

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

In the Matter of the Joint Application)
Of Missouri-American Water Company)
And Woodland Manor Water Company,)
LLC for MAWC to Acquire Certain) **Case No. WM-2016-0169**
Water Assets of Woodland Manor and)
In Connection Therewith, Certain Other)
Related Transactions)

STAFF RECOMMENDATION

COMES NOW the Staff of the Missouri Public Service Commission, by and through counsel, and for its *Recommendation* in this matter hereby states:

1. Missouri-American Water Company (MAWC) and Woodland Manor Water Company, LLC, (Woodland Manor) filed a joint application (Application) January 5, 2016, for Commission authorization of Woodland Manor to sell all of its assets, including its Certificate of Convenience and Necessity (CCN) to MAWC. The Commission ordered Staff to file its recommendation regarding the acquisition no later than February 22, 2016.

2. Under Section 393.190.1, RSMo, a water corporation regulated by the Missouri Public Service Commission (Commission) must obtain Commission authorization prior to selling or transferring its assets.

3. Staff conducted an investigation related to the application and found that both companies are in good standing and are up to date on filing all annual reports and assessments. Woodland Manor's current rates were set in its last rate case, Case No. WR-2013-0326. MAWC proposes to adopt those rates, along with the entire tariff that is currently in effect for Woodland Manor, which Staff agrees is appropriate at this time.

Woodland Manor's rates will not be included in MAWC's pending rate case, Case No. WR-2015-0301.

4. Staff's Memorandum containing its recommendation is attached to this document as *Appendix A*. The Memorandum outlines several customer service actions that Staff recommends MAWC complete as part of the acquisition process.

5. Staff finds that the proposition for acquisition in the *Application* is reasonable, feasible and is not detrimental to the public interest. Staff requests that if the Commission authorizes this transfer of assets it apply the following conditions:

- a) authorize the current owners of Woodland Manor to cease providing water service, and MAWC to begin providing water service;
- b) transfer the CCN from the current owners to MAWC;
- c) order submission of a statement from either company stating closing on the assets has occurred within five (5) business days of closing;
- d) order MAWC to adopt the existing tariff by filing a tariff adoption notice sheet within ten (10) days of closing on the assets;
- e) order MAWC to adopt the water depreciation rates set in WR-2013-0326;
- f) order MAWC to keep its financial books and records for Woodland Manor in accordance with the NARUC Uniform System of Accounts;
- g) authorize MAWC to book plant-in-service, depreciation reserve, CIAC and CIAC amortization balances as outlined by Staff in *Attachment B* to its Memorandum;
- h) refuse to recognize any acquisition adjustment or premium for MAWC related to this matter;

- i) require adherence to Commission Rule 4 CSR 240-13.020(1) regarding production of customer bills;
- j) require MAWC to distribute an informational brochure to Woodland Manor customers consistent with 4 CSR 240-13.040(3);
- k) require MAWC to include Woodland Manor customers in its monthly report to Consumer and Management Analysis Unit (CMAU);
- l) require MAWC to train its customer service representatives prior to its first billing of Woodland Manor;
- m) require MAWC to provide CMAU with information on customer bills issued for more than thirty-five (35) days of service;
- n) require MAWC to provide CMAU with sample bills;
- o) require deposits to be refunded plus interest in accordance with 4 CSR 240-13.030(4)(D);
- p) require MAWC to provide a sample of its communication with Woodland Manor customers regarding the acquisition;
- q) ensure that no findings will preclude the Commission from decisions regarding ratemaking treatment in any later proceeding;

WHEREFORE, Staff recommends that the Commission approve the proposed transfer of assets; and grant such other and further relief as the Commission considers just in the circumstances.

Respectfully Submitted,

/s/ Whitney Payne

Whitney Payne

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CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing was served by electronic mail, or First Class United States Postal Mail, postage prepaid, on this 22nd day of February, 2016, to all counsel of record.

/s/ Whitney Payne

provides service to approximately 165 residential and commercial customers. Two wells are used as sources of supply. One well, sometimes referred to as the large well, was constructed with the approval of the Missouri Department of Natural Resources (DNR), has a production capacity of 130 gallons per minute and has an on-site generator for continued operations during electrical outages. The other well was not constructed as a state-approved well, is “grandfathered” by DNR as a usable source of supply, and dates to 1962 when the water system was constructed originally. The second well has a production capacity of 30 gallons per minute. Water storage totals approximately 37,600 gallons, utilizing four ground storage tanks with high service pumps to pressurize the distribution system. This storage volume is adequate, and can supply water for the system’s average-day water use, in the event the large well is out of service for pump replacement, which is approximately a one-day task. The second well is not of adequate capacity to serve the entire service area while the large well is out of service. The water is chlorinated for disinfection. Water meters are used to measure the usage of each customer.

Bob Connell d/b/a Woodland Manor Water Company obtained a CCN from the Commission to provide water utility service in Case No. WA-92-83, effective October 27, 1992. Bob Connell d/b/a Woodland Manor Water Company sold the water system assets to Stephen T. Fennema and Mona L. Fennema d/b/a Woodland Manor Water Company with the Commission’s approval in Case No. WM-99-119, effective April 19, 1999. That fictitious name expired on August 28, 2014, according to information on the Missouri Secretary of State’s website.

Stephen T. Fennema and Mona L. Fennema formed Woodland Manor Water Company, LLC on April 16, 1999, and this entity, Woodland Manor, is currently in good standing, according to information on Missouri Secretary of State’s website. There is no record of Woodland Manor having obtained a CCN, nor of any authorization of a transfer of assets to it from Stephen T. Fennema and Mona L. Fennema d/b/a Woodland Manor Water Company, although the entity has been filing annual reports and tariffs, filed a rate case that established current rates, and appears to in fact be operating the involved water system as a regulated utility. Staff’s position is that Stephen T. Fennema and Mona L. Fennema d/b/a Woodland Manor Water Company is currently the utility that holds the CCN to provide water service in the involved service area.

There are presently no issues with respect to compliance with drinking water regulations involving DNR, as per Staff’s communications with DNR personnel.

MAWC is an existing regulated water and sewer utility, is a Missouri corporation in good standing, and currently provides water service to more than 450,000 customers and sewer service to more than 14,000 customers in several districts across Missouri. In recent years, MAWC has acquired several small existing water and sewer systems, including several systems in the Branson, MO general area which is in proximity to Kimberling City. 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.

DEPRECIATION ACCRUAL RATES FOR WATER PLANT

The Commission's Engineering Analysis Unit recommends the Commission approve the use of current water depreciation rates that were ordered by the Commission for Woodland Manor in Case No. WR-2013-0326, and continue to apply them to the Woodland Manor water utility plant assets that are to be acquired in this case. The depreciation rate schedule for water plant assets is included as Attachment A, and incorporated herein by reference.

PLANT IN SERVICE

The Auditing Department updated rate base for Woodland Manor from the level determined in its last rate case. Staff has determined that total plant in service is \$343,691, and includes a CIAC amount of \$108,148, amortization of CIAC in the amount of \$36,477, a depreciation reserve of \$109,314, and customer deposits in the amount of \$400. The result is a rate base of \$162,306.

Staff's above-stated levels for plant in service, depreciation reserve and CIAC are reflected in Attachment B, and incorporated herein by reference. The annual net depreciation expense, based on the above recommendation for depreciation rates, would be \$10,231.

These quantifications by Staff of plant in service, depreciation reserve, and CIAC are a result of studying current information made available by Woodland Manor and/or MAWC. Plant in service balances and rate base information represents what Staff would recommend for inclusion in rate base at this time for the Woodland Manor system, if rates were to be changed in this proceeding. However, these recommended levels are subject to further review and adjustments in future rate cases.

RATES AND TARIFF

The Commission approved Woodland Manor's current rates in Case No. WR-2013-0326. In its Application, MAWC requests that it be authorized to adopt Woodland Manor's existing rates, rules and tariff. MAWC also states that in the future it intends to include the Woodland Manor service area within MAWC's Tri-Lakes ratemaking district. Staff takes no position at this time regarding future ratemaking treatments, but Staff does agree that adopting existing rates and the existing Woodland Manor tariff at this time is reasonable.

As such, MAWC will need to file a tariff adoption notice for the Woodland Manor tariff.

CUSTOMER SERVICE ISSUES

In previous CCN or transfer cases where MAWC was acquiring systems and additional customers, Staff either stipulated or recommended that MAWC undertake actions and submit reports to Staff 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 and WR 2007-0216 in order 1) to ensure transparency to the former customers during the transition period, 2) to ensure the Company's billing information was accurate, 3) to ensure the former customers were being properly billed and 4) to ensure the Company adhered to applicable rules and regulations and its tariffs. The recommended actions for this current case include:

- Requires MAWC to ensure adherence to Commission Rule 4 CSR 240-13.020(1) regarding the production of customer bills with a 26-35 days of a service billing period within 30 days of the Commission order approving the Application;
- Requires MAWC to distribute to Woodland Manor Water Company customers an informational brochure detailing the rights and responsibilities of the utility and its customers, prior to the first billing from MAWC, consistent with the requirements of Commission Rule 4 CSR 240-13.040(3);
- Requires MAWC to include the Woodland Manor customers along with existing customers for its monthly reporting to the Consumer Management Analyst Unit (CMAU) staff for 1) Average Abandoned Call Rate, 2) Average Speed of Answer, 3) 1st Call Effectiveness, 4) Average Customer Response Time, 5) Call Volumes, 6) Call Center Staffing, 7) Call Center Staffing Levels, including job titles and the number of people employed in each category, 8) the number of actual monthly meter reads in total and by district, 9) the number of monthly estimated meter reads, 10) the number of consecutive estimated reads and 11) the meter reader staffing levels. The reported information shall include the Woodland Manor customers;
- Requires MAWC to provide adequate training to all customer service representatives prior to the Woodland Manor customers receiving their first bill from MAWC;
- Requires MAWC to provide to the CMAU staff on a monthly basis a document detailing the bills to Woodland Manor customers that were issued for greater than 35 days of service;
- Requires MAWC to provide to the CMAU staff within 30 days after billing, a sample of 10 billing statements of the first three months' bills issued to Woodland Manor service area customers, in order to check for accuracy;
- Requires that if deposits are retained, deposits should be refunded plus accrued interest on all accounts with a satisfactory payment history as defined in Commission Rule 4 CSR 240-13.030(4)(D).

THE TARTAN ENERGY CRITERIA

As is customary with most cases involving a new CCN, Staff is using criteria similar to that which was studied by the Commission in a past CCN case filed by the Tartan Energy Company to justify granting a CCN, as follows:

Is there a need for service?

Yes, there is a need for service, in that residential customers desire and need water service. Additionally, proper operation and upkeep of this existing water system is necessary for customers to have safe and adequate service, and to maintain compliance with drinking water regulations.

Is the Company qualified to provide the service?

Yes, MAWC is qualified to provide the service, as is demonstrated by its providing the same or similar service in other areas of Missouri. Staff has determined that MAWC is able to assume operations of the existing system, and is capable of undertaking necessary future improvements for continued operations of these systems.

Does the Company have the financial ability to provide the service?

Yes, MAWC has demonstrated that it has sufficient financial resources, and is able to evaluate the costs of alternatives when undertaking operations and capital improvements.

Is the Company's proposal economically feasible?

Yes, the proposal is economically feasible, based on Staff's overall evaluation and MAWC's ability to combine the proposed operation into its existing operations.

Does the Company's proposal promote the public interest?

Yes, MAWC's proposal to acquire the responsibility from the system's current owners and provide future service promotes the public interest.

Could the service be provided by another entity?

Other than Woodland Manor as the current owner of the water system, there are no other entities readily available to provide service. The current owner wishes to exit the utility business.

OTHER ISSUES

Woodland Manor is current on its annual report filings with the Commission through calendar year 2014. It has paid annual assessment payments through the third quarter of FY-2016. Woodland Manor's fourth quarter payment in the amount of \$117.72 will be due on April 15, 2016. MAWC is current on its annual reports through calendar year 2014, and is current on annual assessment payments through the third quarter of FY-2016.

The purchase of this water system by MAWC will have no impact upon local tax collection, as the assets will remain in private hands.

Woodland Manor has no other cases pending before the Commission. MAWC has additional cases pending before the Commission, as follows:

- WC-2016-0201 – Formal complaint, Jason Strohm
- WC-2016-0195 – Formal complaint, Calgene Leopold
- WC-2016-0079 - Formal complaint, Rhonda Martin
- WA-2016-0054 - CCN, service area in St. Charles County, Jaxson Estates
- WA-2016-0019 - Transfer of Assets, Hickory Hills Water & Sewer Co., Inc.
- WR-2015-0301 - General rate case
- WO-2015-0211 - Infrastructure System Replacement Surcharge (on appeal)
- WF-2015-0207 - Finance, long term unsecured debt
- SA-2015-0065 - CCN, service area of Benton County Sewer District

This pending case will have no impact upon the other pending cases, nor will the other pending cases impact approval of this proposed transfer of assets. It is anticipated that rates for the Woodland Manor service area will be reevaluated in a future rate case, and not be included in MAWC's pending general rate case, WR-2015-0301.

STAFF'S CONCLUSIONS

To summarize, Staff takes the position that Woodland Manor's and MAWC's proposal to transfer water utility assets, with conditions as described in this memorandum, is reasonable, feasible and is not detrimental to the public interest.

STAFF'S RECOMMENDATIONS

Based upon the above, the Staff recommends that the Commission take the following actions:

1. Approve the proposed transfer of assets from Stephen and Mona Fennema d/b/a Woodland Manor Water Company, and/or Woodland Manor Water Company, LLC, to MAWC;

2. Authorize, upon their completing closing on the assets, Stephen and Mona Fennema d/b/a Woodland Manor Water Company, and/or Woodland Manor to cease providing water service, and for MAWC to begin providing water service;
3. Transfer the CCN now held by Stephen and Mona Fennema d/b/a Woodland Manor Water Company, to MAWC, effective upon the parties completing closing on the assets;
4. Order either MAWC or Woodland Manor to submit a statement that closing on the assets has occurred, within five (5) business days after closing has occurred;
5. Order MAWC to adopt the existing Woodland Manor water tariff, including existing rates, rules and service area, by filing a tariff adopting notice sheet, as a 30-day filing, within ten (10) days after closing on the assets; and further, that MAWC be authorized to operate under the Woodland Manor tariff on an interim basis until the adoption notice tariff sheet becomes effective;
6. Order MAWC to adopt the current water depreciation rates that were ordered by the Commission for Woodland Manor in Case No. WR-2013-0326, as shown on Attachment A.
7. Require MAWC to keep its financial books and records for rate base, revenues and operating expenses associated with the Woodland Manor system in accordance with the NARUC Uniform System of Accounts;
8. Authorize MAWC to book the plant-in-service, depreciation reserve, CIAC and CIAC amortization balances, as calculated by the Audit Staff as of December 31, 2015 and shown on Attachment B, for purposes of rate base for plant-in-service and depreciation reserve to be included within the books and records of MAWC with respect to the Woodland Manor system, with actual values for plant-in-service, depreciation reserve, CIAC and CIAC amortization subject to review and adjustment in MAWC's next rate case; and requires MAWC to maintain and retain proper rate base records on a going forward basis;
9. Authorizes no recognition for accounting purposes of any "acquisition adjustment" or "acquisition premium" by MAWC associated with this asset transfer transaction in this case;
10. Requires MAWC to ensure adherence to Commission Rule 4 CSR 240-13.020(1) regarding the production of customer bills with a 26-35 days of service billing period within thirty (30) days of the Commission order approving the Application;

11. Requires MAWC to distribute to Woodland Manor service area customers an informational brochure detailing the rights and responsibilities of the utility and its customers prior to the first billing from MAWC, consistent with the requirements of Commission Rule 4 CSR 240-13.040(3);
12. Requires MAWC to include the Woodland Manor service area customers, along with existing MAWC customers, for its monthly reporting to the CMAU staff for 1) Average Abandoned Call Rate, 2) Average Speed of Answer, 3) 1st Call Effectiveness, 4) Average Customer Response Time, 5) Call Volumes, 6) Call Center Staffing Levels, including job titles and the number of people employed in each category, 7) the number of actual monthly meter reads in total and by district, 8) the number of monthly estimated meter reads, 9) the number of consecutive estimated reads and 10) the meter reader staffing levels;
13. Requires MAWC to provide adequate training to all customer service representatives prior to the current Woodland Manor customers receiving their first bill from MAWC;
14. Requires MAWC to provide to the CMAU staff on a monthly basis a document detailing the bills to Woodland Manor service area customers that were issued for greater than thirty-five (35) days of service;
15. Requires MAWC to provide to the CMAU staff within thirty (30) days of billing a sample of ten (10) billing statements of the first three months' bills issued to Woodland Manor service area customers, in order to check for accuracy;
16. Requires that if deposits are retained, deposits should be refunded plus accrued interest on all accounts with a satisfactory payment history as defined in Commission Rule 4 CSR 240-13.030(4)(D).
17. Requires MAWC to provide an example of its communication with the Woodland Manor service area customers regarding the acquisition of the Woodland Manor utility assets, and how customers may reach MAWC; and,
18. Make no finding that would preclude the Commission from considering the ratemaking treatment to be afforded any matters pertaining to the granting or transfer of the CCN to MAWC, including expenditures related to the certificated service area, in any later proceeding.

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Staff will file a further recommendation regarding a tariff adoption notice to be submitted by MAWC.

List of Attachments:

Attachment A - Depreciation Accrual Rates for Water Plant

Attachment B - Summary of Plant Balances and Rate Base for Water Plant

**For Staff Proposed Adoption by Missouri-American Water Company
WM-2016-0169**

**Woodland Manor Water Company
SCHEDULE of DEPRECIATION RATES dated 4/1/2013
(WATER Class D)
WR-2013-0326**

USOA

ACCOUNT NUMBER	ACCOUNT DESCRIPTION	DEPRECIATION RATE	AVERAGE SERVICE LIFE (YEARS)	NET SALVAGE
Source of Supply				
311	Structures & Improvements	2.5%	44	-10%
314	Wells & Springs	2.0%	55	-8%
Pumping Plant				
321	Structures & Improvements	2.5%	44	-10%
325	Electric Pumping Equip. (Plus Generator)	6.7%	15	0%
328	Other Pumping Equipment	5.0%	20	0%
Water Treatment Plant				
332	Water Treatment Equipment	2.9%	35	\$0
Transmission and Distribution				
342	Distribution Reservoirs & Standpipes	2.5%	42	-5%
343	Transmission & Distribution Mains	2.0%	50	0%
345	Customer Services	2.9%	35	0%
346.1	Customer Meters (Installed after 2012)*	10.0%	10	0%
346.2	Bronze Meters and Installs prior 2013	3.3%	30	0%
347	Meter Installations (Meter Pits after 2012)	2.5%	40	0%
348	Hydrants	2.5%	40	0%
349	Other Transmission & Distribution Plant	3.3%	30	0%
General Plant				
372	Office Equipment & Furniture	5.0%	20	0%
372.1	Office Electronic Equipment	14.3%	7	0%
373	Transportation Equipment	13.0%	7	9%
379	Other General Equipment	6.7%	13	13%

Customer Meters (Installed after 2012)* Plus 18 plastic meters installed in 2007

The above recommended depreciation rates are based on Staff's review of the Company's operation and records.

Woodland Manor Water Company ,LLC
Staff's Corrected Account Balances
Rate Base as of December 31, 2015

<u>Account</u>	<u>Account Description</u>	<u>Total Plant</u>	<u>Depreciation Reserve</u>
301	Organization	\$ 2,933	\$ -
314	Wells & Springs	\$ 35,640	\$ 15,703
320	Land & Land Rights - Pumping Plant	\$ 6,000	
321	Structures & Improvements - Pumping Plant	\$ 3,213	\$ 1,136
325.1	Electronic Pumping Equipment	\$ 39,626	\$ 24,417
325.2	Pumping Booster Equipment	\$ 3,849	\$ 408
332	Water Treatment Equipment	\$ 1,146	\$ 446
342	Distribution Reservoirs & Standpipes	\$ 56,011	\$ 7,112
343	Transmission & Distribution Mains	\$ 130,753	\$ 32,133
345	Customer Services	\$ 17,913	\$ 9,330
346.1	Customer Meters (Installed after 2012)*	\$ 2,975	\$ 2,387
346.2	Bronze Meters & Installs prior 2013	\$ 29,736	\$ 10,197
347	Meter Installations (Meter Pits after 2012)	\$ 3,835	\$ 148
348	Hydrants	\$ 2,292	\$ 600
349	Other Transmission & Distribution Plant	\$ 990	\$ 376
372	Office Furniture & Equipment	\$ 80	\$ 66
373	Transportation Equipment	\$ 1,000	\$ 975
379	Other General Equipment	\$ 5,699	\$ 3,880
	TOTALS	<u>\$ 343,691</u>	<u>\$ 109,314</u>
	Plant in Service	\$ 343,691	
	Accumulated Dep. Reserve	\$ (109,314)	
	Contributions in Aid of Construction (CIAC)	\$ (108,148)	
	CIAC Amortization	\$ 36,477	
	Customer Deposits	\$ (400)	
	Total Rate Base	<u>\$ 162,306</u>	

