

MEMORANDUM

TO: Missouri Public Service Commission
Official Case File, Case No. WA-2023-0071
Missouri American Water Company

FROM: Sherrye Lesmes – Auditing Department
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<u>/s/ Keri Roth</u>	<u>12/19/2022</u>	<u>/s/ Don Cospers</u>	<u>12/19/2022</u>
Senior Research/Data Analyst	Date	Staff Counsel's Office	Date

SUBJECT: Staff Recommendation to Approve Certificates of Convenience and Necessity

DATE: December 19, 2022

Case Background

On August 12, 2022, Missouri-American Water Company (“MAWC”) filed its *Application and Motion for Waiver* (“Application”) with the Missouri Public Service Commission (“Commission”) for Certificates of Convenience and Necessity (“CCNs”) authorizing it to install, own, acquire, construct, operate, control, manage, and maintain a water and sewer system in and around the City of Smithton, Missouri, which is located in Pettis County. In its Application, MAWC states that it intends to acquire the water and sewer utility assets that are presently owned and operated by the City of Smithton (“Smithton” or “City”). The Smithton systems, as municipal utilities, are not presently subject to the jurisdiction of the Commission. The Application was docketed in two separate cases, Case Nos. WA-2023-0071 and SA-2023-0072, which were consolidated by the Commission, with Case No. WA-2023-0071 being designated the lead case.

MAWC has elected to exercise an option provided by §393.320, RSMo. The procedures outlined in this statute may be applied when a “large water public utility” as defined by the statute¹ acquires a “small water utility,” also as defined.² Note that these definitions cover both water and

¹ §393.320.1, RSMo, defines “Large water public utility” as, “a public utility that regularly provides water service or sewer service to more than eight thousand customer connections and that provides safe and adequate service but shall not include a sewer district established under Section 30(a), Article VI of the Missouri Constitution, sewer districts established under the provisions of chapter 204, 249, or 250, public water supply districts established under the provisions of chapter 247, or municipalities that own water or sewer systems[.]”

² §393.320.2, RSMo, defines “Small water utility” as, “a public utility that regularly provides water service or sewer service to eight thousand or fewer customer connections; a water district established under the provisions of chapter

sewer utilities. §393.320, RSMo, provides large water and/or sewer public utilities an alternative procedure to value acquisitions of small water utilities for ratemaking purposes (appraisal method). If a large water and/or sewer public utility chooses to use these procedures, the Commission, should it grant the large water and/or sewer public utility's application, must use the appraisal method to establish the ratemaking rate base of the small water and/or sewer utility being acquired.

The appraised value of the water system is \$565,000, and the appraised value of the sewer system is \$670,000. The agreed upon purchase price for the water system in this case is \$565,000 and \$1.00 for the sewer system. Commission Staff ("Staff") calculated its rate base value for the water system at \$708,924 and \$82,074 for the sewer system, for a combined value of \$790,998; which is \$225,997 more than the proposed purchase price. Staff reviewed the Application, Appraisal, and Engineering Report; performed an on-site investigation of both the water and sewer systems, as well as MAWC's responses to Staff-issued Data Requests ("DRs"), and has determined that issuance of CCNs to MAWC is necessary or convenient for the public service. Staff recommends approval of MAWC's Application, subject to the conditions found at the end of this document.

On August 15, 2022, the Commission issued its *Order Directing Notice, Setting Deadlines for Intervention Requests, and Directing Staff Recommendation* and its *Corrected Order Directing Notice, Setting Deadlines for Intervention Requests, and Directing Staff Recommendation*. On September 16, 2023, Staff filed *Staff's Status Report Indicating Anticipated Date of Filing Staff Recommendation*. Staff requested a filing date of November 18, 2022. On September 19, 2022, the Commission issued its *Order Directing Staff to File a Recommendation*, setting a deadline for Staff to file its recommendation no later than November 18, 2022. On November 18, 2022, Staff filed its *Request for Extension*, requesting a 30-day extension to allow Staff and MAWC time to resolve an issue regarding property rights. On November 18, 2022, the Commission issued its *Order Granting Request for Extension*, directing Staff to file its recommendation no later than December 19, 2022. No parties sought to intervene in the case, and to date, no one has entered a public comment in this docket.

Background of MAWC

MAWC is an existing water and sewer corporation and public utility subject to the jurisdiction of the Commission. MAWC is currently providing water service to approximately 475,000 customers and sewer service to approximately 18,000 customers in several service areas throughout Missouri. In recent years, MAWC has acquired several existing small water and sewer systems.

247 that regularly provides water or sewer service to eight thousand or fewer customer connections; a sewer district established under the provisions of chapter 204, 249, or 250 that regularly provides sewer service to eight thousand or fewer customer connections; or a water system or sewer system owned by a municipality that regularly provides water service or sewer service to eight thousand or fewer customer connections; and all other entities that regularly provide water service or sewer service to eight thousand or fewer customer connections."

MAWC is a subsidiary of American Water Works Company, Inc. (“American Water”), and is affiliated with other American Water companies that undertake some of the tasks associated with utility service, such as customer billing, and share technical resources. MAWC has no overdue Commission annual reports or assessment fees.

Background of the City of Smithton

The City of Smithton is a fourth-class city located in Pettis County, Missouri, with a population of approximately 510. The water and sewer systems are currently not subject to the jurisdiction of the Commission. The water system serves approximately 220 connections and the sewer system serves approximately 220 accounts.

Staff’s Investigation

Water System Background

The water system consists of one elevated 50,000-gallon welded steel tank, two deep wells, and approximately 28,000 feet of two-, four-, and six-inch water mains. The elevated tank was constructed in 1955. Per the system’s permit to dispense, the first well (Well #1) was constructed in 1938 and the second well (Well #2) was drilled in 1984. Well #1 yields 125 gallons per minute (“gpm”) of water and has a total depth of 912 feet. Well #2 yields 200 gpm of water and has a total depth of 1,105 feet. The water mains are constructed of polyvinyl chloride (known commonly as PVC). The water system also includes approximately 30 fire hydrants. All of the water customers are metered.

Calcium hypochlorite solution (powder chlorine) is used for disinfection. The water system has an average daily use of approximately 33,000 gallons per day (“gpd”) and a maximum daily use of approximately 36,000 gpd. This public drinking water system operates under the Missouri Department of Natural Resources (“DNR”) Water System Number MO3010746.

In DR No. 0013, Staff asked if the City had a history of boil advisories and boil orders. Per MAWC’s response to this DR, DNR’s Northeast Regional Office has no records of low pressure reports or boil advisories for the past three years. The City also reports zero events in the past three years. As a result, Staff believes main breaks are not currently a major issue for this water system. In the event of a boil order or boil advisory, MAWC would contact the affected customers via automated phone calls and social media posts.

The Valuation Report that was included in the Application states that Well #2 and its associated assets, the pump and chlorine feed room, are located on a parcel of land owned by the Smithton School District and not the City. There is no recorded easement between the School District and the City. MAWC has been working with the City and School District to arrange the School District granting the City an easement, and MAWC has prepared an easement document for the School District to sign. The School District needs to determine whether to grant the easement. Staff

recommends that Commission approval be conditioned upon the City recording an easement for this parcel before closing on all assets in this case.

DNR Inspection of the Water System

DNR last inspected the water system on September 14, 2022. As a result of this inspection, DNR wrote an inspection report, dated September 22, 2022. The inspection report listed one significant deficiency, one unsatisfactory finding, and 14 recommendations. The significant deficiency was that the overflow pipe at the elevated storage tank was not protected with a tight fitting counter weighted flap valve or an 18-gauge mesh screen. An 18-gauge mesh screen has since been put in place. The unsatisfactory finding was the operator using calcium hypochlorite to disinfect the drinking water. DNR believes the National Sanitation Foundation (“NSF”), an organization that provides sanitation standards, does not approve this and, therefore, the calcium hypochlorite is not an allowed product. However, the operator refutes this claim. Upon ownership, MAWC would convert the disinfection practices to liquid chlorine, which is NSF-approved.

A summary of the DNR recommendations are as follows:

1. The piping and wellheads at both wells show signs of paint deterioration and corrosion and they should be re-painted.
2. The well vent at Well #1 is undersized and needs to meet DNR guidance.
3. The well vent at Well #2 needs to meet DNR guidance.
4. The liquid hypochlorite solution containers in both chlorine rooms at Well #1 and Well #2, which are filled with the chemicals, need to be sealed and vented to the outside.
5. The storage tanks that are used to dissolve the chemicals in both chemical feed rooms should be sealed.
6. The chlorine room at Well #2 should have an operating ventilation fan.
7. The system’s Emergency Operations Plan needs to be updated to include a written spill response plan for the hypochlorite solutions.
8. The system’s Operational Management Plan should be updated to include a written unidirectional flushing plan.
9. The system should calculate water loss and implement a leak detection program.
10. Investigate and repair cracked and spalling concrete foundations at the water tower.
11. Repair or replace the cracked grouting or sealant that is between the concrete foundations and the water tower legs.
12. Have the elevated storage tank inspected by a tank inspection firm.
13. Possibly remove the multiple cables, antennas, satellite dishes, and other electronic devices attached to the balcony of the water tower.
14. Update the draining mechanisms of the water tower so the operator can isolate the tank from the distribution system and install a hydrant to safely drain the tank without affecting water service to any customers.

Sewer System Background

The sewer system consists of a two-cell lagoon, approximately 23,000 feet of sewer collection lines, 75 manholes, and two lift stations. The lagoon was constructed in 1969. Both lagoon cells combined are less than 5.5 acres in size. The sewer collection lines, which consist of four- to eight-inch vitrified clay pipe (“VCP”) gravity lines, six-inch cast iron force lines, and four-inch VCP service laterals, along with the manholes, were constructed in 1965. Both lift stations were originally constructed in 1969. However, Lift Station #1 was replaced in 2000.

The sewer system’s current Missouri State Operating Permit (“MSOP”) is expired. The system operates under Permit No. MO0025828, which expired on March 31, 2021. According to MAWC’s response to DR No. 0010, a renewal application was submitted on January 14, 2022. In its response to this DR, MAWC provided Staff a copy of this renewal application. The lagoon sewer system is designed for a 62,000 gpd flow. The actual flow is 40,000 gpd. The population is stable and, as a result, capacity is not an issue.

Per MAWC’s response to DR No. 0017, sludge removal from the lagoon last occurred in 1992. Based on Staff’s conversations with the current operator, the lagoon cells are believed to be less than 30% full of sludge. As a result, MAWC indicated that sludge removal was not an urgent matter and, upon ownership, they would monitor the situation and budget the sludge removal when the sludge level is at least 50% full.

DNR Inspection of the Sewer System

DNR last inspected the sewer system on June 13, 2019. This inspection resulted in a report dated July 3, 2019. The report included a Letter of Warning (“LOW”) to the facility. DNR found the facility to be in non-compliance and wrote the LOW for the following reasons:

1. Failure to submit an Inflow and Infiltration (“I&I”) report, as required by its MSOP.
2. Failure to submit interim progress reports, as required by its MSOP.
3. Failure to submit complete and timely discharge monitoring reports, as required by its MSOP.
4. Failure to comply with effluent limits for Total Suspended Solids, as listed in its MSOP.
5. Failure to develop and implement a program for maintenance and repair of the collection system, as required by its MSOP.
6. Failure to develop and maintain an Operations and Maintenance Manual, as required by its MSOP.

Staff’s Observations of Water and Sewer Systems

Staff conducted a site inspection of Smithton’s water and sewer systems on November 2, 2022. The current operator and representatives from MAWC were present during the inspection. Well #1’s well house and chlorine room were inspected first. This is the original well house and is a small brick building. The outside of the electric panel was tarnished and parts of the piping

inside the well house were rusted. The chlorine room was adjoined behind the well house and was constructed of cinder blocks. As noted by DNR, the initial container that is used for the powder chlorine solution is not sealed, which poses a safety hazard as well as releasing corrosive gases. The chlorine room does have an exhaust fan installed. Overall, the well house and chlorine room for Well #1, which could use some housekeeping, were in good condition.

Next, Staff inspected the water tower. The tower was covered with a black substance. According to documentation from DNR and the current operator, this substance was evaluated and determined to be diesel fuel residue (soot) from the trains that pass by daily. As noted by DNR, several antennas, speakers, cables, satellite dishes, and other electronic devices were seen attached to the balcony of the water tower. The City's operator mentioned the City currently receives income by allowing these devices on the tower. Staff observed paint was peeling off the tower and its foundation is cracked and spalling. Overall, the water tower was in good condition.

The well house and chlorine room for Well #2 were then inspected. The chlorine room is adjacent to the well house. The structure that housed both was made of metal siding. Minor rust and paint chipping were observed on the piping in the well house. Overall the well house and chlorine room for Well #2 was in good condition.

Next, Staff inspected the East Lift Station and the West Lift Station. Neither lift station was fenced or connected to a remote control access system. The lift stations have recently been updated with new rails, fittings, wires, and controls. Pumps may have been replaced 10 to 12 years ago. Both lift stations were in good condition.

Lastly, Staff inspected the two-cell lagoon. The berms of the lagoon had moderate vegetation growing in them and consisted of approximately 3-inch to 5-inch rip rap rock. Typically larger rock is used for rip rap, which better helps with vegetation control and prevention of animal damage. However, animal damage (like muskrat burrows) was not observed in these berms. Larger rip rap may be considered to better help control and prevent vegetation growth in the berms, which could weaken them. The lagoon was fenced with the appropriate signage. However, there were parts of the fence leaning, an indication that it could use some maintenance. Duckweed and algae are well controlled in both cells. Overall the lagoon system is in good condition.

Proposed Capital Investments

Water System

According to its response to DR No. 0011, MAWC plans to make the following capital investments in the Smithton water system:

1. The installation of a new liquid chlorination system and remote control access to the electrical controls for both wells;

2. The water tower and wells will receive new Supervisory Control and Data Acquisition (“SCADA”) controls for remote monitoring to be integrated into MAWC’s existing system; and
3. Possibly adding pipe to prevent water from becoming stagnant inside the pipes and replacing existing mains due to the size and/or if a pipe is at its end of life.

Per an e-mail from MAWC, upon ownership MAWC plans on investing approximately ** [REDACTED] ** to the water system in the first five years of ownership.

Sewer System

According to its response to DR No.0011, MAWC plans to make the following capital investments in the Smithton sewer system:

1. Sewer and manhole lining to address moderate I&I issue;
2. Installation of a disinfection system, such as an ultraviolet system, to meet *E. coli* limits set by the system’s DNR permit;
3. Installation of aeration device(s) or a moving bed biofilm reactor (commonly referred to as an MBBR) to address ammonia limits set by the system’s DNR permit; and
4. Installation of a SCADA system and new power panels at the lift stations to eliminate safety hazards and to integrate the system into MAWC’s SCADA network.

Per an e-mail from MAWC, upon ownership MAWC plans on investing approximately ** [REDACTED] ** to the sewer system in the first five years of ownership.

Service Area

Staff of the Water, Sewer, & Steam Department reviewed the proposed service area and legal description that was included in the Application. Staff did not find any issues with MAWC’s proposal. This proposed service area includes all current customers.

Rate Base

Plant-In-Service Balances

The Auditing Department reviewed information provided by MAWC in response to Staff DRs, MAWC’s Application, and MAWC’s workpapers. In addition, Staff conducted an on-site visit. Normally, the Auditing Department would review plant-in-service records maintained by the City for its water and sewer system to determine the current net book value of its assets. However, in this case, due to the lack of plant-in-service records and receipts, the Auditing Department was unable to do this. During Staff’s site visit, City representatives stated that the City maintains records for up to six years and it would take several months to provide them to Staff. Staff reviewed the assets list provided by MAWC and determined, other than water treatment equipment purchased in 2021, no significant assets were added in the last six years. Therefore, other than the

City providing an invoice for the assets purchased in 2021, there would not be any records maintained by the City that would affect Staff's rate base calculation. Therefore, Staff used asset estimates provided by the Commission's Engineering Analysis Department to calculate an estimated current plant value for each plant asset in each City system. Staff applied MAWC's current approved depreciation rates for each Uniform System of Accounts ("USOA") category of plant-in-service, separately for both the water and sewer operations, which were then used to calculate accumulated depreciation reserve through October 31, 2022, for each system.

Staff determined the value of net plant investment, or "rate base," using the plant-in-service values and accumulated depreciation reserve calculated above, along with whether or not customers or land developers contributed money or plant facilities, recorded as contributions in advance of construction ("CIAC"). Based upon Staff's analysis, the estimated net book value of assets (rate base) proposed to be purchased from the City of Smithton by MAWC, as of October 31, 2022, is approximately \$708,924 for the water system and \$82,074 for the sewer system, for a combined total of \$790,998.

The following is a breakdown of the rate base components:

	Water	Sewer
Plant in Service	\$1,407,118	\$364,653
Accumulated Depreciation	\$698,194	\$282,579
CIAC	\$0	\$0
Net Plant minus CIAC	\$708,924	\$82,074
CIAC Amortization	\$0	\$0
Net Rate Base	\$708,924	\$82,074

Appraisal

§393.320, RSMo, provides large water and sewer public utilities an alternative procedure to value acquisitions of small water and/or sewer utilities, for ratemaking purposes (appraisal method). On advice of Counsel, if a large water and/or sewer utility chooses to use these procedures, the Commission, if it grants the large utility's application, must use the appraisal method to establish the ratemaking base of the small water and/or sewer utility being acquired.

The appraisal method outlined in the statute requires an appraisal of the small water and/or sewer utility being acquired to be performed by three (3) separate appraisers; one appointed by the small utility, one appointed by the large public utility, and a third chosen by the two appraisers so

appointed. The three appraisers then shall perform a joint appraisal of the small utility property and assets, coming to a common determination of the fair market value of the utility. The lesser of the purchase price or the appraised value, together with the reasonable and prudent transaction, closing, and transition costs incurred by the large public utility, shall constitute the ratemaking rate base for the acquired small utility.

While Staff cannot replicate the methods used in the Appraisal, Staff reviewed the Appraisal (Valuation Report) and Flinn Engineering Reports MAWC filed with the Application, which included the methods and assumptions used to establish the value of the systems. The appraisal report assigns a market value of \$565,000 for the water system and \$670,000 for the sewer system, which combined is \$1,235,000. The agreed upon purchase price between MAWC and Smithton is \$565,000 for the water system and \$1.00 for the sewer system, which combined is \$565,001. Thus, if the Commission approves MAWC's Application in this matter, the Commission must use the purchase price of \$565,001 to establish rate base³.

The appraisal method is used to estimate a market value for the utility systems as a whole to be used as rate base for the system, in lieu of the Commission's typical practice of determining rate base using the net book value of the system assets. The appraisal method provides a market value for system assets, including those that are fully depreciated. In this case, Staff's calculated rate base for the water system is \$143,924 higher than the proposed purchase price; Staff's calculated rate base for the sewer system is \$82,073 higher than the proposed purchase price.

Should the Commission approve MAWC's Application, rate base for the Smithton systems must still be reflected on its utility plant account records. These records must be kept in accordance with the National Association of Regulatory Commissioners ("NARUC") USOA, as required by Commission regulations 20 CSR 4240-50.030 for water utilities and 20 CSR 4240-61.020 for sewer utilities. The cost of individual plant assets must be booked into the appropriate plant account with original cost, along with information regarding the year constructed. MAWC will be tasked with making determinations, based on rate base as determined by the purchase price, of values for original cost, depreciation reserve, and CIAC amounts that can be booked in its plant records.

Depreciation

In Case No. WR-2020-0344, the Commission ordered the continued use of the depreciation rates currently ordered for all divisions of MAWC. Staff's Engineering Analysis Department recommends the use of these rates for all plants in the Smithton area.

³ 393.320.5. RSMo

Publicity and Customer Notice

Smithton held virtual town hall meetings on March 11, 2021, and April 1, 2021, to discuss the proposed sale to MAWC. The city held a vote on April 6, 2021, on whether the water and wastewater utility owned by the City should be sold. Over 76% of the votes were in favor of the sale. There was a total of 104 votes cast with 80 voting “yes” and 24 voting “no.” MAWC provided information about a website for residents to visit to ask questions or request a yard sign and also provided copies of mailers sent to residents about the vote. These were attached to MAWC’s Application as Appendix B.

Customer Experience

Smithton customers can utilize the MAWC office located at 1705 Montserrat Park Road in Warrensburg, Missouri. Hours of operation will be Monday – Friday, 7:30 a.m. to 4:00 p.m. Smithton customers will be able to call the MAWC customer service team at 866-430-0820 from 7:00 a.m. to 7:00 p.m., Monday through Friday, with 24/7 coverage for emergencies.

If its Application is approved, MAWC will offer payment options including online, by phone, and by mail. The type of payments customers will be able to make are via cash, check, credit/debit cards, or electronic funds transfer. There will be no transaction fees for the use of debit/credit cards.

In order to incorporate the Smithton customers into its billing and customer information systems, if MAWC’s Application is approved, it will be necessary for MAWC to properly enter the appropriate customer information into its systems and apply the Commission-approved rate. In response to DR No. 0018, MAWC has stated that “[o]nce all customer data is collected, MAWC will verify and enter the customer information into the American Water system for customer service and billing...customers will receive a welcome packet directing them to MyWater to sign up and complete their customer profile.” MAWC will also need to provide training to its call center personnel regarding rates and rules applicable to the Smithton water and sewer system customers so that customer service matters are handled accurately and in a timely manner.

Rate and Tariff Matters

Current water rates for the City of Smithton are as follows:

Water	Customer Charge (includes 1,000 gallons)	Commodity Charge
Resident Inside City	\$12.01	
-Per 1,000 gal for next 2,000		\$4.69
-Per 1,000 gal for next 3,000		\$4.57
-Per 1,000 gal for next 4,000		\$4.23
-Per 1,000 gal for all remaining		\$4.08

Resident Outside City	\$20.17	
-Per 1,000 gal for next 2,000		\$6.71
-Per 1,000 gal for next 3,000		\$6.32
-Per 1,000 gal for next 4,000		\$5.81
-Per 1,000 gal for all remaining		\$6.83

Current sewer rates for the City of Smithton are as follows:

Sewer	Customer Charge (includes 1,000 gallons)	Commodity Charge
Metered Water Connections	\$8.27	
-Per 1,000 gal for next 2,000		\$3.05
-Per 1,000 gal for next 3,000		\$2.97
-Per 1,000 gal for next 4,000		\$2.76
-Per 1,000 gal for all remaining		\$2.66
Non-Metered Water Connections	\$8.90	

In its application, MAWC proposes to apply its existing water rates for the Warrensburg Service Area to the Smithton service area and to utilize the rules governing the rendering of water service currently found in MAWC’s water tariff P.S.C. MO No. 13 until rates and rules are modified according to law. Additionally, MAWC proposes to apply its existing sewer rates for the Pettis County Service Area to the Smithton service area and to utilize the rules governing the rendering of sewer service currently found in MAWC’s sewer tariff P.S.C. MO No. 26 until rates and rules are modified according to law.

	Customer Charge	Commodity Charge
Water Rates (5/8”)	\$9.00	\$6.2469
Sewer Rates	\$44.03	n/a

Technical, Managerial, and Financial Capacity and Tartan Energy Criteria

Staff utilizes the concepts of Technical, Managerial, and Financial capabilities (“TMF”) in studying applications involving existing water and/or sewer systems. Staff has reviewed and stated its position on TMF in previous CCN and transfer of assets cases before the Commission. Staff’s position on MAWC’s ability to meet TMF criteria remains positive, and similarly takes the position that MAWC has adequate TMF capability in this case. It is Staff’s position that MAWC has the ability to secure funding, to oversee construction of any necessary upgrades or repairs, and the ability to successfully manage operations of the Smithton utility systems.

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” or “Tartan Factors.” The Tartan Criteria contemplate 1) the need for service; 2) the utility’s qualifications; 3) the utility’s financial ability; 4) the economic feasibility of the proposal; and, 5) promotion of the public interest. Similar to the TMF capabilities, in previous CCN cases Staff investigated these criteria and that investigation relates to this proposed acquisition. The results of Staff’s investigation are outlined below:

(1) Need for Service

There is both a current and future need for water and sewer service. The existing customer base in Smithton has both a desire and need for service. In addition, there is a need for the necessary steps to be taken to update the Smithton systems, and to ensure the provision of safe and adequate service. Further, Smithton has made the decision to no longer supply water to its citizens, sell the existing systems to MAWC, and rely upon MAWC to properly operate and maintain the existing water and sewer systems in order that customers will continue to have safe and adequate service.

(2) Applicant’s Qualifications

MAWC is an existing water and sewer corporation and public utility subject to the jurisdiction of the Commission. As mentioned above, MAWC currently provides water service to approximately 475,000 customers and sewer service to 18,000 customers in several service areas throughout Missouri. MAWC is a subsidiary of American Water, and is affiliated with other companies that undertake some of the tasks associated with utility service. Staff’s position is that MAWC is qualified to own and operate the Smithton systems.

(3) Applicant’s Financial Ability

MAWC anticipates no need for external financing to complete this acquisition, and has demonstrated over many years that it has adequate resources to operate utility systems it owns, to acquire new systems, to undertake construction of new systems and expansions of existing systems, to plan and undertake scheduled capital improvements, and timely respond and resolve emergency issues when such situations arise. Staff finds that MAWC possesses the necessary financial ability for its proposal.

(4) Feasibility of the Proposal

MAWC’s purchase of the systems, utilizing the previously approved rates noted above, is financially feasible. MAWC can draw upon the significant resources of its parent company, should any shortfall arise.

(5) Promotion of the Public Interest

Generally, the consolidation of fragmented, small water providers to a larger provider with the financial and technical wherewithal to properly operate and maintain systems promotes the public interest. More specifically, the Smithton systems need significant investment, and MAWC is able to make these investments in a timely manner. Additionally, due to involvement of the citizens of Smithton in voting to approve the sale of the water and sewer system, the subsequent Purchase

Agreement, and for the reasons outlined previously in this memorandum, Staff asserts that MAWC's request for a CCN and related acquisition of the Smithton water and sewer assets promotes the public interest.

Other issues

MAWC is a registered business in good standing with the Missouri Secretary of State's office, is up to date with its annual reports and PSC assessments. There are no other active PSC cases that would have an impact on this application.

Staff Recommendations

Staff recommends the Commission approve MAWC's application for a CCN and authorization to acquire Smithton's water and sewer assets. Should the Commission approve the Application, Staff recommends, the following conditions:

1. Grant MAWC CCNs to provide water and sewer service in the proposed Smithton service areas;
2. Approve MAWC's currently approved proposed rates for the water and sewer system service areas;
3. Require MAWC to submit tariff sheets, to become effective before closing on the assets, to include a service area map, and service area written description to be included in its EFIS tariff P.S.C. MO No. 13 and 26, applicable to water service and sewer service in the requested service area;
4. Require MAWC to notify the Commission of closing on the assets within five (5) days after such closing;
5. If closing on the water and sewer system assets does not take place within thirty (30) days following the effective date of the Commission's order approving such, require MAWC 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;
6. If MAWC determines that a transfer of the assets will not occur, require MAWC 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 service area map, legal descriptions, and rate sheets applicable to customers in the Smithton service area;
7. Require MAWC to develop a plan to book all of the Smithton plant assets, with the concurrence of Staff and/or with the assistance of Staff, for original cost, depreciation reserve, and contributions (CIAC) for appropriate plant accounts, along with reasonable and prudent transaction, closing, and transition costs. This plan should be submitted to Staff for review within 60 days after closing on the assets;

8. Require MAWC to keep its financial books and records for plant-in-service and operating expenses in accordance with the NARUC's USOA;
9. Adopt for Smithton water and sewer assets the depreciation rates ordered for MAWC in Case No. WR-2020-0344;
10. Require MAWC to obtain from Smithton, as best as possible prior to or at closing, all records and documents, including but not limited to all plant-in-service original cost documentation, along with depreciation reserve balances, documentation of CIAC transactions, and any capital recovery transactions;
11. Require MAWC to provide to the Commission's Customer Experience Department ("CXD") an example of its actual communication with the Smithton service area customers regarding its acquisition and operations of the Smithton water and sewer system assets, and how customers may reach MAWC, within ten (10) days after closing on the assets;
12. Require MAWC to distribute to the Smithton customers an informational brochure detailing the rights and responsibilities of the utility and its customers regarding its water and sewer service, consistent with the requirements of Commission Rule 20 CSR 4240-13.040(3), within thirty (30) days of closing on the assets;
13. Require MAWC to provide to the CXD Staff a sample of ten (10) billing statements from the first month's billing within thirty (30) days of closing on the assets.
14. Require MAWC to provide training to its call center personnel regarding rates and rules applicable to the Smithton customers;
15. Require MAWC to include the Smithton customers in its established monthly reporting to the CXD Staff on customer service and billing issues, on an ongoing basis, after closing on the assets;
16. Require MAWC to file notice in this case outlining completion of the above-recommended training, customer communications, and notifications within ten (10) days after such communications and notifications;
17. Require that before the time of the closing of all assets in this case, the City must have recorded an easement for the parcel that Well #2 and its associated assets sit on; and
18. Require MAWC to file notice in this case once Staff Recommendations Nos. 1-17 above have been completed.

