

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

In the Matter of Missouri-American Water)
Company for Certificate of Convenience and)
Necessity Authorizing it to Install, Own, Acquire,)
Construct, Operate, Control, Manage and)
Maintain Water and Sewer Systems in an)
area of St. Louis County, Missouri)

File No. WA-2017-0278

STAFF RECOMMENDATION

COMES NOW the Public Service Commission Staff (“Staff”), by and through counsel, and recommends that the Commission grant to Missouri-American Water Company (“MAWC”) a Certificate of Convenience and Necessity (“CCN”) to provide regulated water services in an area of St. Louis County, Missouri. In support of this *Recommendation*, Staff states as follows:

1. On April 21, 2017 MAWC filed its *Application and, if Necessary, Motion for Waiver* (“Application”) seeking a Certificate of Convenience and Necessity (“CCN”) for authority to install, own, acquire, construct, operate, control, manage, and maintain a water system and sewer system in an area of St. Louis County, Missouri known as Pevely Farms.¹

2. On April 25, 2017, the Commission issued its *Order Directing Notice and Setting Date for Submission of Intervention Requests and Staff Recommendation*, setting an intervention deadline of May 9, 2017 and a Staff recommendation deadline of June 20, 2017. No intervention requests were received.

3. Pursuant to Section 393.170, RSMo, no water or sewer corporation shall provide service to consumers without first having obtained approval from the

¹ MAWC filed two *Applications*, one for water service, and one for sewer service. SA-2017-0279. The sewer service case was subsequently consolidated into this matter. See WA-2017-0278, EFIS Item 4, *Order Consolidating Cases*.

Commission. In determining whether or not to grant such approval, the Commission has traditionally applied the five “Tartan Criteria” established in *In the Matter of Tartan Energy Company, et al.*, 3 Mo. PSC 3d 173, 177 (1994): (1) there must be a need for the service; (2) the applicant must be qualified to provide the service; (3) the applicant must have the financial ability to provide service; (4) the applicant’s proposal must be economically feasible; and (5) the service must promote the public interest.

4. As explained in the *Staff Memorandum*, attached hereto as Appendix A, Staff conducted an investigation into MAWC’s request. Based upon its review, Staff concludes that MAWC fulfills the requirements of the Tartan Criteria.

5. MAWC proposes to provide water service pursuant to the existing rates, rules, and regulations currently applicable to MAWC’s District #1 - St. Louis County Metro service area found in MO PSC No. 13.

6. MAWC proposes to provide sewer service pursuant to the existing rates, rules, and regulations currently applicable to MAWC’s Cedar Hill service area found in MO PSC No. 26. However, Staff recommends that the “Connection Charges” and “Capacity Charges” that are specified on the Schedule of Service Charges for Cedar Hill and applicable to customers making new sewer connections in the Cedar Hill service area, should not apply to the new service area of Pevely Farms.

7. Accordingly, Staff recommends approval granting the CCN, with conditions described in the *Staff Memorandum*, as the requested CCN would be necessary and convenient for the public service, and is not detrimental to the public interest.

8. The Commission need not hold a hearing if, after proper notice and opportunity to intervene, no party requests such a hearing. *State ex rel. Rex Deffenderfer Enterprises, Inc. v. Public Service Commission*, 776 S.W.2d 494 (Mo. App. W.D. 1989). No party or individual has requested a hearing, so the Commission need not hold a hearing to grant a CCN to the Company.

WHEREFORE, Staff respectfully submits this Staff Recommendation for the Commission's information and consideration, and requests the Commission grant Missouri-American Water Company a Certificate of Convenience and Necessity, with conditions, to provide water and sewer service to the requested service area.

Respectfully submitted,

/s/ Casi Aslin

Casi Aslin
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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 counsel of record on this 20th day of June, 2017.

/s/ Casi Aslin

MEMORANDUM

TO: Missouri Public Service Commission Official Case File
File No. WA-2017-0278
Missouri-American Water Company (Pevely Farms)

FROM: James A. Merciel, Jr - Water and Sewer Department
Amanda McMellen - Auditing Department
Jennifer Grisham - Auditing Department
Stephen Moilanen – Engineering Analysis Unit
Lisa Kremer - Consumer and Management Analysis Unit

/s/ James A. Merciel, Jr. June 20, 2017
Case Coordinator Date

/s/ Jacob Westen June 20, 2017
Staff Counsel Date

SUBJECT: Staff's Recommendation to Approve Certificate of Convenience and Necessity

DATE: June 20, 2017

CASE BACKGROUND

On April 21, 2017, Missouri-American Water Company (MAWC) filed an *Application and, if Necessary, Motion for Waiver* (Application) with the Public Service Commission (Commission). MAWC seeks a Certificate of Convenience and Necessity (CCN) to provide water and sewer service to an area in St. Louis County, Missouri in a development known as Pevely Farms. In the Application, MAWC states that it intends to acquire water and sewer utility assets that are at present owned and operated by Pevely Farms Homeowners Association (the Association) which is an entity that is not subject to the jurisdiction of the Commission. The Application was docketed in two separate cases, WA-2017-0278 and SA-2017-0279. The Commission issued an *Order Consolidating Cases* that was issued and became effective on May 4, 2017.

On April 26, 2017, the Commission issued its *Order Directing Notice and Setting Dates for Submission of Intervention Requests and Staff Recommendation*. In this Order, the Commission directed that notice be provided to the St. Louis County Commission, members of the Missouri General Assembly representing citizens in the affected area, the Missouri Department of Natural Resources (DNR), members of the General Assembly representing St. Louis County, and to media serving St. Louis County. Additionally, in this Order the Commission set May 16, 2017 as the date by which interested parties should seek to intervene in this case; and for the Staff to submit its recommendation no later than June 20, 2017. No parties sought to intervene in the case.

BACKGROUND OF MAWC AND THE PEVELY FARMS WATER AND SEWER SYSTEMS

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.

The Pevely Farms water system dates to 2002 according to published records of DNR. It consists of two 200 gallon per minute (gpm) alluvial wells near the Meramec River for source of supply; a treatment facility with a flow capacity of 140,000 gallons per day using chlorine and aeration for oxidation of minerals along with two pressure sand filters; two 33,000 gallon clearwell tanks to store finished water; two 140 gpm high service pumps to pump finished water to the distribution system; and a distribution storage tank with a volume of 110,000 gallons. There are currently approximately 52 customers, and approximately ten (10) new homes under construction. The water system is adequate to provide domestic service to the approximately 150 subdivision lots. All customers have either two service connections or one service connection that splits into two service lines, and two 1-inch size water meters - one for domestic household use and one for lawn irrigation. Staff anticipates that MAWC will require customers to assume ownership of the water service lines as per current tariff rules that apply in MAWC's St. Louis County service district. Then, residential customers will be eligible to take advantage of the St. Louis County "Residential Water Service Line Repair Program," where after paying a County-authorized fee on water bills they will be able to apply to the County for repairs as necessary to customer-owned water service lines, as is available to other water customers in St. Louis County.

The Pevely Farms sewer system consists of a 100,000 gallon per day extended aeration treatment facility with ultraviolet light disinfection. The collection system is a pressure collection system, with an electric-powered grinder pump located on each customer's property and owned by each customer.

STAFF'S INVESTIGATION

Service Area and Tariff

Staff reviewed the Application and its appendices including an Asset Purchase Agreement. Pevely Farms is located in St. Louis County. MAWC's St. Louis County service area is stated in its current water tariff, MO PSC No. 13, as "Certificated Area includes St Louis County and Adjacent Areas in Jefferson County." Prior to the Commission's existence, predecessor companies to MAWC obtained either county or municipal franchise authority to provide water service in certain areas of St. Louis County. With MAWC's acquisition of the central water system generally serving in portions of St. Louis County, that authority ultimately transferred to MAWC; however, the actual scope of the authorized St. Louis County service areas as it exists today is unclear. Therefore, in an effort to better define the service area in St. Louis County, Staff and MAWC's predecessor, St. Louis County Water Company, agreed that for newly acquired water systems maps and boundary descriptions would be filed in the water tariff. This is as MAWC has proposed in this case. Additionally, MAWC will need a new CCN to provide sewer service in the proposed service area, and include the Pevely Farms

service area in its sewer tariff, PSC MO NO. 26. Staff has reviewed the map and metes and bounds description of the proposed Pevely Farms service area and agrees it is reasonable, and should be included in MAWC's water tariff and sewer tariff assuming the Commission grants MAWC approval of this proposed water and sewer service area.

**TECHNICAL, MANAGERIAL, AND FINANCIAL CAPACITY,
AND TARTAN ENERGY CRITERIA**

DNR reviews new proposed water system operations using, among other criteria, determination of technical, managerial and financial capacities of the operation, or "TMF." Staff also utilizes the concepts of TMF in studying some situations involving existing water and/or sewer systems as well. Staff has reviewed and stated its position regarding MAWC's TMF capacities in previous CCN and transfer of assets cases, and Staff's position on this matter remains positive in this case involving Pevely Farms.

Additionally, it is customary with most cases involving a new CCN for Staff to use criteria similar to that which was studied by the Commission in a past CCN case that was filed by the Tartan Energy Company to justify granting a CCN. The Tartan criteria contemplate 1) need for service; 2) the utility's qualifications; 3) the utility's financial ability; 4) the feasibility of the proposal; 5) promotion of the public interest; and 6) whether or not other utility entities are available to provide similar service. Similar to TMF, Staff has studied these points as they relate to MAWC abilities in previous CCN and transfer cases. Further, as related to this specific proposed Pevely Farms CCN request for a new water and sewer service area, Staff takes the position that it is feasible for MAWC to operate and manage the existing water and sewer operations, and it is in the public interest for it to do so.

Staff's conclusion is that the points regarding TMF capacities and the Tartan Energy criteria are all met, for this case.

Tariff and Rate Impact

MAWC proposes to provide water service pursuant to the existing rates, rules, and regulations currently applicable to MAWC's District #1, which includes its St. Louis County Metro service area, found in MO PSC No. 13. MAWC proposes to provide sewer service pursuant to the existing rates, rules, and regulations currently applicable to MAWC's Cedar Hill service area found in MO PSC No. 26. However, Staff proposes that the "Connection Charges" and "Capacity Charges" that are specified on the Schedule of Service Charges and applicable to customers making new sewer connections in the Cedar Hill service area, not apply to Pevely Farms because Staff's position is they are not necessary nor justified for the Pevely Farms operation. Staff agrees that, with the exception of the above-mentioned sewer service charges, MAWC's proposal for rates is reasonable. MAWC will also need to file maps and descriptions of the service area in each tariff, and additionally, Rule 13. B. 2. in the sewer tariff may be applied to Pevely Farms and Pevely Farms should be listed among other service areas to which that rule applies.

Rate Base

MAWC has demonstrated over many years that it has financial resources to operate utility systems that 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.

It is Staff's understanding that MAWC is not seeking a determination of the rate base valuation of the Pevely Farms assets in this proceeding. The Auditing Department conducted a review of invoices pertaining to original construction costs for plant-in-service for the Pevely Farms service area. Staff notes that Pevely Farms' plant records do not appear complete with respect to MAWC's need to keep plant records in accordance with the National Association of Regulatory Utility Commission (NARUC) Uniform System of Accounts. In MAWC's next general rate case in which rate treatment of the current Pevely Farms property is sought, MAWC should present an analysis documenting its proposed net rate base values for all Pevely Farms assets, which would include an appropriate offset for associated CIAC, depreciation and system capacity adjustment. Staff will take a position regarding the appropriate rate base valuation of the Pevely Farms property after conducting its audit in MAWC's next rate case, including review of MAWC's rate base valuation analysis. Staff also recommends specifically that prior to the time of transfer, MAWC request any and all plant and asset valuation records from Pevely Farms not already in MAWC's possession, including all available documentation concerning transactions and transfers between Pevely Farms and its developers and vendors, and properly enter those amounts in its plant account property records in order to quantify original plant costs, subsequent plant additions, depreciation, contributions, and capital recovery paid to developers or other parties.

Based on Staff's review of Pevely Farm's plant invoices in this proceeding, the purchase price being paid by MAWC may be below the net book value of Pevely Farms' assets. The determination of the value of any acquisition adjustment will be made in MAWC's first general rate filing in which it seeks recovery of Pevely Farms capital and expense costs. It has been Staff's position in prior cases that utility rates for acquired properties should be based upon the net book value of such properties to the original utility owner, and not reflect the amount of any acquisition adjustment.

By Commission regulations, MAWC should keep its financial records for utility plant-in-service and operating expenses in accordance with the NARUC Uniform System of Accounts. Staff will recommend the Commission specifically require such recordkeeping requirements apply to MAWC's utility plant assets acquired from the Pevely Farms Water and Sewer Systems.

Plant Capacity Adjustment

Since the Pevely Farms wastewater system appears to have been designed and constructed to serve over 200 residential customers, and at present there are only 52 residential customers, Staff intends to consider proposing, in future rate proceedings, a capacity adjustment to certain water and wastewater system components, which would reduce the plant balance level and depreciation expense that would be included in rate calculations.

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 plant accounts in the Pevely Farms service area.

Customer Notice/Customer Service

Although there has been no specific notice to customers provided by MAWC, in its pleading *Suggestion on How to Provide Notice to Customers* filed on May 5, 2017, MAWC states that the association has communicated extensively with its members, and that virtually all involved homeowners have been involved with the process of negotiating and carrying out the agreement for the homeowners to sell and transfer the water and sewer system assets to MAWC. Among other information in the pleading MAWC states that Mr. Ted Ingram, who is one of the homeowners and is the Treasurer of Board of Directors and Head of their Operating Committee for the Association, has been the person who has served as the “point of contact.” Staff is fully aware of Mr. Ingram’s involvement with this proposal, as he along with the Association’s contract plant operator accompanied Staff and MAWC during a recent field visit to observe the plant components and operations. It thus appears to Staff that customers have been adequately informed of this proposal.

In previous CCN or transfer cases where MAWC acquired systems and additional customers, Staff recommended that MAWC undertake actions and submit reports to the Consumer & Management Analysis Unit (CMAU) 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, WR-2007-0216, WA-2015-0019 and SA-2015-0150. The same information regarding the customers MAWC is acquiring from Pevely Farms should be included within these reports.

MAWC utilizes a nationwide billing system and nationwide call centers through its affiliates. In order to incorporate Pevely Farms customers into its billing and customer service systems, it will be necessary for MAWC to properly enter the Pevely Farms customer information into its systems 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 Pevely Farms customers so that customer service matters are handled accurately and in a timely manner.

OTHER ISSUES

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

MAWC is current with annual report filings with the Commission through calendar year 2016, as documented on the Commission’s Electronic Filing and Information System (EFIS).

MAWC is current on its annual assessment quarterly payments through fiscal year 2017.

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

WO-2017-0297	ISRS case
WU-2017-0296	AAO Lead Service Line Replacement Program Case
WR-2017-0285 and SR-2017-0286	Notice of Intent to File a Rate Case
WC-2017-0251	Formal Complaint (Anderson)
WC-2017-0234	Formal Complaint (Spicer)
WO-2017-0191	Territorial Agreement (Audrain Water District #4)
WO-2017-0012	Investigation case (matters from WR-2015-0301)
WO-2015-0211	ISRS case (on appeal, the case remains open)

These above-noted pending cases will have no impact upon this proposed case requesting a new CCN for water and sewer service, nor will approval of the CCN and new water and sewer rates impact the above-noted pending cases before the Commission.

STAFF'S RECOMMENDATIONS AND CONCLUSIONS

Staff's position, based on its review as described herein, is that the proposal for a new CCN to provide water and sewer service in the proposed Pevely Farms service area is not detrimental to the public interest. Further, the proposal to apply MAWC's "District #1" rates, and service charges that are currently in effect for its St. Louis Metro service area, is reasonable; and, MAWC's proposal to apply MAWC's existing sewer rates and service charges, except the Connection Charges and Capacity Charges that are currently in effect for its Cedar Hill service area, is also reasonable; and, sewer tariff Rule 13. B. 1., pertaining to pressure sewers and pump units, should apply to Pevely Farms. Staff therefore recommends approval with the conditions and actions as outlined herein.

Staff's Recommendations

Based upon the above, Staff recommends that the Commission:

1. Grant MAWC a CCN to provide water and sewer service in the proposed Pevely Farms service area, as requested;
2. Approve the application of MAWC's existing water rates and service charges that currently apply to its St. Louis Metro service area, as requested;
3. Approve the application of MAWC's existing sewer rates and service charges that currently apply to its Cedar Hill service area, except that Connection Charges and Capacity Charges included on the Schedule of Service Charges applicable to MAWC's Cedar Hill service area not apply to the Pevely Farms service area;
4. Require MAWC to submit new tariff sheets, to become effective before closing on the assets, to include a service area map, service area written description, either new tariff sheets or revised tariff sheets with notations showing approved rates and service charges, to be included in its water tariff PSC MO No. 13, and sewer tariff PSC MO No. 26, and submit a revised sewer tariff sheet in PSC MO No. 26 to include Pevely Farms with Rule 13. B. 1.;
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 maps and descriptions, and rates and service charges applicable to the Pevely Farms service area in its water and sewer tariffs;
7. Requires MAWC to keep its financial books and records for plant-in-service and operating expenses in accordance with the NARUC Uniform System of Accounts;

8. Require MAWC to provide an example of its actual communication with the Pevely Farms service area customers regarding its acquisition and operations of the Pevely Farms water and sewer system assets, and how customers may reach MAWC, within ten (10) days after closing on the assets;
9. Require MAWC to obtain from the Association, 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 contribution-in-aid-of construction transactions, and any capital recovery transactions;
10. Require MAWC to provide in its next general rate case an analysis documenting its proposed rate base values for Pevely Farms water and sewer system assets, including an appropriate offset for associated CIAC;
11. Make no finding that would preclude the Commission from considering the ratemaking treatment to be afforded any matters pertaining to the granting of the CCN to MAWC, including expenditures related to the Pevely Farms certificated service area, in any later proceeding;
12. Require MAWC to ensure adherence to Commission Rule 4 CSR-13 with respect to Pevely Farms customers;
13. Require MAWC to include the Pevely Farms customers in its established monthly reporting to the CMAU staff on customer service and billing issues;
14. Require MAWC to distribute to the Pevely Farms customers an informational brochure detailing the rights and responsibilities of the utility and its customers regarding its sewer 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;
15. Require MAWC to provide adequate training for the correct application of rates and rules to all customer service representatives prior to Pevely Farms customers receiving their first bill from MAWC including water and sewer charges; and,
16. Require MAWC to provide to the CMAU staff a sample of ten (10) billing statements from the first month's billing within thirty (30) days of such billing.

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

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In the Matter of Missouri-American Water)
 Company for Certificates of Convenience and)
 Necessity Authorizing it to Install, Own, Acquire,)
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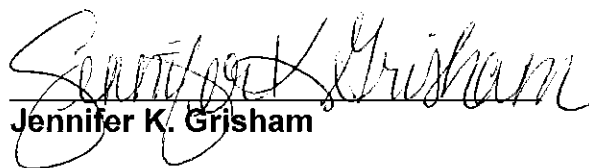
Case No. WA-2017-0278

AFFIDAVIT

State of Missouri)
) ss.
 County of Cole)

COMES NOW Jennifer K. Grisham and on her oath declares that she is of sound mind and lawful age; that she contributed to the attached Staff Memorandum; and that the same is true and correct according to her best knowledge and belief.

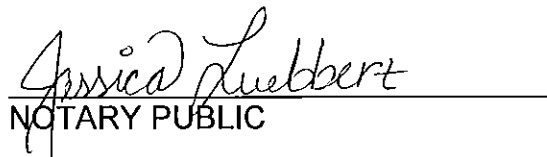
Further the Affiant sayeth not.


 Jennifer K. Grisham

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 19th day of June, 2017.

JESSICA LUEBBERT
 Notary Public - Notary Seal
 State of Missouri
 Commissioned for Cole County
 My Commission Expires: February 19, 2019
 Commission Number: 15633434


 NOTARY PUBLIC

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

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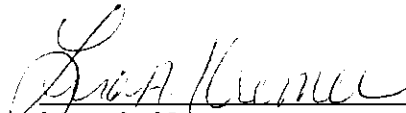
Case No. WA-2017-0278

AFFIDAVIT

State of Missouri)
) ss.
County of Cole)

COMES NOW Lisa A. Kremer and on her oath declares that she is of sound mind and lawful age; that she contributed to the attached Staff Memorandum; and that the same is true and correct according to her best knowledge and belief.

Further the Affiant sayeth not.



Lisa A. Kremer

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 19th day of June, 2017.

JESSICA LUEBBERT Notary Public - Notary Seal State of Missouri Commissioned for Cole County My Commission Expires: February 19, 2019 Commission Number: 15633434



NOTARY PUBLIC

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

In the Matter of Missouri-American Water)
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Of St. Louis County, Missouri)

Case No. WA-2017-0278

AFFIDAVIT

State of Missouri)
) ss.
County of Cole)

COMES NOW Stephen Moilanen and on his oath declares that he is of sound mind and lawful age; that he contributed to the attached Staff Memorandum; and that the same is true and correct according to his best knowledge and belief.

Further the Affiant sayeth not.




Stephen Moilanen

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 19th day of June, 2017.

JESSICA LUEBBERT
Notary Public - Notary Seal
State of Missouri
Commissioned for Cole County
My Commission Expires: February 19, 2019
Commission Number: 15633434



NOTARY PUBLIC