

**NONUNANIMOUS DISPOSITION AGREEMENT REGARDING DISPOSITION OF
SMALL UTILITY COMPANY REVENUE INCREASE REQUEST**

ELM HILLS UTILITY OPERATING COMPANY, INC.

MO PSC FILE NO. WR-2020-0275

BACKGROUND

Elm Hills Utility Operating Company, Inc. ("Company") initiated the small company revenue increase request ("Request") for water and sewer service that is the subject of the above-referenced Missouri Public Service Commission ("Commission") File Number by submitting a letter to the Secretary of the Commission in accordance with the provisions of Commission Rule 20 CSR 4240-10.075, Small Utility Rate Case Procedure ("Small Company Procedure"). In its request letter, which was received at the Commission's offices on March 6, 2020, the Company set forth its request for an increase of \$135,745 in its total annual water service operating revenues and \$393,919 increase in sewer operating revenues. The Company also acknowledged that the design of its customer rates, its service charges, its customer service practices, its general business practices and its general tariff provisions would be reviewed during the Commission Staff's ("Staff") review of the revenue increase request, and could thus be the subject of Staff's recommendations. The Company provides service to approximately 127 water customers and 378 sewer customers.

Pursuant to the provisions of the Staff Assisted Rate Case Procedure and related internal operating procedures, Staff initiated an audit of the Company's books and records, a review of the Company's customer service and general business practices, a review of the Company's existing tariff, an inspection of the Company's facilities and a review of the Company's operation of its facilities. (These activities are collectively referred to hereinafter as Staff's "investigation" of the Company's Request.)

Upon completion of its investigation of the Company's Request, Staff provided the Company and the Office of the Public Counsel ("Public Counsel") with information regarding Staff's investigation and the results of the investigation, including Staff's initial recommendations for resolution of the Company's Request.

RESOLUTION OF THE COMPANY'S RATE INCREASE REQUEST

Pursuant to negotiations held subsequent to the Company's receipt of the above-referenced information regarding Staff's investigation of the Company's request, the Company and Public Counsel hereby state the following agreements:¹

- (1) The agreed upon water revenue requirement increase of \$64,361 added to the level of previous revenues of \$28,745 results in overall annual revenues of \$93,106. The agreed upon sewer revenue requirement increase of \$326,474 added to the level of previous revenues of \$126,587 results in overall annual revenues of \$453,061. These revenue requirements are just and reasonable and designed to recover the Company's cost of service;
- (2) The Auditing Department conducted a full and complete audit of the Company's books and records using the 12-month period ended December 31, 2019, updated to March 31, 2020, as the basis for the revenue requirement determined above. The audit findings can be found in Attachments B and C;
- (3) The agreed upon net rate base is \$343,843 for water and \$1,607,013 for sewer. The development of this amount is shown on the rate base worksheet that is found in Attachment C;
- (4) The schedule of depreciation rates in Attachment D includes the depreciation rates used by Staff in its revenue requirement analysis and shall be the prescribed schedule of water/sewer plant depreciation rates for the Company;
- (5) To allow the Company the opportunity to collect the revenue requirement agreed to in (1) above, the rates as shown on Attachment E are just and reasonable rates that the Company will be allowed to charge its customers. The impact of these rates will be as shown on Attachment F. Attachments E and F will be late-filed;
- (6) For the purposes of implementing the agreements set out in this disposition agreement, the Company will file with the Commission, proposed tariff revisions. The proposed tariffs will contain a set of consolidated rates for sewer customers in the Twin Oaks/Preserve, Rainbow Acres, State Park Village, and Missouri Utilities service areas;
- (7) The current PSC MO No. 1 and 2 tariffs will be cancelled and replaced by PSC MO Numbers 3 and 4;
- (8) Within six (6) months of the effective date of an order approving this Disposition Agreement, the Company agrees to have installed meters measuring flows into and out of the Elm Hills Mobile Home Park. Within three (3) years of the effective date of an order approving this Disposition Agreement, the Company agrees to have made necessary repairs and installations such that all other water customers are served by functioning meters, with the exception of those commercial customers for which the installation of meters is infeasible. The Company will provide Staff and OPC a diagram/illustration of the suspected

¹ With the exception of Attachments E and F (which will be late-filed), the identified attachments reference documents provided with the Nonunanimous Disposition Agreement filed on September 9, 2020.

location of main(s) running through the Elm Hills Mobile Home Park and proposed metering locations for that facility;

(9) Within ninety (90) days of the effective date of an order approving this Disposition Agreement, the Company shall implement the following recommendations and provide proof of implementing the recommendations to the Manager of the Commission's Auditing Department:

(a) The Company will begin tracking all work conducted on its behalf by Central States Water Resources, Inc. in the form of a time record. This time record will include a description of the job performed, length of time to complete, name/title of the employee who conducted the work, and tracked by each system. The time record information should be maintained in sufficient detail to capture the amount of time each employee spends on operation and maintenance activities, as opposed to construction activities. The Company also agrees that detailed timesheets will be maintained for any future employees Central States Water Resources, Inc. may retain;

(b) The Company shall document (i) on each water system invoice when each item is placed into plant in service following the Missouri Department of Natural Resources' final inspection and sign-off; and (ii) on each sewer system invoice when each item on the invoice is placed into plant in service following the engineer's sealed MDNR certificate of completion; and

(c) The Company shall maintain a spreadsheet for Plant Additions and Retirement of Property (including book cost of plant retired, cost of removal, or salvage credit) along with supporting documentation (i.e. invoices) to ensure all plant assets are properly reflected in future rate case proceedings. This spreadsheet should reconcile to the invoices provided by vendor (refer to (b) listed above).

(10) The Company will modify its Operations and Maintenance (O&M) contractor bidding process, as necessary, to reflect the following principles agreed to by the parties to this Disposition Agreement:

(a) The Company will send a single RFP to prospective contractors meeting pre-qualification requirements, including necessary licensing from the Missouri Department of Natural Resources, that lists all the systems that the Company seeks bids for and then requests separate bids for the operation of each system followed by an aggregate bid where the bidder lists all systems the bidder is willing to bid on and provides the total combined bid for that aggregate;

(b) The Company will expand the bidding pool to reach as many prospective bidders as possible, which may include contacting contract operators registered with the Missouri Department of Natural Resources for the county where the system sits and adjacent counties as well as posting requests for bids to the websites for such organizations as the Missouri Section of the American Water Works Association and the Missouri Rural Water Association;

(c) The Company will provide a place on the RFP response for bidders to include services outside the scope requested and estimates for the same;

- (d) The Company will provide a place on the RFP response for bidders to indicate any point where the bid does not include items otherwise required by the RFP along with an explanation for their omission and an estimate of the cost to include those items; and
 - (e) The Company will request bidders provide references and evaluate those references as needed.
- (11) Within three months of the effective date of any order issued by the Public Service Commission approving this disposition agreement, Elm Hills will meet with Staff and Public Counsel to discuss the Company's long-term capitalization and financing plan. Topics for discussion include what steps CSWR, LLC has taken or may take in the future to secure debt financing to fund CSWR, LLC's past, current, and future investments in its Missouri subsidiaries and the influence or impact of the involvement of Sciens Capital Management LLC on these plans. Discussion also shall include progress updates regarding the possible consolidation of any of CSWR, LLC's Missouri affiliates and the effect of the same on capital procurement.

From the effective date of any order issued by the Public Service Commission approving this disposition agreement until Elm Hills' next request for a rate increase/decrease, Elm Hills will involve Public Counsel (and Staff, to the extent it wants to be involved) in financing discussions with prospective lenders, such as CoBank, in an effort to enhance the chances of obtaining lower-cost debt financing for purpose of funding CSWR, LLC's past, current, and future investments in its Missouri subsidiaries. Elm Hills, CSWR, LLC, and their Missouri affiliates agree to permit Public Counsel to discuss confidential information regarding CSWR, LLC, Elm Hills, and their Missouri affiliates with potential lenders in conjunction with these discussions.

Subject to the Commission rules governing discovery, Elm Hills agrees to provide Staff and Public Counsel data and documents necessary to discuss the financial situation of CSWR, LLC, Elm Hills, and their Missouri affiliates with potential lenders. These data and documents will include correspondence between Elm Hills, CSWR, LLC, and their Missouri affiliates, on one hand, and potential lenders, on the other hand, including all attachments and requests for information made by the potential lenders.

Elm Hills and CSWR, LLC, will provide updates every subsequent three months from the first meeting regarding the topics discussed in the first meeting or any developments in financing procurement since the first meeting.

Elm Hills, CSWR, LLC, and their Missouri affiliates will review and consider any recommendations made by Staff and Public Counsel with regard to potential financing opportunities.

