

Exhibit No. \_\_\_\_\_  
Issues: Applicant, Qualifications, Capital  
Structure, Debt Financing, Staff Proposed  
Conditions, Tariffs and Rates, Public Interest  
Witness: Josiah Cox  
Type of Exhibit: Direct Testimony  
Sponsoring Party: Confluence Rivers  
File Nos.: WM-2018-0116 and SM-2018-0117  
Date: November 19, 2018

**Missouri Public Service Commission**

**Direct Testimony**

**of**

**Josiah Cox**

**On Behalf of**

**Confluence Rivers Utility Operating Company, Inc.**

**November 19, 2018**

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**DIRECT TESTIMONY OF  
JOSIAH COX  
CONFLUENCE RIVERS UTILITY OPERATING COMPANY, INC.**

1        **WITNESS INTRODUCTION**

2        **Q.     PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

3        A.     My name is Josiah Cox. My business address is 500 Northwest Plaza Drive,  
4        Suite 500, St. Ann, MO, 63074.

5        **Q.     WHAT IS YOUR POSITION WITH CONFLUENCE RIVERS UTILITY  
6        OPERATING COMPANY, INC. (CONFLUENCE RIVERS OR COMPANY)?**

7        A.     I hold the office of President of Confluence Rivers.

8        **Q.     PLEASE DESCRIBE YOUR EDUCATIONAL AND PROFESSIONAL  
9        EXPERIENCE.**

10      A.     I received a Bachelor of Science with a major in Environmental Science from the  
11      University of Kansas. After graduation and a brief tenure at the Kansas  
12      Biological Survey, I was employed by Fribis Engineering, a Civil Engineering  
13      Firm in Arnold, MO. I spent approximately two and a half years working with  
14      Fribis Engineering. I was involved during that time in various facets of the land  
15      development process to include permitting, entitlement, civil design, project  
16      management, and construction management. I focused mainly on the water and  
17      wastewater side of the civil engineering business and participated in every part of  
18      the civil business from wasteload allocation studies (now known as the anti-  
19      degradation processes), design, permitting, project management, and

1 construction management. I also ran the environmental consulting division and  
2 was the second private consultant to submit a water quality impact study in the  
3 state of Missouri in 2003. At Fribis Engineering, I joined the executive leadership  
4 team and helped run all of the operations of the firm. Thereafter, in 2005, I raised  
5 money from a group of investors and formed Trumpet LLC. Trumpet LLC was a  
6 full-service civil engineering, environmental consulting, general contracting, and  
7 construction management firm. In early 2006, I started the Executive Masters of  
8 Business Administration (MBA) program at Washington University in St. Louis. I  
9 graduated with my MBA from Washington University in the 2007. At Trumpet  
10 LLC, as the Chief Operating Officer and finally Chief Executive Officer, I obtained  
11 extensive experience with rural communities in every facet of the water and  
12 wastewater compliance process including environmental assessment, permitting,  
13 design, construction, operation and community administration of the actual water  
14 and wastewater (sewerage) systems. At Trumpet, we performed stream  
15 sampling and built waste-load allocation models to determine receiving water-  
16 body protective permit-able effluent pollutant loads. We have done full  
17 engineering design of multiple whole community wastewater and water  
18 infrastructure systems including wells, water distribution, water treatment, water  
19 storage, wastewater conveyance, and wastewater treatment plants and taken  
20 these designs through federal and state administered permitting processes in  
21 Missouri. Trumpet also administered the construction of these water and  
22 wastewater systems from green field site selection all the way through system  
23 startup and final engineering sign off. In 2008, I took over the operations on an

1 existing rural non-profit sewer district and I still currently operate a system  
2 managing the functioning, testing, and maintenance of the system. Finally, I also  
3 act as the manager for this municipal system performing all the billing,  
4 emergency response, accounts payable / accounts receivable, collections,  
5 budgeting, customer service, and public meetings required to service the  
6 community.

7 **Q. DO YOU ALSO HAVE A POSITION AT CENTRAL STATES WATER**  
8 **RESOURCES, INC.?**

9 A. Yes. I have been the President of Central States Water Resources, Inc., which  
10 manages First Round CSWR, LLC (First Round), for approximately four and a  
11 half years. First Round, through its subsidiaries, has completed several  
12 acquisition and financing cases with the Missouri Public Service Commission  
13 (Commission).

14  
15 **PURPOSE**

16 **Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY?**

17 A. I will provide a description of Confluence Rivers and its qualifications to own and  
18 operate the water and sewer systems it seeks to purchase. Further, I will  
19 describe Confluence Rivers' efforts to obtain financing for the purchase and  
20 improvement of the subject systems, as well as the capital structure Confluence  
21 Rivers has targeted for this operation. Finally, I will state the Company's position  
22 as to the conditions proposed by the Staff of the Commission, indicate what rates

1 and regulations Confluence Rivers seeks to use in providing service, and explain  
2 why the proposed transactions are in the public interest.

3  
4 **CONFLUENCE RIVERS**

5 **Q. PLEASE DESCRIBE CONFLUENCE RIVERS.**

6 A. Confluence Rivers is a Missouri corporation with its principal office and place of  
7 business at 500 Northwest Plaza Drive, Suite 500, St. Ann, MO, 63074.

8 Confluence Rivers is a Missouri corporation active and in good standing.

9 Confluence Rivers was formed for the purpose of providing water and sewer  
10 service to the public and intends to be a “water corporation,” a “sewer  
11 corporation,” and a “public utility” as those terms are defined in Section 386.020,  
12 RSMo, and will be subject to the jurisdiction and supervision of the Commission.

13 **Q. IS CONFLUENCE RIVERS A PART OF A LARGER ORGANIZATION?**

14 A. Yes. First Round CSWR, LLC is Confluence Rivers’ ultimate parent company.  
15 Central States Water Resources, Inc. is the manager for First Round CSWR,  
16 LLC. I commonly refer to the entire business organization as a whole by the  
17 name “Central States” or “CSWR.”

18  
19 **QUALIFICATIONS**

20 **Q. WHAT DOES CONFLUENCE RIVERS PROPOSE IN THIS MATTER?**

21 A. Confluence Rivers proposes to purchase substantially all of the water and/or  
22 sewer assets of Smithview H2O Company; M.P.B., Inc. (also referred to as Villa  
23 Ridge and Lake Virginia); Mill Creek Sewers, Inc.; Roy-L Utilities, Inc.; Port Perry

1 Service Company, LLC; Gladlo Utilities, Inc.; The Willows Utility Company, Inc.;  
2 Majestic Lakes Homeowners Association, Inc.; Evergreen Lakes Water Supply  
3 Co.; Eugene Water System, Cole County, MO; Calvey Brook Water, Inc. and  
4 Calvey Brook Sewer, Inc.; Forest Ridge, LLC (Auburn Lake Estates);  
5 (collectively, the "Selling Utilities").

6 **Q. WHAT IS THE GENERAL CONDITION OF THE SYSTEMS TO BE**  
7 **ACQUIRED?**

8 A. All of the systems to be acquired lack the financial, technical, and/or managerial  
9 capacity needed to provide safe and reliable water and/or sewerage service.  
10 The systems have distinct problems I will discuss on a system by system basis.  
11 The Direct Testimony of Todd Thomas also addresses the conditions of the  
12 systems of the Selling Utilities.

13  
14 **Kuhle H2O, Incorporated, (H2O Company's water):**

15 Kuhle H2O, Incorporated, (Smithview) is an existing Commission-regulated  
16 (drinking water only) utility located approximately three miles north of the city  
17 limits of Columbia, MO in unincorporated Boone County. The water system is  
18 approximately 44 years old. The existing owner abandoned the drinking water  
19 system in the winter of 2016. The existing owner had not reinvested in the  
20 system, was not correctly billing customers, and lacked an operator. At the  
21 request of the PSC Staff, CSWR took over emergency interim operations of  
22 Smithview on a path to future ownership (now the Confluence Rivers case) to  
23 provide safe, reliable water service to existing customers until a larger

1 consolidated acquisition case could be brought before the Commission. The  
2 Missouri Department of Natural Resources (MDNR) has sited Smithview for  
3 numerous issues. Those MDNR/operation issues are detailed in Mr. Todd  
4 Thomas' testimony but in general they revolve the water system being exposed  
5 to potential pathogen contamination, a lack of functioning emergency backup  
6 service, the main water tankage is failing, dilapidated well house which exposes  
7 the system to pathogen while providing a security risk, and a lack MDNR  
8 mandated Lead-Copper and Well Head plans.

9 In addition, the water tower, wellhouse, and access road do not have title to the  
10 property they sit on.

11 Existing Well House:



12

13



1       **Mill Creek Sewers, Incorporated (Mill Creek):**

2       Mill Creek Sewers, Inc. (Mill Creek) is an existing regulated wastewater system  
3       located within the city limits of Florissant, MO in St. Louis County. Mill Creek has  
4       been in state appointed receivership for 7 years. Mill Creek's systems is over 25  
5       years old. As a receivership Mill Creek lacks access to the financial resources  
6       needed to provide MDNR compliant safer sewerage service to residents. Mill  
7       Creek is currently under a MDNR schedule of compliance and has MDNR  
8       violations for three issues. The existing plant is required by MDNR to treat  
9       waste for human pathogens (disinfection) and remove nutrients ammonia as  
10      nitrogen, which the existing plant cannot treat. In addition Mill Creek currently  
11      has sewer surcharge issues. These surcharges are the result of ground water  
12      infiltration and inflow (I&I) and the community's sewer usage. After rain events  
13      the WWTP is washed out into the receiving stream sending undertreated waste  
14      into the environment.

15      In addition, the wastewater plant property does not belong to Mill Creek Sewers,  
16      Inc., nor is there an existing easement to access the wastewater plant.

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**M.P.B. Sewers, Inc. (Villa Ridge and Lake Virginia Wastewater Systems):**

M.P.B. Sewer Inc.'s sewerage systems were abandoned by their original owners, who were accused of falsifying wastewater testing data during their years of operating wastewater plants. M.P.B. Sewer Inc. was placed into receivership over four years ago. The Villa Ridge and Lake Virginia systems are being purchased out of receivership.

**Villa Ridge:**

Villa Ridge is an existing regulated wastewater system located in Villa Ridge, MO in Franklin County. Villa Ridge is currently under a MDNR compliance schedule to disinfect human pathogens out of the wastewater and remove nutrients from

1 the wastewater. The wastewater plant's existing collection systems has rain and  
2 groundwater infiltration and inflow problems (I&I) with the plant experiencing  
3 wash outs during rain events. The plant's receiving creek has visible sludge  
4 deposits. One of the two pump stations is not currently functional and has been  
5 videoed draining directly into a lake located in the center of the residential  
6 subdivision.

7 **Lake Virginia:**

8 Lake Virginia is an existing regulated wastewater system made up of two-tiered  
9 lagoon without any mechanical systems located in Hematite, MO in Jefferson  
10 County. Lake Virginia is currently under a MDNR compliance schedule to  
11 disinfect human pathogens out of the wastewater and remove nutrients from the  
12 wastewater. The wastewater plant's existing collection systems has rain and  
13 groundwater infiltration and inflow problems (I&I) with the system backing up  
14 manholes and flooding nearby residents' basements. The plant's receiving creek  
15 has visible sludge deposits. The lagoon berms are visibly failing draining directly  
16 into a creek near the residential subdivision.

17 In addition, the lagoons reside on property that the utility does not own.

18 **Majestic Lakes Homeowners Association (Majestic Lakes):**

19 Majestic Lakes Homeowners Association (Majestic Lakes) is an existing  
20 unregulated wastewater system located approximately 2 miles southeast of  
21 Moscow Mills, MO in unincorporated Lincoln County. The community's original  
22 developer lost the development in the great recession, and the community was  
23 liquidated by the back to a third-party financial firm.

1           Majestic Lakes is subject to a Missouri Attorney General Enforcement Action and  
2           has been under an MDNR building moratorium. The Attorney General Action  
3           and moratorium revolve around the fact that the concrete walls on the poured-in-  
4           place wastewater system are failing. CSWR has a settlement agreement with  
5           MDNR and the MO Attorney General. A quote from MDNR regarding Majestic  
6           Lakes:

7                     During the inspection, staff observed that the headworks bar screen  
8                     concrete box was leaking around the base; wastewater was leaking  
9                     from the cracks in the concrete walls, both of which are bypasses of  
10                    the treatment process; and a metal plate had been installed  
11                    between the outside wall and the aeration tank wall for temporary  
12                    reinforcement. Staff also observed that the recirculation pump was  
13                    nonoperational; the transducer for measuring flow was also  
14                    nonoperational and in need of repair; the emergency generator at  
15                    the WWTF had been removed; and the generator at the lift station  
16                    had not been repaired since it was flooded in 2008.

17

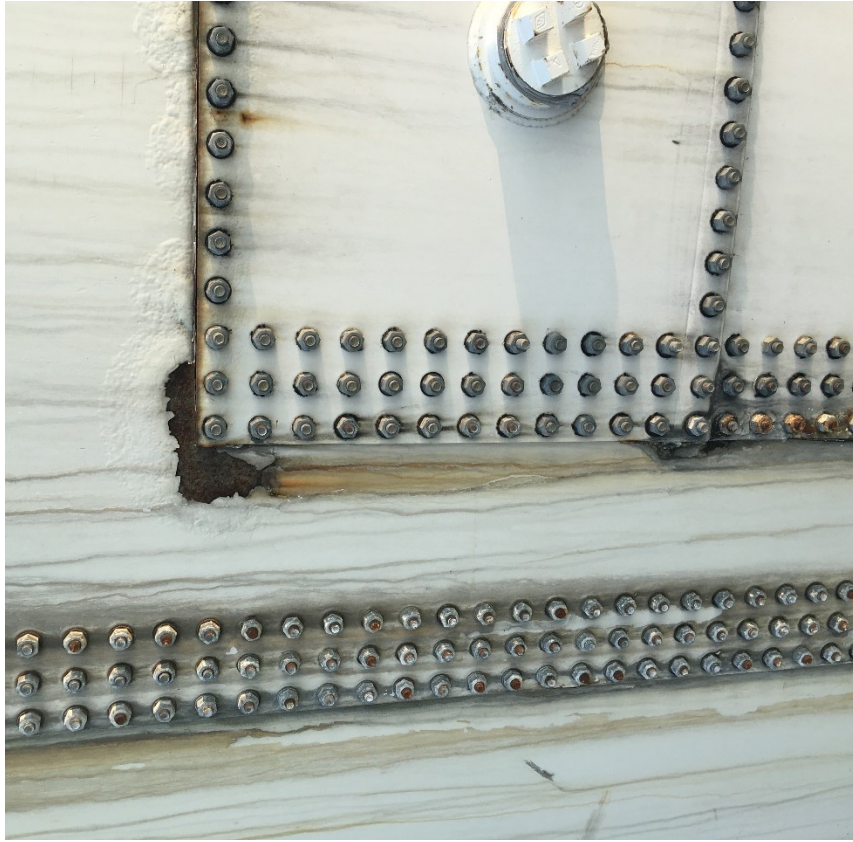


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In January of 2017, as part of emergency interim operations agreement with the Homeowners Association moving to the current consolidated Confluence Rivers acquisition case, at the behest of MDNR, CSWR paid to install post construction steel reinforcement sections to prevent and imminent structural collapse of the wastewater plant.

In addition, there is no current legal access to the wastewater plant.

A Majestic Lakes water system also services the existing community. The Majestic Lakes water system needs extensive structural repairs and is currently leaking.



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**Evergreen Lakes:**

Evergreen Lakes is a regulated water system located approximately 5 miles outside of Catawissa, MO in unincorporated Franklin County. The Evergreen Lake water system is over 40 years old. The existing Owner of Evergreen Lakes is over 80 years old and is the sole operator of the system including meter reading. The system needs back up disinfection and room to segregate chemical addtion from water tanks.

In addition, Evergreen Lakes does not have easements for the existing water distribution system.





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**Roy – L Utilities, Incorporated (Roy L):**

Roy – L Utilities, Inc. (Roy - L) is an existing regulated water and wastewater system located approximately 3 miles north of High Hill, MO in unincorporated Montgomery County. The water and wastewater systems are over 40 years old. The existing owner is over eighty and the widow of the community’s original developer.

The wastewater system is under an MDNR schedule of compliance for nutrient removal with violations. The wastewater plant’s existing collection systems has rain and groundwater infiltration and inflow problems (I&I) with the lagoon experiencing wash outs during rain events. The system’s I&I has been a long-

1 term issue. Roy L's most recent rate had a sewer rate design component to  
2 investigate the collection system. Unfortunately, even the adjusted revenue  
3 requirement could not support existing operations, but CSWR has completed part  
4 of the collection system investigation as part of CSWR's engineering design to  
5 support the current acquisition case.



6  
7 Roy L's water system lacks back up pumping for service resiliency, lacks MDNR  
8 mandated disinfection back, and does not have a separate chemical room. A  
9 chlorination system inside the well house feeds from the well into the ground  
10 storage tank. Inside the well house the storage tank feeds a single bladder tank  
11 connected to a single centrifugal pump providing water pressure to the residential  
12 drinking water conveyance system.

13 In addition, Roy, L Utilities, Inc. does not have legal property access to the water  
14 plant or the wastewater plant.

15 **The Willows Utility Company, Inc. (The Willows):**

16 The Willows is a Commission-regulated water and wastewater system located  
17 outside of Republic, in Greene County, Missouri. The owners are a multifamily



1 real estate corporation that does not have utility experience based out of Texas  
2 that have sold the existing community The Willows utility serves. The Willows is  
3 under a current Attorney General enforcement action with MDNR for compliance  
4 issues including violating the Missouri Clean Water Law by causing pollution to a  
5 tributary of Pond Creek both in the form of undertreated waste and sanitary  
6 sewer overflows presenting a public health risk to nearby residents. The drinking  
7 water system has a history of unreported low-pressure events presenting a  
8 potential imminent health risk to customers. Both the water and waste water  
9 systems need extensive urgent upgrades for reliability and compliance.

10 **Port Perry Service Company, LLC (Port Perry):**

11 Port Perry is a PSC regulated water and waste water system located south of  
12 Perryville, in Perry County, Missouri. The water and wastewater systems are  
13 over 40 years old. To gain control of the Port Perry systems the current owners  
14 bought the shares of Port Perry Service Company, LLC from the Perry County  
15 Assessor per a tax sale for unpaid property tax in 2002. One of current owners  
16 runs a school bus company and the other works at the local Missouri Farmers  
17 Association. The existing owners have been unable to successfully file a rate  
18 case to support professional operations and capital investment over their last 16+  
19 years of ownership. Due to their lack of utility experience the owners wish to exit  
20 the utility business.

21 The Port Perry existing land application wastewater system has major  
22 wastewater application distribution issues precluding its ability to correctly apply  
23 waste, the system is manual, and the systems lacks adequate security fencing.

1 The Port Perry drinking water system does not have a reliable second source of  
2 water correctly tied into the existing disinfection system for disinfection contact  
3 time before the drinking water goes into the distribution system, and the  
4 wellhouse is aging and in need of urgent upgrades for reliability and control.

5 In addition, most of the existing utility easements have major clouding or  
6 impairments due to numerous changes of ownership control without the  
7 commensurate recorded deed transfer documentation.

8 **Gladlo Utilities, Inc. (Gladlow):**

9 Gladlo is an existing PSC regulated water and wastewater located east of Rolla,  
10 in Phelps County, Missouri. The Gladlow water and wastewater systems are  
11 over 40 years old. Gladlow has been in PSC state appointed receivership for 9  
12 years.

13 The Gladlow wastewater system is a lagoon without any mechanical systems.

14 Gladlow is under a MDNR compliance schedule for nutrient and the system has  
15 significant I&I issues.

16 The Gladlow drinking water system is a single tank feed by a single well. The  
17 Gladlow drinking water system lacks service stability redundancy, emergency  
18 service, and exposes the drinking water system to potential pathogen  
19 contamination.

20 **Calvey Brook Water, Inc. and Calvey Brook Sewer, Inc. (Calvey Brook):**

21 Calvey Brook is an existing PSC regulated water and wastewater located near  
22 Robertsville, in Franklin County, Missouri. The original Calvey Brook subdivision  
23 developer was forced to sell to his lender, which now owns the water and

1 wastewater systems by default. The bank has no experience with utilities and  
2 needs to exit the business.

3 The Calvey Brook wastewater system is a recirculating sand filter and is under  
4 an MDNR compliance schedule for human pathogen disinfection.

5 The Calvey Brook drinking water system needs significant internal piping  
6 replacement and mechanical systems rehab to support reliable drinking water  
7 service.

8 **Aulburn Lake Homeowner Association. (Aulburn Lake):**

9 Aulburn Lake is an unregulated homeowner association water and wastewater  
10 system located near Moscow Mills, in Lincoln County, Missouri. The original  
11 Aulburn Lake subdivision developer was forced to liquidate in 2008 and a  
12 successor homeowner association ended up with the water and wastewater  
13 systems by default. The homeowner's association has no experience with  
14 utilities and needs to exit the business.

15 The Aulburn Lake wastewater system is Masterson Plant, was constructed in  
16 2008 and was fallow in the ground, never started up. The plant needs significant  
17 mechanical and electrical work.

18 The Aulburn Lake drinking water system was also built in 2008, but left fallow  
19 and never turned on. The entire electrical system needed brought on-line in  
20 order to have functioning drinking water.

21 **Eugene Drinking Water System (Eugene):**

22 The Eugene Drinking water system is located south of Jefferson City, in Cole  
23 County Missouri. The former City of Eugene, MO, which disincorporated in 1997,

1 originally owned this drinking water system. The Eugene drinking water system  
2 is over 40 years old. After Eugene's disincorporation the Cole County Public  
3 Works Department, whom mainly operates as a street department was ordered  
4 to take over the drinking water system. The Cole County Public Works  
5 Department has tried to dispose of the system for over 20 years without success.  
6 The Eugene water systems needs tank work and well house piping replacement  
7 to ensure reliable service.

8  
9 **Q. WHAT IS FIRST ROUND'S EXPERIENCE WITH WASTEWATER/SEWER**  
10 **SYSTEMS?**

11 A. On the wastewater side of the business, First Round has purchased 16  
12 wastewater treatment plants (WWTP) with associated sewer pumping stations,  
13 gravity force mains, and gravity conveyance lines. In Missouri the companies  
14 have designed, permitted, and completed construction, with Missouri Department  
15 of Natural Resources approval, of approximately \$3.2 million of sanitary sewer  
16 systems since March of 2015. These improvements include wastewater line  
17 repairs to remove infiltration and inflow, building sewer main extensions, the  
18 repair of multiple lift stations, the construction of lift stations, the closure of an  
19 existing regulatory impaired WWTP, building two fully activated sludge plants,  
20 constructing moving bed bio-reactor plants (MBBR), converting two failing  
21 WWTP's into sludge storage/flow equalization and treatment basins, converting  
22 failed mechanical systems to I-Fast systems, and constructing various other  
23 wastewater supporting improvements. Central States has completed the design

1 and construction permitting for major wastewater improvements for two additional  
2 wastewater systems in Missouri, for new utility acquisitions recently approved in  
3 an Elm Hills Utility Operating Company, Inc. acquisition case. These designs  
4 include constructing two moving bed bio-reactor plants (MBBR) and constructing  
5 various other wastewater supporting improvements. Central States has also  
6 completed or is in the permitting process with the Arkansas Department of  
7 Environmental Quality (ADEQ) the design of improvements associated with 10  
8 additional wastewater plants in Arkansas.

9 **Q. WHAT IS FIRST ROUND'S EXPERIENCE WITH WATER SYSTEMS?**

10 A. On the drinking water side of the business, the companies have purchased four  
11 drinking water systems in Missouri and Arkansas. In Missouri CSWR has  
12 designed, permitted, and has completed construction with Missouri Department  
13 of Natural Resources approval of approximately \$3.1 million of drinking water  
14 systems since March of 2015. These improvements include construction of three  
15 new ground water storage tanks, construction of three sets of drinking water  
16 pressurization pump assemblies, drilling a deep water well, erecting two new  
17 well-houses, closing two failed well-houses, closing an exposed failed deep  
18 water drinking well, blasting/coating existing tankage, rehabbing existing  
19 impaired well-house, closing a failing booster pump station house, replacement  
20 of over 700 meter pits with new meters, replacement of numerous existing water  
21 service lines, installing numerous isolation valve systems, installing multiple flush  
22 hydrants, repairing almost hundreds of leaks and repairing or building various  
23 other supporting drinking water system improvements. Central States is also

1 currently permitting new drinking water construction with ADEQ for another water  
2 system owned in Arkansas.

3 **Q. HAS THE ORGANIZATION TAKEN STEPS TO IMPROVE SERVICES AT THE**  
4 **SYSTEMS IT NOW OPERATES?**

5 A. Yes. In addition to the capital improvements made on all of the systems, the  
6 organization has built from scratch customer service systems at each utility that  
7 comply with the Commission's Chapter 13 rules and provide benefits to the  
8 customers. This includes 24 hour emergency service phone lines for potential  
9 service issues, on-call emergency service contractor personnel, implementation  
10 of a computerized maintenance management system for wastewater and  
11 drinking water utility assets, customer dissemination of Missouri Department of  
12 Natural Resources mandated drinking water testing information, on-line bill-pay  
13 options, up-to-date website bulletins about current service status, and service  
14 initiation or discontinuance procedures that are Commission compliant

15 **Q. DOES CONFLUENCE RIVERS HAVE THE TECHNICAL CAPACITY TO**  
16 **OPERATE THE ASSETS IT PROPOSES TO PURCHASE?**

17 A. Yes. I have experience in the design and operation of water and sewer systems.  
18 Confluence Rivers intends to utilize a contract operator for plant operations,  
19 utilizing the services of appropriately qualified and licensed utility system  
20 operators (for water and for sewer) ultimately supervised by me. The contract  
21 operator will undertake routine day-to-day inspections, checks, sampling and  
22 reporting for the water and sewer systems, along with meter reading, as well as  
23 accomplish most system repairs and extraordinary operations tasks as the need

1 arises, to address proper facility operations and customer service matters. All of  
2 these activities will be tracked inside CSWR's computerized maintenance  
3 management system.

4 **Q. DOES CONFLUENCE RIVERS HAVE THE FINANCIAL CAPACITY TO**  
5 **OPERATE THE ASSETS IT PROPOSES TO PURCHASE?**

6 A. Yes. Confluence Rivers has been able to attract investment to provide safe and  
7 reliable water and wastewater service.

8 **Q. DOES CONFLUENCE RIVERS HAVE THE MANAGERIAL CAPACITY TO**  
9 **OPERATE THE ASSETS IT PROPOSES TO PURCHASE?**

10 A. Yes. Similar to routine facility operations, Confluence Rivers intends to utilize a  
11 contract billing agent, and utilize an emergency answering service. The billing  
12 agent will be responsible for computing, printing, and sending monthly bills to  
13 customers, and then collecting payment. The billing agent will also have  
14 customer service staff that will be able to take and process customer calls with  
15 inquiries pertaining to billing, make bill adjustments and enter into payment plans  
16 within company guidelines, interact with Staff in working with customer  
17 complaints, and manage new customer accounts and the closing of customer  
18 accounts. In conjunction with an answering service that may be a different agent,  
19 the contract billing agent will also be available to route service complaints and  
20 inquiries. I will also be available by telephone at most all times when severe  
21 emergencies arise. Confluence Rivers intends to comply with the Commission's  
22 regulations with respect to customer billing and customer complaints/inquiries,  
23 certain aspects of utility system upkeep including placement of customer meters

1 along with meter testing/replacement, and recordkeeping to document company  
2 operations expenses including vehicle use, equipment use, and telephone use.

3  
4 **CAPITAL STRUCTURE**

5 **Q. HOW DOES CONFLUENCE RIVERS PLAN TO FINANCE THE PURCHASE**  
6 **OF THE SYSTEMS TO BE ACQUIRED AND THE MAKING OF THE**  
7 **NECESSARY IMPROVEMENTS?**

8 A. Confluence Rivers plans to utilize a combination of equity and debt for these  
9 purposes.

10 **Q. WHAT CAPITAL STRUCTURE DO YOU ESTIMATE WILL RESULT?**

11 A. We estimate that the purchases and improvements will require approximately  
12 \$4,700,000. Of that amount, we plan to utilize \$2,600,000 of debt financing, and  
13 the remainder will be funded using equity. This would result in a capital  
14 structure of approximately 45% equity and 55% debt.

15  
16 **DEBT FINANCING**

17 **Q. WHAT AUTHORITY DOES THE COMPANY SEEK FROM THE COMMISSION**  
18 **REGARDING DEBT FINANCING?**

19 A. Confluence Rivers seeks a Commission order granting it the authority to issue up  
20 to \$2,600,000 of secured indebtedness.

21 **Q. WHAT IS THE PURPOSE OF THIS FINANCING?**

22 A. As stated above, this financing will allow Confluence Rivers to fund the  
23 construction necessary to bring the systems into regulatory compliance.



1 **Q. WHAT ARE THE TERMS OF THE PROPOSED FINANCING?**

2 A. Confluence Rivers intends to execute a Term Loan. The Term Loan will be based  
3 on monthly principal and interest payments amortized over 20 years. The Term  
4 Loan will allow Confluence Rivers to complete the proposed acquisitions, along  
5 with the construction of drinking water and wastewater improvements described  
6 above. Attached as **Schedule JC-A-C** is the term sheet for the Conditional Loan  
7 Commitment, which outlines the principal terms of the agreement including the  
8 interest rate, applicable fees and required collateral. **Schedule JC-A-C** has been  
9 identified as Confidential in accordance with Commission Rule 4 CSR 240-  
10 2.135(2)(A)(3) and (6), as it contains market specific information and information  
11 representing strategies employed in contract negotiations.

12 **Q. WHAT SECURITY WILL BE PROVIDED FOR THE LOAN?**

13 A. The loan will result in a first lien on substantially all of the properties acquired by  
14 Confluence Rivers. Consequently, the loan obligations will be secured by a lien  
15 or encumbrance on Confluence Rivers' utility franchises, plant and system that  
16 are used to provide service to its customers, and also on an encumbrance  
17 against any additional plant and assets.

18 **Q. DID YOU INVESTIGATE OTHER FINANCING OPTIONS?**

19 A. Yes. Confluence Rivers applied to many banks seeking financing for this project.  
20 The banks to which Confluence Rivers applied were Bank of Bloomsdale, Bank  
21 of Old Monroe, CoBank, First Business Bank, First Missouri Bank of SEMO,  
22 Fortune Bank, Parkside Financial, and UMB Bank.

23 **Q. WHAT WAS THE RESULT OF THOSE APPLICATIONS?**

1 A. Confluence Rivers received rejection notices from all eight of these entities.  
2 Attached as **Schedule JC-B-C** are copies of the rejection letters. **Schedule JC-**  
3 **B-C** has been identified as Confidential in accordance with Commission Rule 4  
4 CSR 240-2.135(2)(A)(3), (6), and (8), as it contains market specific information  
5 and information representing strategies employed in contract negotiations.

6 **Q. HAVE YOU MORE RECENTLY SOUGHT TRADITIONAL DEBT FINANCING?**

7 A. Yes. After the Commission issued its Report and Order in the Indian Hills rate  
8 case (Case No. WR-2017-0259), I utilized the exhibit presented in the Indian Hills  
9 rate case by Greg Meyer, consultant for the Office of the Public Counsel (OPC),  
10 regarding the financing purportedly available to small water and sewer systems  
11 in Missouri. We applied to 18 banks. We applied to all 11 banks across the state  
12 of Missouri (or the bank's successor) that OPC consultant Meyer stated would  
13 finance small water and sewer utilities. In addition, we applied to 6 more  
14 commercial banks. All of the applications were premised on the 50% debt to 50%  
15 equity ratio awarded in the Indian Hill's Case No. WR-2017-0259 and the  
16 corresponding revenue requirement. In all, CSWR received 15 written and 2  
17 verbal rejections for financing related to the completed Indian Hills project.  
18 Attached as **Schedule JC-C-C** are copies of the rejection letters for the Indian  
19 Hills project. **Schedule JC-C-C** has been identified as Confidential in accordance  
20 with Commission Rule 4 CSR 240-2.135(2)(A)(3), (6), and (8), as it contains  
21 market specific information and information representing strategies employed in  
22 contract negotiations.

1 **Q. AT THE TIME OF THESE APPLICATIONS RELATED TO INDIAN HILLS, HAD**  
2 **THE IMPROVEMENTS TO THAT SYSTEM BEEN COMPLETED?**

3 A. Yes. Even with the Indian Hills project being complete, MDNR compliance  
4 having been met, and new customer rates in place, banks were still unwilling to  
5 provide financing.

6 **Q. WHAT WERE THE REASONS GIVEN?**

7 A. Denial factors included the fact that most banks do not have a comfort level with  
8 utility financing, the banks want three years of historical financials to prove rate  
9 raised revenue, and banks do not want the risk of having to foreclose on utility  
10 assets (or, maybe more accurately, do not want the responsibility and liability of  
11 operating such assets, if they do).

12 **Q. WERE THE REASONS FOR REJECTION DIFFERENT AS TO CONFLUENCE**  
13 **RIVERS?**

14 A. Yes. For Confluence Rivers, where the Selling Utilities are in regulatory distress,  
15 face health and safety issues, have reliability concerns, four of the systems are in  
16 PSC receivership, two systems have Missouri Attorney General Enforcement  
17 Case, one system was originally owned by a municipality that has since  
18 dissolved, one system is owned by a bank that foreclosed on a failed land  
19 development, two systems are owned by individuals over 80, one system was  
20 originally acquired by the existing owners via a court house tax sale, all systems  
21 have depressed existing customer rates, and lack historical financials, bank  
22 financing is even more difficult to obtain.

23 **Q. WHAT DO YOU CONCLUDE FROM THESE EXPERIENCES?**

1 A. The financing Confluence Rivers has secured appears to be the only financing  
2 that is available to these small, distressed water and wastewater utilities.  
3

3

4 **STAFF'S PROPOSED CONDITIONS**

5 **Q. STAFF FILED A RECOMMENDATION IN REGARD TO THE ORIGINAL**  
6 **APPLICATION AND A SUPPLEMENTAL RECOMMENDATION IN RESPONSE**  
7 **TO THE AMENDMENT TO APPLICATION. HAVE YOU REVIEWED THOSE**  
8 **STAFF RECOMMENDATIONS?**

9 A. Yes.

10 **Q. THE STAFF FILINGS PROPOSE THAT THE APPLICATION, AS AMENDED,**  
11 **BE APPROVED, SUBJECT TO CERTAIN CONDITIONS. ARE THOSE**  
12 **CONDITIONS ACCEPTABLE TO CONFLUENCE RIVERS?**

13 A. Yes. Confluence Rivers agrees with the conditions proposed by Staff.  
14

14

15 **TARIFFS AND RATES**

16 **Q. IF THE APPLICATION, AS AMENDED, IS APPROVED, WHAT RATES DOES**  
17 **CONFLUENCE RIVERS REQUEST TO UTILIZE FOR THE PROVISION OF**  
18 **SERVICE?**

19 A. For systems currently regulated by the Commission, Confluence Rivers proposes  
20 to use the existing rates for all residential customers. Those existing rates are as  
21 follows:

| <b>Entity</b> | <b>Water Rate</b>                                    | <b>Sewer Rate</b> |
|---------------|--|-------------------|
| Calvey Brook  | \$36.36 per month minimum<br>for 3,000 gallons water | \$33.78 per month |

|                 |   |  |
|-----------------|---|--|
|                 | \$2.05 per 1,000 gallons above minimum  |  |
| Evergreen Lakes | Residential:<br>Customer Charge 5/8" \$7.71<br>1" \$18.38<br>Commodity Charge \$2.054 per 1,000 gal.<br>Commercial:<br>Customer Charge 5/8" \$7.71<br>1 1/2" \$83.15<br>Commodity Charge \$2.054 per 1,000 gal. +                                 | N/A  |
| Glad Lo         | Minimum Monthly Charge (First 1,000 gallons or less) \$17.25<br>Water Usage Charge (All over 1,000 gallons) \$2.15 per 1,000 gallons  | \$37.67 per month  |
| Lake Virginia   | N/A   | \$13.33 per month  |
| Mill Creek      | N/A   | \$30.11 per month  |
| Port Perry      | Monthly Minimum per Customer (includes 2,000 gallons)<br>Meter Size<br>5/8" \$ 13.23<br>3/4" \$ 16.26<br>1" \$ 22.33<br>1 1/2" \$ 37.49<br>2" \$ 55.69<br>3" \$ 98 .16<br>4" \$158.83<br>All usage over 2,000 gallons (per 1,000 gallons) \$ 3.58 | 1 . Full-time Residential Sites \$18.94/month<br>2. Part-time Residential Sites \$14 .21/month<br>3. Part-time Residential Trailer or Camper Site with sewer service \$14.21/month |
| Roy-L           | Monthly Non-metered Rate:<br>Full-time Customer \$50.16<br>Part-time Customer \$32.99<br>Monthly Metered Rate:<br>Full-time Customer \$33.24<br>Part-time Customer \$29.92<br>Usage Charge \$3.08 per 1,000 gallons of water used                 | Monthly Rate:<br>Full-time Customer \$36.04<br>Part-time Customer \$32.58  |
| Smithview       | Monthly Minimum \$5.31<br>Commodity Charge \$3.36 per 1,000 gal. used   | N/A  |
| Villa Ridge     | N/A   | \$24.24 per month  |

|         |   |  |
|---------|---|--|
| Willows | Basic monthly minimum (includes 1,000 gallons) - \$ 5.23 (additional \$1.21 for each 1,000 gal. over minimum) | Residential - \$15 per month<br>Commercial - \$15 per month up to 6,000 gallons water used; \$1 per 1,000 additional gal. used |
|---------|---|--|

1

2

Auburn Lake, Eugene, and Majestic Lakes are currently unregulated utilities, and

3

Confluence Rivers has proposed tariffs similar to fees currently collected by the

4

managing entity. Those proposed rates are listed below:

| Entity              | Water Rate   | Sewer Rate        |
|---------------------|--|-------------------|
| Auburn Lake Estates | \$37.50 per month  | \$37.50 per month |
| Eugene              | \$26.00 for the first 1,999 gallons per month, plus \$6.00 per 1,000 gallons for all usage above 1,999 gallons | N/A               |
| Majestic Lakes      | \$35 per month   | \$35 per month    |

5

6

**Q. WILL THOSE RATES EVENTUALLY REQUIRE ADJUSTMENT?**

7

A. Yes. The current rates for the Selling Utilities do not reflect the current cost of

8

providing service. Additionally, as indicated above, these systems will require

9

substantial investment after the purchase by Confluence Rivers that will

10

necessarily result in a rate increase of some amount after those additions have

11

been completed.

12

**Q. IF THE APPLICATION, AS AMENDED, IS APPROVED, WHAT RULES AND**

13

**REGULATIONS DOES CONFLUENCE RIVERS PLAN TO UTILIZE FOR THE**

14

**PROVISION OF SERVICE?**

1 A. Confluence Rivers proposes to adopt the rules and regulations where entities  
2 have such approved tariff provisions in place. In the alternative, Confluence  
3 Rivers will adopt the “standard” PSC Water and Sewer Department sample tariff.  
4

5 **PUBLIC INTEREST**

6 **Q. DO YOU BELIEVE THE PROPOSED TRANSACTIONS ARE IN THE PUBLIC**  
7 **INTEREST?**

8 A. Yes. For the following reasons, the proposed acquisition of the specified assets  
9 and the related transactions are not detrimental to the public interest of the State  
10 of Missouri and, in fact, will be consistent with and will promote the public  
11 interest:

12 A. The assets would be acquired by Confluence Rivers and be subject  
13 to the jurisdiction of the Commission.

14 B. Confluence Rivers is fully qualified, in all respects, to own and  
15 operate the systems to be acquired and to otherwise provide safe and adequate  
16 service – something that is not present at the current time.

17 **Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

18 A. Yes, it does.