

**STATE OF MISSOURI
PUBLIC SERVICE COMMISSION**

At a session of the Public Service Commission held by telephone and internet audio conference on the 23rd day of September, 2020.

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

**ORDER DIRECTING RESPONSES REGARDING
CONFLUENCE RIVERS' APPLICATION**

Issue Date: September 23, 2020

Effective Date: September 23, 2020

On March 11, 2020, Confluence Rivers Utility Operating Company (Confluence Rivers) applied for authority to acquire the sewer and water utility assets of Branson Cedars Resort Utility Company, LLC (Branson Cedars); the water utility assets of Fawn Lake Water Corp. (Fawn Lake) and P.A.G. LLC d/b/a Prairie Heights Water Company (Prairie Heights); and the sewer utility assets of Freeman Hills Subdivision Association (Freeman Hills) and a system serving the DeGuire subdivision in Madison County (DeGuire).¹ Confluence Rivers also seeks the Commission's approval to transfer Branson Cedars' certificates of convenience and necessity (CCNs) to Confluence Rivers or grant new CCNs to serve Branson Cedars. In addition, Confluence Rivers seeks CCNs for the Fawn Lake, Prairie Heights, Freeman Hills and DeGuire systems, which are not now regulated by the Commission.

¹ On April 17, 2020, Confluence Rivers' application as to sewer utility assets, File No. SM-2020-0283, was consolidated with this case concerning water utility assets, File No. WM-2020-0282. On June 1, 2020, Confluence Rivers withdrew from the consolidated case the portion of its application pertaining to Terre Du Lac Utilities Corporation.

On July 17, 2020, the Staff of the Public Service Commission (Staff) recommended the Commission approve Confluence Rivers' application, subject to specified conditions. Following resolution of the Office of Public Counsel's request for a public hearing in this case, Confluence Rivers on August 24, 2020, filed a timely response to Staff's recommendation and stated "no objection" to the conditions recommended by Staff for approval of the application.

The Commission will direct Confluence Rivers to respond to the following queries with a verified supplement of its application:

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

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

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

3. Who prepared and reviewed the pro-forma balance sheet?

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

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

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

7. What is the date of the pro-forma balance sheet?

8. Please identify all of the utility systems included in the “Confluence Rivers UOC” column.

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

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

B. In regard to Confluence Rivers’ application, Appendix W-C, Page 2, labeled “Pro-Forma Income Statement – Confluence Rivers Utility Operating Company, LLC”:

1. What time period is reflected in the pro-forma income statement?

2. Who prepared and reviewed the pro-forma income statement?

3. Please identify the sources for the amounts included in the “Confluence Rivers UOC” column.

4. The Commission approved a rate increase for Confluence Rivers in File No. WR-2020-0053.² Does the rate increase change the figures stated in the “Confluence Rivers UOC” column? As of July 1, 2020, please provide an update

²Order Approving Unanimous Disposition Agreement and Small Company Rate Increase with Accompanying Tariffs, File No. WR-2020-0053 (April 8, 2020).

of the figures stated for “Confluence Rivers UOC” to reflect the rate increase approved in File No. WR-2020-0053, with an explanation of how the calculation is made.

5. Please identify the sources for the amounts included in the “Branson Cedars Water & Sewer Acquisition” column.

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

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

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

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

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

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

1. Please state whether projected cash flow statements are offered as feasibility studies in support of Confluence Rivers’ application for CCNs to serve

Fawn Lake, Prairie Heights, Freeman Hills, and DeGuire. If so, please explain to what extent the statements satisfy the elements of a feasibility study, required by 20 CSR 4240-3.305(1)(A)5 and 20 CSR 4240-3.600(1)(A)5.

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

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

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

5. Staff’s recommendation states confidential figures for the purchase price of each system.³ In addition, the memo states confidential estimated costs of proposed improvements for Fawn Lake,⁴ Prairie Heights,⁵ Freeman Hills⁶ and DeGuire.⁷ Addressing Fawn Lake, Prairie Heights, Freeman Hills and DeGuire individually, please explain why the “Total Cost of Project,” plus “Loan Principal” stated for Year 0 in the projected cash flow statement for each system, does not equal the purchase price plus the cost of improvements, as reported by Staff.

³ *Staff Recommendation*, Appendix A: Memorandum – Confidential, Table: “Purchase Price,” pg. 17 (July 17, 2020).

⁴ *Id.* at pg. 10.

⁵ *Id.* at pg. 13.

⁶ *Id.* at pg. 11.

⁷ *Id.* at pg. 15.

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

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

8. Addressing DeGuire, please explain why the projected cash flow statement does not state any "Commercial Revenue," when Confluence Rivers' application indicates DeGuire has four commercial customers.

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

D. In regard to system improvements proposed by Confluence Rivers for Branson Cedars:⁸

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

⁸ *Id.* at pgs. 5, 7.

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

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

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

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

E. In regard to system improvements proposed by Confluence Rivers for Fawn Lake:⁹

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

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

⁹ *Id.* at pgs. 9-10.

F. In regard to system improvements proposed by Confluence Rivers for Prairie Heights:¹⁰

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

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

G. In regard to system improvements proposed by Confluence Rivers for Freeman Hills:¹¹

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

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

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

4. Please specify whether Confluence Rivers proposes to use a moving bed biological reactor (MBBR) in conjunction with the existing system or to replace

¹⁰ *Id.* at pg. 13.

¹¹ *Id.* at pg. 11.

the existing system. In addition, please identify any other technologies considered as an alternative to MBBR for this system.

H. In regard to system improvements proposed by Confluence Rivers for DeGuire:¹²

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

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

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

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

THE COMMISSION ORDERS THAT:

1. No later than October 7, 2020, Confluence Rivers shall respond to the Commission's inquiries above with a verified supplement to its application or a request for additional time, specifying when it will be able to respond in full.

2. This order shall be effective when issued.

¹² *Id.* at pg. 15.



BY THE COMMISSION

Morris L. Woodruff

Morris L. Woodruff
Secretary

Silvey, Chm., Kenney, Rupp, Coleman, and
Holsman CC., concur.

Jacobs, Regulatory Law Judge