drinking water and sewer utility systems. Since 2007, three subsequent receivers have been appointed by the Cole County Circuit Court. On May 14, 2018, the Circuit Court issued an *Order Authorizing Receiver to Execute Asset Purchase Agreement*.

6. As more fully detailed in the attached *Staff Memorandum*, based on its investigation, Staff recommends that the transfer of assets to MAWC is, at the very least, not detrimental to the public interest.

WHEREFORE, Staff respectfully submits this *Staff Recommendation* for the Commission's information and consideration, and requests the Commission approve the transfer of assets, with Staff's proposed conditions.

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

² *In the Matter of Union Electric Company, d/b/a AmerenUE*, 2005 WL 433375 (Mo. P.S.C. Feb. 10, 2005); and see *In the Matter of Great Plains Energy, Inc., Kansas City Power & Light Company and Aquila, Inc.*, 266 P.U.R.4th 1 (Mo. P.S.C. July 1, 2008)

Respectfully submitted,

/s/ Jacob T. Westen

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CERTIFICATE OF SERVICE

I hereby certify that copies of the foregoing have been mailed or hand-delivered, transmitted by facsimile or electronically mailed to all parties and or their counsel of record on this 24th day of August, 2018.

/s/ Jacob T. Westen

MEMORANDUM

TO: Missouri Public Service Commission
Official Case File, Case No. WM-2019-0018

In the Matter of the Joint Application of Rogue Creek Utilities, Inc. and Missouri-American Water Company, for MAWC to Acquire Certain Water and Sewer Assets of Rogue Creek Utilities, Inc.

FROM: James A. Merciel, Jr. - Water and Sewer Department, Case Coordinator
James A. Busch – Water and Sewer Department
Ali Arabian – Auditing Department
Dana R. Parish – Customer Experience Department
Gary Bangert – Customer Experience Department

/s/ James A. Merciel, Jr. 08-24-18
Case Coordinator / Date

/s/ Jacob Westen 08-24-18
Staff Counsel's Office / Date

SUBJECT: Approval of Transfer of Assets and Transfer of Certificates of Convenience and Necessity

DATE: August 24, 2018

EXECUTIVE SUMMARY

Rogue Creek Utilities, Inc. (RCU) seeks to sell and transfer its water and sewer utility assets to Missouri-American Water Company (MAWC). RCU is a distressed company in receivership, with numerous system deficiencies and related operational issues. MAWC proposes to purchase the utility assets along with RCU's Certificate of Convenience and Necessity (CCN) issued by the Commission, and undertake improvements that would result in safe and adequate service to customers and compliance with drinking water and environmental regulations.

In the Application, it is stated that MAWC proposes to modify its water tariff and its sewer tariffs to include the RCU service area, to apply MAWC's existing approved rate for "All Missouri Service Areas Outside of St. Louis County and Outside of Mexico," and to apply MAWC's existing approved rates for Cedar Hill and some other service areas to the RCU customers.

Details regarding the background and condition of RCU's water and sewer systems are outlined in this Recommendation. Based on its review as described in this Recommendation herein, Staff recommends approval of the transfer of assets of RCU and transfer of RCU's existing CCN, with some conditions involving tariff filings, notifications regarding completion of the transfer, customer billing and customer notification.

CASE BACKGROUND

On July 24, 2018, RCU and MAWC filed a *Joint Application and Motion for Waiver* (Application) with the Public Service Commission (Commission). In the Application,

RCU seeks to sell and transfer its water and sewer utility assets along with its CCN to MAWC, and MAWC would then continue the provision of regulated water and sewer service to the customers.

In its July 25, 2018 *Order Consolidating Cases, Directing Notice, and Directing Filing*, among other things the Commission directed Staff to file either a recommendation for disposition of this case or a pleading stating when it anticipates filing its recommendation, by August 24, 2018. The Commission also set August 24, 2018 as the date by which interested persons should submit requests to intervene in this case.

BACKGROUND INFORMATION

RCU

RCU is a regulated water and sewer corporation. Its service area is a recreational lake development near Potosi in Washington County, originally named Somethin' Green and now named Rogue Creek Valley. It is stated in the Application that RCU presently provides water and sewer service to 82 customers. One customer in the service area is a clubhouse owned by the homeowners, and the other customers have either a residential structure or a lot that is set up for camping. About half of the customers are full-time residents, and the remainder are part-time customers who live elsewhere.

Oak-Land Development Corporation (OakLand) was the original developer of the subdivision. OakLand filed Case No. 17,899 on August 28, 1973, in which it obtained a CCN to provide sewer service. OakLand also filed Case No. 18,178 on September 3, 1974, in which it obtained a CCN to provide water service, and in that case announced a plan to transfer OakLand's water and sewer utility assets to RCU, a corporation newly-formed by the owner of OakLand in order to keep utility operations separate from subdivision development operations. The proposed transfer of assets was addressed in the Commission's *Report and Order* and in subsequent correspondence in that case file¹. RCU filed water and sewer tariffs, effective December 1, 1976 and June 1, 1978 respectively.

Water System

The RCU water system consists of a single well with a submersible pump producing 25 gallons per minute (gpm), one ground storage tank² on a hill with a volume of 4,000 gallons that maintains pressure by gravity, a distribution system with a few valves, and water meters for each of the customers. The entire water system, dating to the 1970s, has maintenance issues due to age.

One of the significant operational challenges with this water system is that this service area is located in a part of Missouri that is referred to as the "lead belt" where lead mining was prevalent in the past. The naturally-occurring lead resource at RCU's location is dissolved and/or suspended in the groundwater that is pumped from RCU's well, and the water exceeds federal and state requirements for lead contamination in drinking water. RCU is required, as are all drinking water suppliers, to meet the United States Environmental Protection Agency's and

¹ References are made in that case file to a subsequent transfer of assets case, but Staff has been unable to locate such a transfer case in the Commission's records thus far.

² A second storage tank was recently removed from service because of its poor condition.

the Missouri Department of Natural Resources' (DNR) rules for lead (for Missouri applicability ref. DNR rule 10 CSR 60-15, sometimes called the "Lead and Copper Rule"). RCU treats a portion of the water produced from the well for lead removal by using a commercial-size water softener. It works the same way as water softeners for individual home use, but besides "softening" water by partially removing calcium hardness, the process also partially removes lead. The operational challenge is to consistently remove enough lead to meet the Lead and Copper Rule, without over-softening the water which could possibly result in a corrosive characteristic that causes other water quality problems.

Another operational challenge with this water system is the ability to attain full use of the storage tank. This is because the storage tank location is a considerable distance, more than a mile, from the well where the electrical control for the well pump is located. The pump control turns the pump on and off based on settings for water pressure. However, pressure losses due to hydraulic flow characteristics between the well and tank mean that the tank water level and pressure at the well are not directly related at all times. The task of setting the pump controls finely enough to turn on the pump before the remotely-located tank is empty and turn off the pump when the tank is at a proper full level is difficult in and of itself, but the variable hydraulic flow losses due to customer usage and other factors that change hour-to-hour make it impossible to achieve optimal control settings. RCU's pump control senses pressure at the well head which only approximates tank water levels, whereas many similar water systems have tank water level sensors that are used to control the well pump directly by tank water levels, making better and more consistent use of the storage tank.

Some fundamental major improvements to the water system that Staff, DNR, MAWC and RCU agree are necessary for regulatory compliance and safe and adequate service include the following:

- A second well for adequate source capacity, because the present single well pump is only adequate for normal water-use days. If there is a significant leak or extraordinary water usage such as during holidays when a lot of part-time residents are present, then the 25 gpm pumping capacity cannot meet demand, and pressure problems and outages occur. The necessity of treatment for lead removal would need to be evaluated for a new well.
- A new storage tank is needed to replace the aged and undersized existing tank, to provide at least approximately 12,000 gallons of usable storage for a one-day reserve in case of a well pump failure.
- Distribution system mapping, and the addition of valves in key locations to allow for isolation of portions of the distribution system to undertake leak and main break repairs.
- Water meter replacements are necessary because most or all of the existing meters are beyond their normal expected service life, and do not comply with the Commission's rule 4 CSR 240-10-030(38) regarding meter testing and replacement.
- A replacement water softener system for the existing well, to replace the aged current system, if the well is to remain in service.

Sewer System

RCU's sewer system consists of an "extended air" treatment facility with 30,000 gallons per day (gpd) hydraulic flow capacity, gravity sewers with manholes, and three single-pump lift stations with force mains to supplement the limited gravity flow along one of the lakes.

Sewage lift stations should have multiple pumps for reliability, but RCU's lift stations do not. One of the lift stations has a flow problem with its discharge, in that after it runs for a few minutes sewage begins backing up and leaking from a gravity sewer, saturating the ground around the lift station, and seeping out of a short crossing over a creek branch at the upper end of one of the lakes. The gravity sewer manhole covers are either buried or have heavy concrete lids or both, making access to the sewer pipelines difficult. The sewage treatment plant has a single air blower used for the aeration treatment process, but it should have at least two blowers for reliability. The electrical controls and the electric service line from a power pole are degraded due to age and outdoor exposure to weather.

Some fundamental major improvements to the sewer system that Staff, DNR, MAWC and RCU agree are necessary for regulatory compliance and safe and adequate service include the following:

- Mapping of the collecting sewer system, replacement of concrete manhole covers with conventional cast-iron covers, and raising manholes to grade as necessary, for access to the collecting sewers. Some sections of the gravity collecting sewers need maintenance for leaks and to prevent blockages from tree root intrusion.
- Rehabilitation or reconstruction of each of the three lift stations, incorporating duplex or triplex pumps, and electrical control rehabilitation as necessary. At least one lift station requires repairs or modifications to the force main and/or the receiving gravity sewer to correct the overflow and backup problem.
- Cleaning and rehabilitation of the sewage treatment facility, including installation of duplex air blowers and associated replacement of electrical components, aerator and air piping rehabilitation, and cleaning or modification as necessary of disinfection components. The discharge permit issued by DNR for this facility expires in 2022 but also requires new limits for ammonia discharge beginning in April 2019. The treatment facility is operating at well under its design capacity but it is unknown to Staff whether or not the facility at its current load will be capable of meeting the new requirements. Additional new treatment steps or replacement of the current treatment facility may be a future need.

RCU Real Estate Issues

In the early subdivision development years, RCU and/or OakLand constructed most of the water and sewer system assets, but did not completely develop all potential subdivision areas. OakLand sold its unsold lots and undeveloped land to another development company named Rogue Creek Valley, Inc. (RCVI). Related to that transaction, RCVI acquired the stock of RCU with the approval of the Commission in Case No. WM-83-328. Several years later RCVI folded its development operations, after which the original owner of RCU re-attained stock ownership and resumed controlling RCU's utility operations. However, the subdivision trustees, in Cause

No. CV1090-341CC in Washington County Circuit Court, obtained a judgement on July 5, 1995 against Rogue Creek Valley, Inc. and RCU. That judgement resulted in a Sheriff's sale of the real estate owned by RCVI and RCU. The Sheriff's sale occurred on February 26, 1996, and the subdivision trustees won the bid. The significance of this is that since 1996 to the present, RCU has been operating as a regulated utility but has gained access to the functional utility assets only under the consent of the subdivision trustees as owner of the real estate properties upon which the utility assets are located. The real estate ownership issue has been a factor with regard to any plan to liquidate RCU and transfer utility ownership and operations to any utility entity. MAWC tells Staff that it is still working on the details necessary for it to acquire the utility-related real estate and easement rights.

Since resolution of the real estate issue is important to the operation of the utility systems, the costs incurred to resolve the real estate issue will impact MAWC's cost of service. Since this issue is not yet finalized, Staff recommends that MAWC be ordered to report to the Commission regarding the resolution and cost incurred.

RCU Receivership

The Commission filed Case No. 07AC-CC00682 in Cole County Circuit Court seeking the appointment of a permanent receiver for RCU, after approving a stipulation in Case No. WO-2007-0344 wherein Staff requested the appointment of an interim receiver. The Circuit Court's appointment of a permanent receiver was effective on November 9, 2007. After the appointment of this permanent receiver, three subsequent replacement receivers were appointed. Environmental H2O, LLC has served as the receiver since January 29, 2018. While this current transfer of assets proposal was approaching finalization, on April 17, 2018 the receiver filed *Environmental H2O, LLC's Motion for Authority to Execute Asset Purchase Agreement to Sell All Water and Sewer Assets of Rogue Creek Utilities, Inc.* in Circuit Court. The Circuit Court issued its *Order Authorizing Receiver to Execute Asset Purchase Agreement* on May 14, 2018.

MAWC

MAWC is an existing regulated water and sewer utility currently providing water service to more than 450,000 customers and sewer service to more than 11,000 customers in several service areas throughout Missouri. In recent years, MAWC has acquired several small existing water and sewer systems. MAWC is a subsidiary of American Water Works Company, Inc., and is affiliated with other companies that undertake some of the tasks associated with utility service, such as customer billing, and technical resources.

STAFF'S INVESTIGATION

Technical, Managerial, and Financial Capacity

Staff utilizes the concepts of TMF (technical, managerial, and financial capabilities) in studying situations involving existing water and sewer systems. Based on Staff's experience working with MAWC, and as explained in previous recent cases before the Commission, Staff concludes that MAWC has the appropriate TMF capabilities regarding this proposed transfer of assets. Further, RCU's TMF shortcomings were addressed some years ago by Staff in Case No. WO-2007-0344, showing a need for receivership.

Tariff and Rate Impact

In the Application, MAWC stated that it proposes to provide water service under its existing water tariff, PSC MO No. 13, and one of its existing rate schedules referred to as “All Missouri Service Areas Outside of St. Louis County and Outside of Mexico.” The Application of this rate schedule would result in a decrease in the water service portion of bills for most customers in the RCU service area, as follows:

WATER BILL COMPARISON -monthly						
	Customer Charge	Commodity Charge per 1,000 gal	2,000 use	3,000 use	4,000 use	
RCU	\$ 23.06	\$ 3.89	\$ 30.84	\$ 34.73	\$ 38.62	
MAWC	\$ 9.00	\$ 6.25	\$ 21.50	\$ 27.75	\$ 34.00	
			decrease \$ 9.34	\$ 6.98	\$ 4.62	
			percent decrease 30.3%	20.1%	12.0%	

Similarly, MAWC stated in the Application that it proposes to provide sewer service under its existing sewer tariff, PSC MO No. 26, and one of its existing rate schedules applying to “Cedar Hill” and several other specific named service areas. The Application of this rate schedule would result in increased bills for the sewer portion of service for most customers in the RCU service area, as follows:

SEWER BILL COMPARISON - monthly	
	Flat Rate
RCU	\$ 44.16
MAWC	\$ 58.13
	increase \$ 13.97
	percent increase 31.6%

The combined water and sewer billings would result in the following impact:

COMBINED BILL COMPARISON -monthly				
	2,000 use	3,000 use	4,000 use	
RCU	\$ 75.00	\$ 78.89	\$ 82.78	
MAWC	\$ 79.63	\$ 85.88	\$ 92.13	
	increase \$ 4.63	\$ 6.99	\$ 9.35	
	percent increase 6.2%	8.9%	11.3%	

Staff agrees with RCU and MAWC that applying MAWC’s existing tariff rules and rates to customers in the RCU service area is reasonable, in consideration of capital improvements that MAWC will need to undertake for the RCU service area, and because it would be less

cumbersome to include the RCU customers on existing rates for purposes of billing and for handling customer inquiries at call centers on billing issues.

To include the RCU service area customers into MAWC's existing tariffs and appropriate rate structure, Staff recommends that, assuming this proposed transaction is approved, MAWC file in its existing water tariff the following, to become effective prior to closing on the assets:

- PSC MO No. 13 3rd Revised Sheet No. CA TOC C, an index page, with what MAWC could refer to as its Rogue Creek water service area added onto the index;
- PSC MO No. 13 Original Sheet No. CA 18.1, showing a map of the Rogue Creek water service area, similar to the existing map in RCU's existing water tariff;
- PSC MO No. 13 Original Sheet No. CA 18.2 and subsequent sheets as necessary, showing the written metes and bounds description of the water service area, with identical verbiage of RCU's existing written description;
- PSC MO No. 26 4th Revised Sheet No. IN 1.3, an index page for sewer service area maps, with the Rogue Creek service area added onto the index;
- PSC MO No. 26 4th Revised Sheet No. IN 1.4 and/or subsequent Original sheets if necessary, an index page(s) for sewer service area descriptions, with the Rogue Creek service area added onto the index;
- PSC MO No. 26 6th Revised Sheet No. IN 1.5, an index page for sewer rates, with the Rogue Creek service area added to the list of service areas that begins with Cedar Hill;
- PSC MO No. 26 Original Sheet No. MP 16.1, showing a map of the Rogue Creek sewer service area, similar to the existing map in RCU's existing sewer tariff;
- PSC MO No. 26 Original Sheet No. MP 15.1, and subsequent sheets as necessary, showing the written metes and bounds description of the sewer service area with identical verbiage of RCU's existing written description; and,
- PSC MO No. 26 5th Revised Sheet No. RT 2.1, showing approved rates for sewer service, with the Rogue Creek service area added to the list of service areas that begins with Cedar Hill.

Staff recommends that MAWC notify the Commission of closing on the assets within 5 days after such closing. Staff also recommends the Commission require that MAWC notify the Commission if the parties determine, after Commission approval, that closing will not occur. If such determination occurs after MAWC files new or revised tariff sheets as described herein, then MAWC should withdraw any such pending tariff filing(s), or file additional replacement tariff sheets for any such tariff sheets that may have become effective.

Assuming the Commission approves this transfer of assets request, then after the effective date of tariffs to be filed by MAWC, and after MAWC and RUC close on the assets, the RCU customers will have become MAWC customers. The Commission would then be able to cancel RCU's existing water and sewer tariffs.

Rate Base

Staff’s rate base review was conducted based on the following:

- Review of the Application
- Review of all of the Appendices that were included with the Application
- Review of relevant previous Stipulation and Agreements applying to RCU
- Examination of past available RCU rate case work-papers and the final Exhibit Modeling System (EMS) Accounting Schedules
- Review of annual reports filed with the Commission

The Auditing Department updated rate base for RCU from the level determined in its last rate case. The following table presents Staff’s findings for plant in service, depreciation reserve, CIAC, and CIAC reserve. Currently there are no customer deposits. The result is a rate base for the water system of \$19,039 and for the sewer system of \$27,149 as of July 31, 2018. Staff’s analysis determined the total entity’s rate base valuation compared to RCU’s last rate case, Case Nos. WR-2013-0436 and SR-2013-0435 as follows:

	Total Regulated RCU Rate Base Valuation	
	Case No. WM-2019-0018 July 31, 2018	Case No. SM-2019-0019 July 31, 2018
Plant in Service	\$112,302	\$188,135
Less: Depreciation Reserve	\$97,599	\$160,986
Net Plant	\$14,703	\$27,149
CIAC	\$69,870	\$0
Less: CIAC Reserve	\$74,206	\$0
Net CIAC	-\$4,336	\$0
Net Plant less Net CIAC	\$19,039	\$27,149
Add: Materials & Supplies	\$0	\$0
Less: Customer Deposit	\$0	\$0
Total Rate Base	\$19,039	\$27,149

These quantifications by Staff of plant in service, depreciation reserve, and CIAC are a result of studying current information made available by RCU and/or MAWC. Plant in service balances and rate base information represent what Staff would recommend for inclusion in rate base at this time for the RCU systems. However, these recommended levels are subject to further

review and adjustments in future rate cases. Staff will take a position regarding the appropriate rate base valuation of the RCU plant assets after conducting its audit in MAWC's next rate case, including review of MAWC's rate base valuation.

The purchase price, based on the total asset value determined by MAWC and RCU, is lower than the total asset values determined by Staff in this case. As noted in the table above, the total plant less CIAC asset value at July 31, 2018, is \$19,019 for the water system and \$27,149 for the sewer system. The purchase price does not include the impact of customer deposits or other liabilities that will be assumed by MAWC so none of the liabilities were included for the above comparison.

Depreciation

In Case No. WR-2015-0301, the Commission ordered water and sewer depreciation rates applicable to all divisions of MAWC. Staff recommends the use of these rates for all water and sewer accounts in the RCU service area going forward.

Customer Notice/Customer Service

There has been no notice sent to RCU customers as a result of any request or order in the context of this current case before the Commission. However, Staff has first-hand knowledge that customers are well aware of the situation regarding the state of RCU and receivership, and the condition of the water and sewer systems. Besides numerous conversations and site visits regarding utility operations involving some individual customers, the homeowners association has considered taking over ownership and control of the utility systems from RCU for many, many years, and Staff has met with the officers and members at their meetings several times in recent years, sometimes with staff from DNR present to discuss environmental and drinking water issues related to the RCU systems. Also, MAWC in ¶11 of the Application describes its interactions and attendance at meetings regarding development of its plan regarding the sale and transfer of assets, and assuming operations and undertaking necessary improvements. The Application also states that the homeowners association voted and approved RCU's and MAWC's plan to sell and transfer the utility assets. Staff therefore concludes that customers are aware of the need for substantial capital expenses and improved operations, and customers are willing to support the expenses through rates for service even if only by becoming a part of MAWC's state-wide customer base.

In previous CCN or transfer cases where MAWC acquired systems and additional customers, Staff recommended that MAWC undertake actions and submit reports to the Customer Experience Department that address a variety of customer service and billing issues. These actions and reports were stipulated or recommended in Case Nos. WM-2001-0309, WR-2003-0500, WR-2007-0216, WA-2015-0019 and SA-2015-0150. The same information regarding the customers MAWC is acquiring from RCU should be included within these reports.

MAWC utilizes a nationwide billing system and nationwide call centers through its affiliates. In order to incorporate RCU customers into its billing and customer service systems, it will be necessary for MAWC to properly enter the RCU customer information and apply the appropriate Commission-ordered-rate. MAWC will also need to provide training to its call center personnel

regarding rates and rules applicable to the RCU customers so that customer service matters are handled accurately and in a timely manner.

OTHER ISSUES

According to documentation on the Missouri Secretary of State website, RCU is, as of December 30, 2004, a Missouri corporation that is “administratively dissolved” for failure to file an annual report.

RCU has filed its annual reports with the Commission through calendar year 2016, but there is no annual report on file for calendar year 2017, as documented on the Commission’s Electronic Filing and Information System (EFIS).

RCU has paid its annual assessments from fiscal year 2012 through fiscal year 2018, but is past due on the first quarter payment for the fiscal year 2019 annual assessment. The total annual assessment amount due for the entire fiscal year 2019 is \$929.93. This is documented on the Commission’s Budget and Fiscal Services Department postings of assessment payments.

RCU has no other pending matters before the Commission.

MAWC is a Missouri corporation in “good standing” with the Missouri Secretary of State.

MAWC is current with its annual report filings with the Commission through calendar year 2017, as documented on EFIS.

MAWC is current on its annual assessment quarterly payments through the 1st quarter of fiscal year 2019, according to the posting of the Commission’s Budget and Fiscal Services Department.

MAWC has other pending cases before the Commission, as follows:

WC-2019-0039	Formal Complaint (Miljavac)
WC-2019-0028	Formal Complaint (T Jones)
WC-2019-0004	Formal Complaint (Thirty and 141, LP)
WO-2018-0373	ISRS Request
WA-2018-0222	CCN (Lawson)

These above-noted pending cases for MAWC will have no direct impact upon this proposed case involving a transfer of assets from another regulated water system, nor will approval of the transfer of assets impact the above-noted pending cases.

Staff was also informed that there could be outstanding receivership fees payable to a former receiver. Any such amount is unknown to Staff, and it is unknown what court action, if any, might address unpaid receiver fees. However, Staff understands that, at the very least, a court order from the Circuit Court is necessary to establish any remaining fees, and that past receivers must independently seek that finding from the Court.

STAFF'S RECOMMENDATION SUMMARY AND CONCLUSIONS

Staff's position, based on its review as described herein, is that RCU's and MAWC's proposal for a transfer of water and sewer utility assets is not detrimental to the public interest. MAWC's proposal to apply its existing water tariff and existing "All Missouri Service Areas Outside of St. Louis County and Outside of Mexico" rates to customers in RCU's service area, and its proposal to apply its existing sewer tariff and existing "Cedar Hill" rates, are reasonable. MAWC should be authorized and ordered to file new and replacement tariff sheets, as described herein, showing the service area and rate applicability, prior to closing on the assets. MAWC should provide notice of closing on the assets, and status reports as necessary describing the status of closing on the assets. MAWC should also report to the Commission regarding the status of acquisition of the appropriate real estate and easement rights, or other rights to access utility assets as appropriate, and the costs incurred for such.

Staff therefore recommends approval of the transfer of assets with the conditions and actions as outlined herein.

STAFF'S RECOMMENDATIONS

Based upon the foregoing, Staff recommends that the Commission:

1. Authorize RCU to sell and transfer water and sewer utility assets, including its CCNs to provide water and sewer service, to MAWC, and for MAWC to provide water service and sewer service in the Rogue Creek service area, as requested;
2. Authorize MAWC to apply its existing water tariff rules and "All Missouri Service Areas Outside of St. Louis County and Outside of Mexico" water rates, in MAWC's water tariff PSC MO No. 13, to the Rogue Creek service area;
3. Authorize MAWC to apply its existing sewer tariff rules and its "Cedar Hill" sewer rates, in MAWC's PSC MO No. 26, to the Rogue Creek service area;
4. Require MAWC to submit new and revised tariff sheets showing the Rogue Creek service area, water rates, sewer rates, and index sheets, for its PSC MO No. 13 water tariff and PSC MO No. 26 sewer tariff, as necessary and as described in detail herein, prior to closing on the assets;
5. Approve MAWC's existing depreciation rates for water and sewer utility plant accounts to apply to the Rogue Creek service area assets;
6. Require MAWC to submit notice to the Commission within five (5) business days after closing on the asset occurs;
7. Cancel RUC's existing tariffs for water and sewer service after closing on the assets and the transfer of the CCNs occurs;
8. Require MAWC to, along with notice to the Commission regarding closing on the assets, provide a report regarding resolution of real estate acquisition, easement rights, the cost of real estate and easement acquisition and resolutions, and a statement stating that MAWC has complete access to all utility assets necessary for providing water and sewer service;

9. If closing on the water system assets and/or resolution of the real estate issue does not take place within thirty (30) days following the effective date of the Commission's order approving such sale and transfer of the assets, require MAWC and/or RCU to submit a status report within five (5) days after this thirty (30) day period regarding the status of closing, and additional status reports within five (5) days after each additional thirty (30) day period, until closing takes place, or until MAWC determines that the transfer of the assets will not occur;
10. If MAWC or RCU determines that a transfer of the assets will not occur, require MAWC and/or RCU to notify the Commission of such no later than the date of the next status report, as addressed above, after such determination is made, and require MAWC to submit tariff sheets as appropriate that would cancel tariff sheets and changes filed and becoming effective, if any, applicable to the Rogue Creek service area;
11. Require RCU to provide to MAWC and for MAWC, as best as possible prior to or at closing, to take physical possession of and maintain all records and documents with respect to regulated operations, and any and all books and financial records of RCU, including but not limited to all plant-in-service original cost documentation, along with depreciation reserve balances and records, invoices and purchase orders and purchase agreements, documentation of contribution-in-aid-of construction transactions, and any capital recovery transactions, all customer billing records and customer deposit records to the extent the Company has customer deposits;
12. Require MAWC to provide, in its next general rate case, an analysis documenting rate base values for RCU utility assets, including an appropriate offset for associated CIAC, and including real estate assets obtained in the context of the RCU transaction;
13. Make no finding that would preclude the Commission from considering the ratemaking treatment to be afforded any matters pertaining MAWC, including expenditures related to the Rogue Creek certificated service area and capacity adjustments, in any later proceeding;
14. Require MAWC to provide an example of its actual communication with the RCU service area customers regarding its acquisition and operations of the RCU water system assets, and how customers may reach MAWC regarding water matters, within ten (10) days after closing on the assets;
15. Require MAWC to include the RCU customers in its established monthly reporting to the Customer Experience Department Staff on customer service and billing issues;
16. Require MAWC to distribute to the RCU customers an informational brochure detailing the rights and responsibilities of the utility and its customers regarding its water service, consistent with the requirements of Commission Rule 4 CSR 240-13.040(2)(A-L), within ten (10) days of closing on the assets;
17. Require MAWC to provide adequate training for the correct application of rates and rules to all customer service representatives prior to RCU customers receiving their first bill from MAWC;

18. Require MAWC to provide to the Customer Experience Department Staff a sample of ten (10) billing statements from the first month's billing within thirty (30) days of such billing; and,
19. Require MAWC to file notice in this case once Staff Recommendations regarding customer communications and customer billing, above, have been completed.

Staff will submit a further recommendation regarding tariff sheets to be filed by MAWC in this matter.

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

In the Matter of the Joint Application of Rogue)
Creek Utilities, Inc. and Missouri-American)
Water Company, for MAWC to Acquire)
Certain Water and Sewer Assets of Rogue)
Creek Utilities, Inc.)

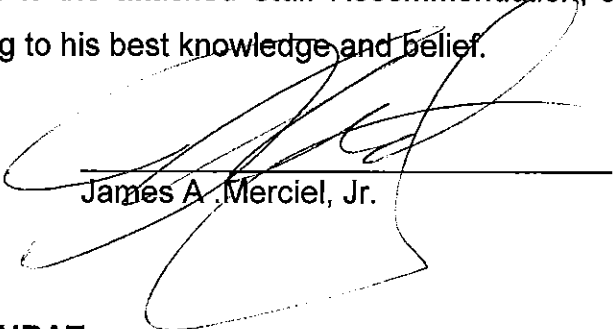
File No. WM-2019-0018

AFFIDAVIT OF JAMES A. MERCIEL, JR.

State of Missouri)
) ss
County of Cole)

COMES NOW James A. Merciel, Jr., and on his oath declares that he is of sound mind and lawful age; that he contributed to the attached *Staff Recommendation*; and that the same is true and correct according to his best knowledge and belief.


Further the Affiant sayeth not.



James A. Merciel, Jr.

JURAT

Subscribed and sworn before me, a duly constituted and authorized Notary Public, in and for the County of Cole, State of Missouri, at my office in Jefferson City, on this 23rd day of August, 2018.



NOTARY PUBLIC

DIANNA L. VAUGHT Notary Public - Notary Seal State of Missouri Commissioned for Cole County My Commission Expires: June 28, 2019 Commission Number: 15207377
