

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

In the Matter of Missouri-American Water)
Company for Certificates of Convenience)
And Necessity Authorizing it to Install, Own,)
Acquire, Construct, Operate, Control, Manage,)
and Maintain Water and Sewer Systems)
In and around the City of Lawson, Missouri.)

Case No. WA-2018-0222

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) filed an *Application and Motion for Waiver* February 12, 2018, to purchase all of the water and sewer assets of the City of Lawson and requests Certificates of Convenience and Necessity for the systems. The City of Lawson voted in favor of selling the systems to MAWC in its November 7, 2017 election.

2. MAWC has proposed to apply Section 393.320, RSMo, to this acquisition case, which permits an appraisal following strict guidelines to be used to determine the rate base of an acquired system, following comparison with the purchase price, closing and transaction costs. Staff over the course of its investigation worked with MAWC to gain a better understanding of how the application of Section 393.320 will affect the accounting schedules of the Lawson systems as reflected on MAWC's books and plant records going forward. Staff intends to continue working with MAWC to see that all assets are properly booked should the Commission approve this acquisition.

3. *Staff's Memorandum* is attached to this pleading as Appendix A and reflects the results of Staff's investigation as well as its recommendations. Generally,

the *Memorandum* includes a background of MAWC and the Lawson systems, an evaluation of the rate base to be applied to the Lawson systems going forward, and a legal analysis of Section 393.320, RSMo, as it applies to this acquisition. Staff has included an overview of certain assets unique to these systems, tariff recommendations, depreciation rate recommendations and a detailed explanation of the service area to be used to identify the customer service area of the systems following acquisition. Additionally, Staff provides an evaluation of the technical, managerial and finance capability of MAWC as guided by the Tartan Energy Criteria. Staff's Customer Experience Department evaluated MAWC's customer service history and makes recommendations to ensure customers receive proper notice and experience ease of transition commensurate with the acquisition process.

4. Staff makes the following specific recommendations:

1. Grant MAWC a CCN to provide water and sewer service in the proposed Lawson service areas, as modified as outlined herein;
2. Approve existing Lawson inside-city water and sewer rates, and recommend MAWC honor commitments made to the city of Lawson as noted herein, applicable to customers in MAWC's Lawson water and sewer approved 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 water tariff P.S.C. MO No. 13, and water rates, applicable specifically to water service in its Lawson service area;
4. 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 sewer tariff P.S.C. MO No. 26, and sewer rates, applicable specifically sewer service in its Lawson service area;
5. Require Lawson or MAWC to notify the Commission of closing on the assets within five (5) days after such closing;
6. 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;

7. 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 applicable to the Lawson area in its water tariff, and rate sheets applicable to customers in the Lawson area in both the water and sewer tariffs;

8. Require MAWC to develop a plan to book all of the Lawson 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, such that current rate base is broken down as \$2,630,000 for the water system, and \$1,370,000 for the sewer system, 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;

9. Require MAWC to book the estimated original cost of the North Highway 69 sewage lift station, and book an accompanying CIAC offset equal to the estimated original cost of this facility;

10. Require MAWC to rehabilitate the Vibbard water pump station, as reasonably necessary to restore dependable working order, and enter into a wholesale contract or a water service agreement with District 2, all within 60 days of closing on the assets, or as soon as possible thereafter with status reports to Staff, as described above regarding the Vibbard facility;

11. Require MAWC to keep its financial books and records for plant-in-service and operating expenses in accordance with the NARUC Uniform System of Accounts;

12. Adopt for Lawson Water and Sewer assets the depreciation rates ordered for MAWC in Case No. WR-2015-0301;

13. Require MAWC to provide an example of its actual communication with the Lawson service area customers regarding its acquisition and operations of the Lawson water and sewer system assets, and how customers may reach MAWC, within ten (10) days after closing on the assets;

14. Require MAWC to obtain from Lawson, 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;

15. Except as required by §393.320 RSMo, 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 certificated service area, in any later proceeding;

16. Require MAWC to include the Lawson customers in its established monthly reporting to the CXD Staff on customer service and billing issues within thirty (30) days of closing on the assets;

17. Require MAWC to distribute to the Lawson 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, within thirty (30) days of closing on the assets;

18. 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; and,

19. Require MAWC to file notice in this case once Staff Recommendations Nos. 16-18 above, have been completed.

WHEREFORE, Staff prays that the Commission will accept this *Recommendation*; issue an order approving Missouri American Water Company's acquisition of the Lawson sewer and water systems; order Missouri American Water Company to take action consistent with Staff's recommendations; and grant such other and further relief as the Commission considers just in the circumstances.

/s/ 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 29th day of May, 2018, to all counsel of record.

/s/ Whitney Payne

MEMORANDUM

TO: Missouri Public Service Commission Official Case File
File No. WA-2018-0222

FROM: Curt B. Gateley – Water and Sewer Department
David Roos – Water and Sewer Department
James A. Merciel Jr. – Water and Sewer Department
Amanda McMellen – Auditing Department
Debbie Bernsen – Customer Experience Department
Dana Parish – Customer Experience Department
Stephen Moilanen – Engineering Analysis Unit

/s/ Curt B. Gateley / May 29, 2018
Case Manager / Date

/s/ Whitney Payne / May 29, 2018
Staff Counsel's Office / Date

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

DATE: May 29, 2018

CASE BACKGROUND

On February 12, 2018, Missouri-American Water Company (MAWC) filed an *Application and Motion for Waiver* (Application) with the Missouri Public Service Commission (Commission). MAWC seeks a Certificate of Convenience and Necessity (CCN) to provide water and sewer service to the City of Lawson (Lawson) and some surrounding areas, which are located in Clay and Ray Counties. In the Application, MAWC states that it intends to acquire water and sewer utility assets that are at present owned and operated by Lawson. Lawson, as a municipal utility, is not presently subject to the jurisdiction of the Commission. The Application was docketed in two separate cases, WA-2018-0222 and SA-2018-0223, which were consolidated into WA-2018-0222.

On February 13, 2018, the Commission issued its *Notice and Order Directing Filing*, in which it directed interested parties to intervene in this case by March 15, 2018, but no parties sought to intervene in the case.

BACKGROUND OF MAWC AND THE LAWSON 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 American Water companies that undertake some of the tasks associated with utility service, such as customer billing, and technical resources.

At present, the City of Lawson owns and operates a water supply system and a sewage collection and treatment system, providing water service to approximately 933 customers and sewer service to approximately 871 customers in and near the municipality.

Parts of the Lawson water system dates to approximately 1954. Lawson purchases its water wholesale from the City of Excelsior Springs, located approximately four (4) miles to the south and which utilizes a series of deep wells for its source of supply. Lawson owns a pump station known as the Italian Way facility, located next to two Excelsior Springs water storage tanks. Staff observed a flow of 360 gallons per minute during late-morning on a weekday. Purchased water is pumped through a water supply main to Lawson. No customers are connected directly to this water supply main at present, although direct connections and water main extension connections could be made.

Lawson also owns another pump station known as the Vibbard facility, located several miles southeast of Lawson, which is connected to Ray County Consolidated Public Water Supply District No. 2 (District 2). Lawson has reported that this facility has not been used for several years. There is a water supply main several miles in length extending from this facility to Lawson, to which some of Lawson's customers are connected.

In addition, another water district, Ray County Public Water Supply District No. 1 (District 1), has a water system adjacent to the Lawson water system at the north end of town. An emergency connection could be made between Lawson and District 1 for transfer of water in either direction, if a connection were deemed desirable. No such connection exists at present nor does any water service agreement exist.

Lawson has two elevated water storage tanks, with a combined volume of 350,000 gallons. All customers are metered.

The Lawson sewer system dates to 1977. It consists of gravity collecting sewers, with six small lift stations for certain subdivision areas, one large lift station used to pump sewage from the eastern portion of town, and a large lift station located at the treatment facility that pumps all sewage into the facility. The treatment facility is a four-cell lagoon. Several times per year the system operators manually open and close the discharge piping, so that the facility discharges intermittently.

STAFF'S INVESTIGATION

Plant-In-Service Balances

Ordinarily, Staff recommends the value of plant investment, or "rate base," by studying documentation of the cost of constructing plant, along with annual depreciation expense, and whether or not plant facilities or money was contributed by customers or land developers. However, like some other small water and sewer operations, Lawson does not have such documentation available for its water and sewer systems. For this case, MAWC and Lawson have chosen to exercise an option provided by §393.320, RSMo. §393.320 may be applied when a large water public utility as defined by the statute acquires a small water utility also as defined. The two utilities may choose to each hire an appraiser; those appraisers then appoint a third appraiser; and perform a joint appraisal of the small water utility property and assets, coming to a common determination of the fair market value of the utility. The appraised value is compared to the purchase price of the small utility and the lesser of the two is used to determine the rate base, including the prudent transaction, closing and transition costs included in the acquisition. Missouri's water and wastewater utilities have never elected to use §393.320 so there is no Missouri precedent to guide the Commission's decision in this matter.

Staff reviewed the appraisal report MAWC filed with the Application, which included the methods and assumptions used to evaluate the value of the systems, and included an engineering report describing plant facilities. Staff also conducted an on-site investigation of assets that are in service, described in this memorandum under the Lawson Water and Sewer Systems header, and created its own estimate of plant values, as a tool that it used to evaluate the reasonableness of the conclusions reached in the Company's appraisal report. Staff's estimated costs were based on its field observations, descriptions of various assets, age of each of the assets along with rehabilitations as described by representatives from the City of Lawson accompanying Staff during the field investigation, and information from the appraisal report. Staff's conclusion based on its comparison is that the appraisal and sale price of \$4,000,000 as "rate base," with a breakdown of \$2,630,000 for the water system, and \$1,370,000 for the sewer system, is reasonable and recommends approval by the Commission.

While the rate base of \$4,000,000 as determined by the appraisal procedure outlined in §393.320 is reasonable in Staff's view, MAWC's rate base must still be reflected on its utility plant account records, and kept in accordance with the National Association of Regulatory Utility Commissioners (NARUC) Uniform System of Accounts, as required by Commission regulations 4 CSR 240-50.030 for water utilities and 4 CSR 240-61.020 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.¹ For the Lawson systems, because the actual original cost of the systems is not known, the utility owning the systems is unregulated, there are no Commission-approved depreciation rates resulting in an inability to determine any depreciation reserve, there is not a way to determine rate base in the normal way.² For these reasons, after acquisition, MAWC will be tasked with making determinations, based on rate base as determined by the appraisal, of values for original cost, depreciation reserve, and CIAC amounts that can be booked in its plant records, such that rate base for both the water and sewer systems is \$4,000,000. There is not an established procedure in place to determine what values to include for all of these plant items in the various plant accounts, and therefore Staff would like to either: (a) review MAWC's plan on booking the Lawson assets, or (b) work directly with MAWC regarding the amounts to be booked. Additionally, Staff would like to conduct an audit of MAWC's transaction, closing and transition costs to be included in this acquisition. Staff is recommending that MAWC and Staff agree on plant account values, and the transaction, closing and transition costs, within sixty (60) days after MAWC closes on the assets, or as soon as possible thereafter.

There are two special conditions for plant items specific to the Lawson systems, as follows:

1. A sewage lift station known as the Highway 69 North facility is new, but is not yet in service because there are no customers connected to it and it is thus not yet in service. That it is not yet in service means it should be classified as "plant held for future use," and as such ordinarily would not be included in rate base. For this specific CCN case, however, as the lift station is a part of the appraisal amount as determined by the

¹ If either the plant or funds were contributed by customers or land developers as described above, called "contribution-in-aid-of-construction" (CIAC), then such CIAC with the depreciation offset is booked. The original cost for all plant accounts minus the total depreciation reserve and minus the CIAC with the offset determines rate base.

² A depreciation reserve is determined for each account by totaling annual depreciation expense (for all years that plant has been in service) for the account based on approved depreciation accrual rates.

procedure outlined in §393.320, and because the City represents that new customers that will utilize this new facility are expected to connect soon, MAWC and Staff agree that this facility may be booked, but with an equivalent CIAC offset.

2. The Vibbard pump station connected to District 2, as mentioned above, has not been used for a number of years, and it is unknown whether or not a contract for service with the involved water supplier, District 2, has expired. Staff considers this facility to be “out of service” and not “used and useful” at present. Ordinarily Staff would not recommend it be included in rate base. However, this facility, along with associated real estate, was included with the appraisal. MAWC and Staff agree that this pump facility is valuable as a secondary source of supply. Staff therefore recommends that in order to include this facility as rate base MAWC:

- Check the functionality of this facility and within 60 days of closing on the assets, restore it to working order even if minor additional capital expenditure is necessary.
- Enter into a service agreement or a wholesale contract with District 2.
- By the end of the 60-day period, submit a report to Staff regarding this matter.

If for any reason these items cannot be finalized by the end of the 60 day period, MAWC should submit a status report to Staff regarding progress of restoring the facility and finalizing a contract/agreement, and subsequent monthly status reports as necessary until these tasks are complete. Staff takes no position at this time regarding prudence of new expenditures made regarding this facility.

Staff also notes that MAWC will be expending capital funds on an ongoing basis as needed beginning immediately after acquisition. A few examples include improvements regarding connections with its water suppliers, as well as replacing customer meters since existing meters have exceeded normal service life.

Staff notes that by Commission regulations, MAWC is required to keep its financial records for utility plant-in-service and operating expenses in accordance with the NARUC Uniform System of Accounts. Staff recommends the Commission specifically require such recordkeeping requirements apply to MAWC’s utility plant assets of the Lawson Water and Sewer Systems.

Service Area

In its Application, MAWC requested that the approved service area be “The City of Lawson and the surrounding area.” However, MAWC’s Lawson service area should have a defined boundary, with the boundary shown on a map and a written description of the boundary, as required by Commission rules 4 CSR 240-3.305(1)(A)3- and 4 for sewer utilities, and 4 CSR 240-3.600(1)(A)3- and 4 for water utilities.

To improve the Application, Staff and MAWC have been working together to develop both a water service area and a sewer service area. For water, MAWC will provide service not only to customers in or near the City of Lawson, but also along water supply mains connected for wholesale purchase from the City of Excelsior Springs and District 2, each located several miles to the south. Whereas for sewer, customers are concentrated within the immediate

Lawson vicinity, and the availability of sewer service is limited by the gravity flow collecting sewers and the existing electric-powered lift stations. Therefore, the two service areas will be unique. It is neither practical, nor feasible at this time to provide sewer service in portions of the larger water service area extending several miles south of the city.

The proposed water service area map is shown in Attachment A, and the written description is shown in Attachment B. The proposed sewer service area map is shown in Attachment C, and the written description is shown in Attachment D.

Tariff and Rate Matters

The maps and descriptions, as described within this memorandum and as shown on the attachments, will respectively need to be included in MAWC’s water tariff MO PSC No. 13, and sewer tariff MO PSC No. 26.

MAWC has proposed, and Staff recommends that it is reasonable, for MAWC to adopt existing Lawson inside-city rates³, because there would be no impact immediately to the involved customers. Rates proposed to be in effect are:

Water Rates:

1st 1,000 gallon.....	\$23.33
Over 1,000 gallons	\$10.28 per1,000 gallons

Sewer Rates:

1st 1,000 gallon.....	\$7.95
Over 1,000 gallons	\$4.20 per1,000 gallons

MAWC has committed to the city of Lawson that it will retain existing rates for at least two (2) years after closing.⁴ However, this commitment conflicts with MAWC’s application, which states MAWC will maintain existing rates “...until such time as the rates or rules and regulations may be modified according to law.”⁵ Staff recommends MAWC honor its commitment to the city of Lawson.

New tariff sheets depicting the water and sewer service areas, and water and sewer rates, will need to be included in MAWC’s water and sewer tariffs. Staff recommends that after approval but before MAWC closes on the utility assets, MAWC submit new water and sewer tariff sheets that will become effective on or before the date MAWC closes on the Lawson utility assets. MAWC will not be providing service to Lawson’s customers until closing on the assets takes place, the new tariff sheets must become effective and apply to the Lawson customers who will receive water and sewer service from MAWC immediately on the first day MAWC owns and begins operating the utility assets. The tariff sheets needed are as follows:

³ The City of Lawson presently charges higher rates to customers located outside the city limits than rates charged to customers inside the city limits. MAWC has requested approval to adopt and apply the current “inside city” rates to all customers.

⁴ Missouri American Water Company response to Staff’s DR 0008.

⁵ Missouri American Water Company *Application and Motion for Waiver*, P. 5, ¶ 12.

- For its current water tariff P.S.C. MO No. 13, the new tariff sheets would include a map and written description of the Lawson water service area, water rates that apply to Lawson customers, and index sheets modified to reflect the Lawson water service area and rates.
- For its sewer tariff P.S.C. MO No. 26, MAWC's new tariff sheets would include a map and written description of the Lawson sewer service area, sewer rates that apply to Lawson customers, and index sheets modified to reflect the Lawson sewer service area and rates.

Technical, Managerial, and Financial Capacity, and Tartan Energy Criteria

Staff utilizes the concepts of TMF, or technical, managerial, and financial capabilities in studying situations involving existing water and/or sewer systems. 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.

Additionally, it is customary with most cases involving a new CCN for Staff to use criteria that was studied and analyzed by the Commission in a past CCN case, GA-94-127 filed by the Tartan Energy Company, to justify granting a CCN. The Tartan criteria and Staff's analysis of MAWC's proposed Lawson service area are as follows:

(1) Need for Service

There is a need for service. Existing residential and commercial customers in and near a municipality have a desire and need for continued water and sewer service. There is an existing water system and existing sewer system presently utilized to provide such service, and no other similar systems are readily available. Further, the current owner of the existing water and sewer systems, Lawson, has made a decision to exit the water and sewer utility business, also deciding to 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 qualified to provide the service, as it has demonstrated by providing similar services in other areas of Missouri. Staff has determined that MAWC specifically is able to assume operations of the existing Lawson water and sewer systems, which is similar to assuming operations of other existing water and/or sewer systems throughout Missouri in recent years. MAWC has also demonstrated its capability of undertaking necessary future capital improvements for continued operations with safe and adequate service.

(3) Applicant's Financial Ability

MAWC has demonstrated in its other Missouri service areas that it has sufficient financial resources as both debt and equity, and is able to evaluate costs of alternatives when undertaking operations and capital improvements. With respect to financing and capital funding, MAWC requested no special treatment of the acquisition of the Lawson assets, and Staff anticipates that capitalization of the Lawson systems will be the same as MAWC's other water and sewer systems in Missouri.

(4) Economic Feasibility of Proposal

MAWC's proposal to own and operate the Lawson water and sewer systems is economically feasible. Based on Staff's evaluation of rate base determination by the method outlined in §393.320 described herein, MAWC's ability to combine the proposed operation of the Lawson systems into its existing state-wide operations, and Staff's observation that the assets transfer is unlikely to directly change the number of customers receiving service, or change the quality of service to customers. Notably, however, since there is no established method to determine how the rate base will be booked on MAWC's plant records, Staff recommends the Commission's Order include Staff's participation in, or at least a review of MAWC's recording of, the Lawson plant-in-service assets, as well as the transaction, closing, and transition costs. MAWC requested approval of existing rates, resulting to no change to most customers and a decrease for customers outside the Lawson city limits. Future changes to rates will be as determined by the Commission in rate cases. There are no anticipated major issues that would adversely affect the feasibility of continued operation of the Lawson water and sewer systems.

(5) Promotion of the Public Interest

As the Commission determined in GA-94-127, positive findings with respect to the other four standards above will in most instances support a finding that an application for a certificate of convenience and necessity will promote the public interest. For the reasons outlined throughout this memorandum, Staff asserts that MAWC's request for a CCN and the related acquisition of the Lawson water and sewer assets is not detrimental to the public interest.

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

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 plant in the Lawson service area.

Publicity and Customer Notice

Lawson customers are well aware of the proposal to transfer city-owned assets to MAWC. MAWC provided Staff with copies of documentation of publicity pertaining to the sale of the Lawson water and sewer systems to MAWC, as follows:

- A Facebook announcement of a town hall meeting that was scheduled for November 1, 2017, with reference to a past meeting that had been held on October 23rd;
- "Mayor's Corner" monthly letters for October, November and December 2017 and January 2018, all of which address the water and sewer system sale as well as other city business and news;
- An information sheet prepared by Lawson prior to November 7, 2018, presumably either sent to or made available to Lawson customers, introducing MAWC's president and the regional operations manager, along with other pertinent information about MAWC and

its plans for Lawson;

- Agendas for the Lawson Board of Aldermen for the October 23rd and November 1st Town Hall meetings, at least in part pertaining to the water and sewer systems;
- Newspaper pages from *The Lawson Review* September 13, September 20, October 11, October 18, October 25, and November 1, 2017 editions, all with articles pertaining to the water and sewer systems;
- A copy of a sheet intended for a post-November 7, 2017 newspaper ad, along with a statement saying MAWC will hold a public meeting for customers before transaction closing, and that after closing MAWC will send each customer a welcome letter that includes how to contact MAWC and detailing the rights and responsibilities of the utility and its customers consistent with the requirements of Commission Rule 4 CSR 240-13.040 (2) (A-L).

Much of the above-noted publicity was leading up to a planned election on November 7, 2017, where Lawson voters saw the proposed water and sewer system sale on the ballot. According to the Application, the proposal was approved by voters with a more than 90% majority.

Customer Experience Department

MAWC utilizes a nationwide billing system and nationwide call center through its affiliates. In order to incorporate Lawson customers into its billing and customer service systems, it will be necessary for MAWC to properly enter the Lawson 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 Lawson customers so that customer service matters are handled accurately and in a timely manner. In addition, MAWC will need to develop the appropriate messages to Lawson customers informing them of the transition and how to contact the Company for further information.

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 2017, as documented on the Commission’s Electronic Filing and Information System (EFIS).

MAWC is current on its annual assessment quarterly payments through the fourth quarter of fiscal year 2018.

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

WC-2018-0292	Formal Complaint (Frank)
WC-2018-0110	Formal Complaint (Jones)
WM-2018-0104	Asset Transfer (Spokane Highlands)
WC-2018-0099	Formal Complaint (Lander)
WR-2017-0285	Rate Case

These above-noted pending cases will have no impact upon this proposed case requesting a new CCN for water and sewer service and establishing rates for water and sewer service in this requested area, 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, along with adopting existing Lawson inside-city water and sewer rates applicable to the entire Lawson service area, is not detrimental to the public interest. Further, the rate base and purchase price, as determined by the appraisal method outlined in §393.320, is reasonable. However, MAWC will need to develop plant records for the assets acquired from Lawson that reflect that rate base amount. Staff therefore recommends approval with the conditions and actions as outlined herein.

STAFF'S RECOMMENDATIONS

Based upon the above, Staff recommends that the Commission:

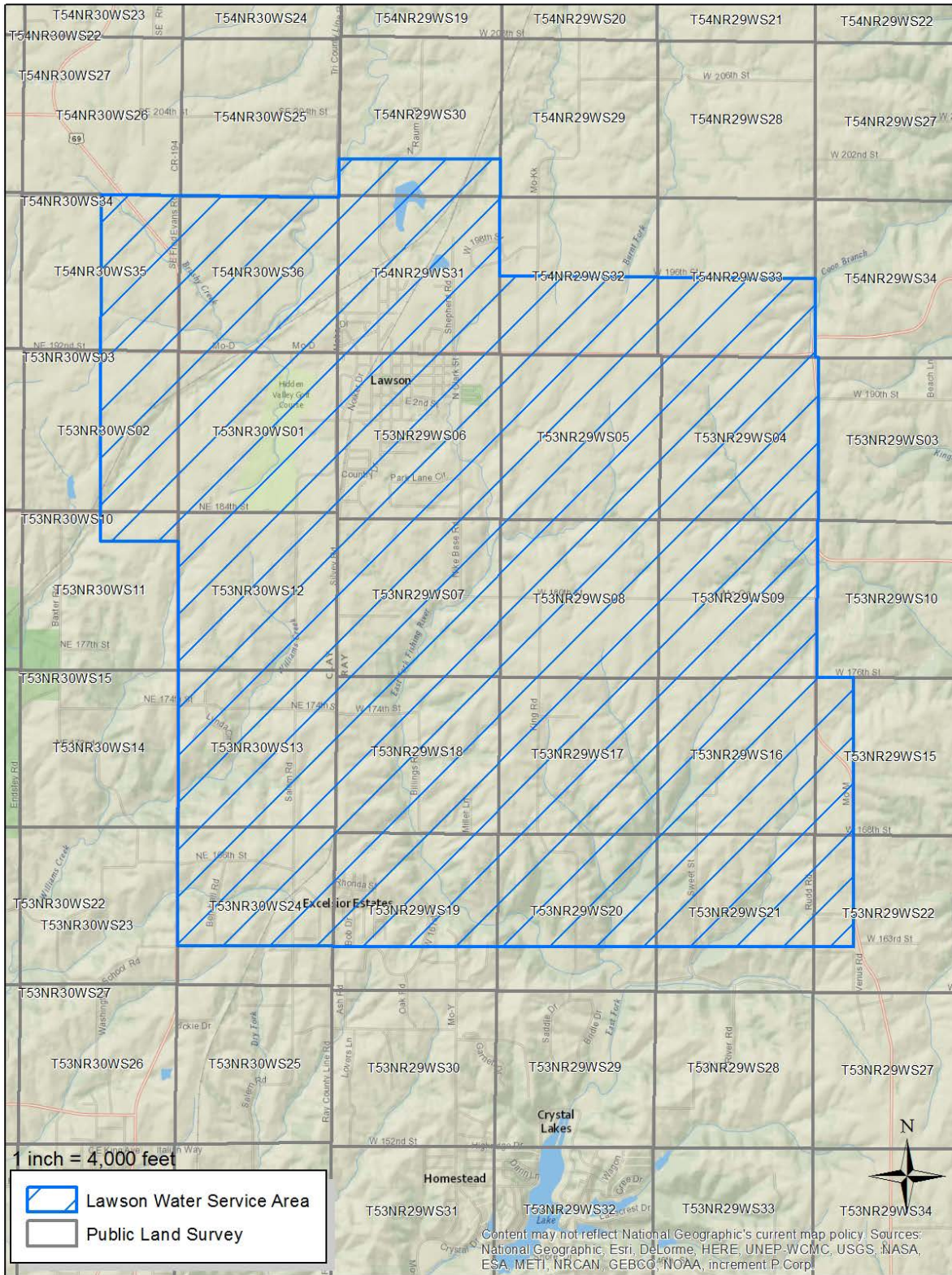
1. Grant MAWC a CCN to provide water and sewer service in the proposed Lawson service areas, as modified as outlined herein;
2. Approve existing Lawson inside-city water and sewer rates, and recommend MAWC honor commitments made to the city of Lawson as noted herein, applicable to customers in MAWC's Lawson water and sewer approved 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 water tariff P.S.C. MO No. 13, and water rates, applicable specifically to water service in its Lawson service area;
4. 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 sewer tariff P.S.C. MO No. 26, and sewer rates, applicable specifically sewer service in its Lawson service area;
5. Require Lawson or MAWC to notify the Commission of closing on the assets within five (5) days after such closing;
6. 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;
7. 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 applicable to the Lawson area in its water tariff, and rate sheets applicable to customers in the Lawson area in both the water and sewer tariffs;

8. Require MAWC to develop a plan to book all of the Lawson 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, such that current rate base is broken down as \$2,630,000 for the water system, and \$1,370,000 for the sewer system, 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;
9. Require MAWC to book the estimated original cost of the North Highway 69 sewage lift station, and book an accompanying CIAC offset equal to the estimated original cost of this facility;
10. Require MAWC to rehabilitate the Vibbard water pump station, as reasonably necessary to restore dependable working order, and enter into a wholesale contract or a water service agreement with District 2, all within 60 days of closing on the assets, or as soon as possible thereafter with status reports to Staff, as described above regarding the Vibbard facility;
11. Require MAWC to keep its financial books and records for plant-in-service and operating expenses in accordance with the NARUC Uniform System of Accounts;
12. Adopt for Lawson Water and Sewer assets the depreciation rates ordered for MAWC in Case No. WR-2015-0301;
13. Require MAWC to provide an example of its actual communication with the Lawson service area customers regarding its acquisition and operations of the Lawson water and sewer system assets, and how customers may reach MAWC, within ten (10) days after closing on the assets;
14. Require MAWC to obtain from Lawson, 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;
15. Except as required by §393.320 RSMo, 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 certificated service area, in any later proceeding;
16. Require MAWC to include the Lawson customers in its established monthly reporting to the CXD Staff on customer service and billing issues within thirty (30) days of closing on the assets;
17. Require MAWC to distribute to the Lawson 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, within thirty (30) days of closing on the assets;
18. 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; and,
19. Require MAWC to file notice in this case once Staff Recommendations Nos. 16-18 above, have been completed.

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

Attachments:

- A: Proposed Revised Water Service Area Map
- B: Proposed Revised Water Service Area Description
- C: Proposed Revised Sewer Service Area Map
- D: Proposed Revised Sewer Service Area Description



Legal Description

A tract of land being located in Sections 35 and 36, Township 54 North, Range 30 West, Sections 31, 32, 33 and 34, Township 54 North, Range 29 West, Sections 1, 2, 11, 12, 31 and 24, Township 53 North, Range 30 West and Sections 4, 5, 6, 7, 8, 9, 10, 15, 16, 17, 18, 19, 20, 21 and 22, Township 53 North, Range 29 West, all Townships and Ranges reference from the Fifth Principal Meridian, in the counties of Ray and Clay in the State of Missouri and being more particularly described as follows:

Overall Service Area

Beginning; at the Northwest Corner of the Southwest Quarter of the Southeast Quarter of Section 26, Township 54 North, Range 30 West; thence East along the North line of said Quarter-Quarter Section and continuing along the North line of the Southeast Quarter of the Southeast Quarter of Section 26 to the East line of said Section 26; thence continuing East along the North line of Southwest Quarter of the Southwest Quarter and then the Southeast Quarter of the Southwest Quarter and then the Southwest Quarter of the Southeast Quarter and then the Southeast Quarter of the Southeast Quarter of Section 25 to the East line of Section 25 thereof, being commonly known as the East line of Clay County Missouri and the West line of Ray County Missouri, being also the common line between Section 25 Township 54 North, Range 30 West and Section 30, Township 54 North, Range 29 West; thence North along the East line of said Section 25 and the West line of Section 30 to the East West Center line of said Section 30; thence continuing East into Ray county along the East West center line of Section 30 to the East line of said section 30 thereof; thence South along the East line of said Section 30 to the Southeast corner thereof; thence continuing South along the East line of Section 31 to the East West center line of said Section 32; thence continuing along the East West center line of Section 32 to the East line of Section 32; thence continuing East along the East West center line of Section 33 to the East Line of Section 33; thence South along the East line of Section 33, to the Southeast corner thereof; thence continuing South along the East line of said Section 4, Township 53 North, Range 29 West to the Southeast corner thereof; thence South along the East line of Section 9, Township 53 North, Range 29 West to the Southeast corner thereof; thence East along the South line of Section 10, Township 53 North, Range 29 West to the Southeast corner of the Southwest Quarter of the Southwest Quarter of said Section 10; thence South along the East line of the Northwest Quarter of the Northwest Quarter of Section 15, Township 53 North, Range 29 West and continuing south along the quarter-quarter line to the South line of said Section 15; thence continuing South along the East line of the Northwest Quarter of the Northwest Quarter of Section 22, Township 53 North, Range 29 West and continuing south along the quarter-quarter line to the Southeast corner of the Northwest Quarter of the Southwest

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Quarter of said Section 22; thence West along the South line of the Northwest Quarter of the Southwest Quarter of said Section 22 to the west line thereof; thence continuing West along the South line of the Northeast Quarter of the Southeast Quarter of Section 21 and continuing west along the quarter-quarter line to the West line of said Section 21; thence continuing along the South line of the Northeast Quarter of the Southeast Quarter of Section 20 and continuing west along the quarter-quarter line to the West line thereof; thence continuing along the South line of the Northeast Quarter of the Southeast Quarter Section 19 and continuing west along the quarter-quarter line to the West line of Section 19, being also the West line of Ray County, Missouri and the East line of Clay County, Missouri; thence continuing West into Clay County, along the South line of the Northeast Quarter of the Southeast Quarter of Section 24, Township 53 North, Range 30 West and continuing west along the quarter-quarter line to the West line of Section 24; thence North along the West line of Section 24 to the Northwest corner thereof; thence continuing North along the West line of Section 13, Township 53 North, Range 30 West to the Northwest corner thereof; thence continuing North along the West line of Section 12, Township 53 North, Range 30 West to the Southwest corner of the Northwest Quarter of the Northwest Quarter of said Section 12; thence West along the South line of the Northeast Quarter of the Northeast Quarter of Section 11 and the Northwest Quarter of the Northeast Quarter of Section 11 to the North South center line of said Section 11; thence north along the North South center line of said Section 11 to the North line thereof; thence continuing North along the North South center line of Section 2 to its intersection with the North line of said Section 2; thence continuing North along the North South center line of Section 35, Township 54 North, Range 30 West to the North line of said Section 35; thence continuing North along the North South center line of Section 26 to the Northwest corner of the Southwest Quarter of the Southeast Quarter of said Section 26 and the point of beginning, containing 569,764,800 square feet or 13,080 acres.

Legal Description

A tract of land being located in Sections 25, 26, 35 and 36, Township 54 North, Range 30 West, Sections 30 and 31, Township 54 North, Range 29 West, Sections 1 and 2 Township 53 North, Range 30 West and Sections 6 and 7, Township 53 North, Range 29 West, all Townships and Ranges reference from the Fifth Principal Meridian, in the counties of Ray and Clay in the State of Missouri and being more particularly described as follows:

Sewer System Area

Beginning at the Northwest Corner of the Southwest Quarter of the Southeast Quarter of Section 26, Township 54 North, Range 30 West; thence East along the North line of said Quarter-Quarter Section and continuing along the North line of the Southeast Quarter of the Southeast Quarter of Section 26 to the East line of said Section 26; thence continuing East along the North line of Southwest Quarter of the Southwest Quarter and then the Southeast Quarter of the Southwest Quarter and then the Southwest Quarter of the Southeast Quarter and then the Southeast Quarter of the Southeast Quarter of Section 25 to the East line of Section 25 thereof, being commonly known as the East line of Clay County Missouri and the West line of Ray County Missouri, being also the common line between Section 25 Township 54 North, Range 30 West and Section 30, Township 54 North, Range 29 West; thence North along the East line of said Section 25 and the West line of Section 30 to the East West Center line of said Section 30; thence continuing East into Ray county along the East West center line of Section 30 to the East of said section 30 thereof; thence South along the East line of said Section 30 to the Southeast corner thereof; thence continuing South along the East line of Section 31 to the Southeast corner thereof; thence continuing South along the East line of Section 6, Township 53 North, Range 29 West, to the Southeast corner thereof; thence continuing South along the East line of Section 7 to the Southeast corner of the Northeast Quarter of the Northeast Quarter of said Section 7; thence West along the South line of said Quarter-Quarter Section and continuing along the South line of the Northwest Quarter of the Northeast Quarter and then the Northeast Quarter of the Northwest Quarter and then the Northwest Quarter of the Northwest Quarter to the West line of said Section 7 and being also the common line between Ray and Clay counties; thence North along said common county line to the Southeast corner of the Northeast Quarter of the Northeast Quarter of Section 12 Township 53 North, Range 30 West; thence continuing West along the South line of said Quarter-Quarter Section and then the Northwest Quarter of the Northeast Quarter and then the Northeast Quarter of the Northwest Quarter and then the Northwest Quarter of the Northwest Quarter to the West line of said Section 12; thence continuing West along the South line of the

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Northeast Quarter of the Northeast Quarter of Section 11 and then the Northwest Quarter of the Northeast Quarter to the North South center line of said Section 11; thence North along said North South center line to the North line thereof; thence continuing North along the North South center line of Section 2 to the North line of said Section thereof; thence continuing North along the North South center line of Section 35, Township 54 North, Range 30 West to the North line of said Section 35 thereof; thence continuing along the North South line of Section 26 to the Northwest corner of the Southwest Quarter of the Southeast Quarter of said Section 26 and the point of beginning, containing 178,370,235 square feet or 4,095 acres.

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

In the Matter of Missouri-American Water)
Company for Certificates of Convenience and)
Necessity Authorizing it to Install, Own, Acquire,)
Construct, Operate, Control, Manage and)
Maintain Water and Sewer Systems in and)
Around the City of Lawson, Missouri)

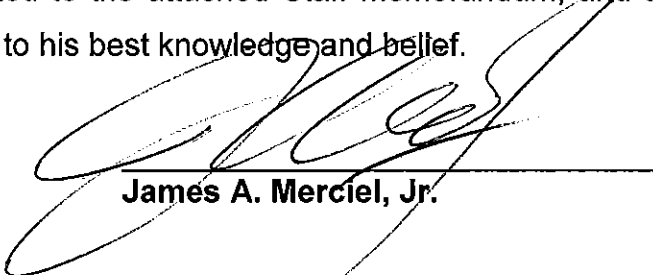
Case No. WA-2018-0222

AFFIDAVIT OF JAMES A. MERCIEL, JR.

State of Missouri)
) ss.
County of Cole)

COMES NOW James A. Merciel, Jr. 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.



James A. Merciel, Jr.

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 22nd day of May, 2018.

DIANNA L. VAUGHT
Notary Public - Notary Seal
State of Missouri
Commissioned for Cole County
My Commission Expires: June 28, 2019
Commission Number: 15207377



NOTARY PUBLIC

