

Exhibit No. _____
Issues: Applicant, Qualifications, Overview of
Nonviable Utility Systems, Capital Structure,
Tariffs and Rates, Public Interest
Witness: Josiah Cox
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Sponsoring Party: Osage Utility Operating
Company, Inc
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Missouri Public Service Commission

Direct Testimony

of

Josiah Cox

On Behalf of

Osage Utility Operating Company, Inc

July 11, 2019

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

WITNESS INTRODUCTION

1
2
3
4 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

5 A. My name is Josiah Cox. My business address is 500 Northwest Plaza Drive,
6 Suite 500, St. Ann, Missouri, 63074.

7 **Q. WHAT IS YOUR POSITION WITH OSAGE UTILITY OPERATING COMPANY,
8 INC. (OUOC OR COMPANY)?**

9 A. I hold the office of President of OUOC.

10 **Q. PLEASE PROVIDE SOME BACKGROUND INFORMATION ABOUT OUOC.**

11 A. OUOC is a Missouri corporation, active and in good standing with the Missouri
12 Secretary of State. OUOC's principal office and place of business is located at
13 500 Northwest Plaza Drive, Suite 500, St. Ann, Missouri, 63074. OUOC was
14 formed for the purpose of providing water and sewer service to the public.

15 **Q. PLEASE DESCRIBE YOUR EDUCATIONAL AND PROFESSIONAL
16 EXPERIENCE.**

17 A. I received a Bachelor of Science with a major in Environmental Science from the
18 University of Kansas. Professionally, I have worked at the Kansas state
19 biological survey, where I performed a wildlife habitat study. I then worked at a
20 civil engineering firm where I was involved in various facets of the land
21 development process, including permitting, entitlement, civil design, project
22 management, and construction management. I focused mainly on the water and

1 wastewater side of the civil engineering business and participated in every part of
2 the civil business from waste-load allocation studies (now known as the anti-
3 degradation processes), design, permitting, project management, and
4 construction management. I also ran the firm's environmental consulting
5 division and was the second private consultant to submit a water quality impact
6 study in the state of Missouri in 2003. I joined the engineering firm's executive
7 leadership team and helped run all the firm's operations.

8 Beginning in 2005, I raised money from a group of investors and formed a
9 full-service civil engineering, environmental consulting, general contracting, and
10 construction management firm. I served as the Chief Operating Officer, and
11 finally, Chief Executive Officer. I obtained extensive experience with rural
12 communities in every facet of the water and wastewater compliance process,
13 including environmental assessment, permitting, design, construction, operation
14 and community administration of the actual water and wastewater (sewerage)
15 systems. The firm performed stream sampling and built waste-load allocation
16 models to determine receiving water-body protective permittable effluent
17 pollutant loads. It also performed full engineering design of multiple whole
18 community wastewater and water infrastructure systems including wells, water
19 distribution, water treatment, water storage, wastewater conveyance, and
20 wastewater treatment plants and taken these designs through federal and state
21 permitting processes in Missouri. The engineering firm also administered the
22 construction of these water and wastewater systems from green field site
23 selection all the way through system startup and final engineering sign off.

1 During this time, I began the Master of Business Administration (MBA)
2 program at Washington University in St. Louis, from which I graduated in 2007.

3 In addition, starting in 2008, I took over the operations of an existing rural
4 sewer district and I still operate a system managing the functioning, testing, and
5 maintenance of the system. I also act as the administrator for this non-profit
6 system performing all the billing, emergency response, accounts
7 payable/accounts receivable, collections, budgeting, customer service, and
8 public meetings required to service the community.

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

11 A. Yes. I have been the President of Central States Water Resources, Inc.
12 (CSWR), for approximately four and a half years.

13 **Q. WHAT IS THE RELATIONSHIP OF OUOC TO CSWR?**

14 A. OUOC is an affiliate of CSWR. A corporate organization chart illustrating the
15 relationship is attached hereto as **Schedule JC-1**. OUOC is one of the “Missouri
16 UOCs” identified on the chart. Later in my testimony I will discuss the role
17 CSWR would play in OUOC’s future utility operations if the Commission
18 approves the Amended Application in this case.

19 **PURPOSE**

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

21 A. The purpose of my testimony is: (1) to discuss OUOC’s qualifications to own and
22 operate the water and sewer systems it seeks to acquire; (2) provide an overview
23 of the water and sewer systems OUOC seeks to acquire; (3) explain what rates

1 and regulations OUOC seeks to initially use in providing service; (4) explain
2 OUOC's request for a rate of return premium and a debt acquisition adjustment
3 in conjunction with the acquisition of these nonviable systems; (5) explain
4 OUOC's position as to the conditions proposed by the Staff of the Commission in
5 its *Staff Recommendation and Memorandum*; and, (6) explain why OUOC's
6 acquisition of substantially all the water and sewer system assets of Osage
7 Water Company, including its Certificates of Convenience and Necessity ("CCN")
8 is not detrimental to the public interest; and (7) explain why OUOC's acquisition
9 of the water and sewer system assets that serve Reflections Subdivision Master
10 Association, Inc., and Reflections Condominium Owners Association, Inc. (known
11 together herein as "Reflections"), and the Commission's granting of OUOC a
12 CCN to operate Reflections is in the public interest.

13 **QUALIFICATIONS**

14 **Osage Utility Operating Company, Inc. ("OUOC")**

15
16 **Q. PLEASE DESCRIBE OUOC.**

17 A. OUOC is a Missouri corporation, active and in good standing, with its principal
18 office and place of business at 500 Northwest Plaza Drive, Suite 500, St. Ann,
19 Missouri, 63074. OUOC was formed for the purpose of providing water and
20 sewer service to the public and intends to be a "water corporation," a "sewer
21 corporation," and a "public utility" as those terms are defined in Section 386.020,
22 RSMo, and will be subject to the jurisdiction and supervision of the Commission
23 as provided by law.

24 **Q. IS OUOC A PART OF A LARGER ORGANIZATION?**

1 A. Yes. CSWR, LLC (formerly known as First Round CSWR, LLC), is OUOC's
2 ultimate parent company. Central States Water Resources, Inc., is the manager
3 for CSWR, LLC. I commonly refer to the entire business organization as a whole
4 by using the name "Central States" or "CSWR."

5 **Q. WHAT IS CSWR'S EXPERIENCE WITH WASTEWATER/SEWER SYSTEMS?**

6 A. On the wastewater side of the business, CSWR has purchased 22 wastewater
7 treatment plants with associated sewer pumping stations, gravity force mains,
8 and gravity conveyance lines. In Missouri, CSWR-affiliated companies have
9 designed, permitted, and completed construction, with MDNR approval, of
10 approximately \$5.1 million of sanitary sewer investments since March of 2015. In
11 Arkansas, affiliated companies have designed, permitted, and completed
12 construction, with the Arkansas Department of Environmental Quality approval,
13 of approximately \$2.2 million of sanitary sewer systems investments since
14 October of 2017. All of these improvements include wastewater line repairs to
15 remove infiltration and inflow, building sewer main extensions, the repair of
16 multiple lift stations, the construction of lift stations, the closure of an existing
17 environmentally distressed waste water treatment plant, building two fully
18 activated sludge plants, constructing moving bed bio-reactor plants, converting
19 two failing wastewater treatment plants into sludge storage/flow equalization and
20 treatment basins, converting failed mechanical systems to I-Fast systems, and
21 constructing various other wastewater supporting improvements. In addition,
22 CSWR has active acquisition cases, with the associated engineering/permitting,
23 pending before the Tennessee Public Utility Commission for three systems, the

1 Kentucky Public Service Commission for eight systems, and the Louisiana Public
2 Service Commission for approximately 170 systems.

3 **Q. WHAT IS CSWR'S EXPERIENCE WITH WATER SYSTEMS?**

4 A. On the drinking water side of the business, CSWR-affiliated companies have
5 purchased 13 drinking water systems in Missouri and Arkansas. In Missouri,
6 CSWR has designed, permitted, and completed construction, with MDNR
7 approval, of approximately \$4.1 million of investments in drinking water systems
8 since March 2015. These improvements include construction of three new
9 groundwater storage tanks, construction of three sets of drinking water
10 pressurization pump assemblies, drilling a deep water well, erecting two new well
11 houses, closing two failed well houses, closing an exposed failed deep water
12 drinking well, blasting/coating existing tankage, rehabilitating an existing impaired
13 well house, closing a failing booster pump station house, replacement of over
14 750 meter pits with new meters, replacement of numerous existing water service
15 lines, installing numerous isolation valve systems, installing multiple flush
16 hydrants, repairing almost hundreds of leaks and repairing or building various
17 other supporting drinking water system improvements.

18 In addition, CSWR has active acquisition cases, with associated design
19 engineering/permitting, pending before the Louisiana Public Service Commission
20 representing approximately 30 systems.

21 **Q. WILL OUOC AND CSWR HAVE PERSONNEL QUALIFIED TO PROVIDE**
22 **SAFE AND ADEQUATE SERVICE IN THE SERVICE AREAS YOU PROPOSE**
23 **TO ACQUIRE AND OPERATE IN THIS CASE?**

1 A. Yes, they will. CSWR is already providing those and other similar services for
2 water and wastewater systems in Missouri and Arkansas. The level of
3 experience and expertise CSWR currently provides affiliated systems in Missouri
4 and Arkansas, and that it would bring to OUOC if the Amended Application is
5 approved, is not usually available to small systems like those at issue in this
6 case. But CSWR's business model provides these assets to its affiliates and
7 does so through the economies of scale that CSWR's centralized management
8 structure can achieve, at a lower cost than would be the case if OUOC or a
9 similarly-sized company had to acquire or provide such expertise and support on
10 its own.

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

13 A. Yes. In addition to the capital improvements made on all the systems, the
14 organization has built from scratch customer service systems at each Missouri
15 utility it currently operates that provide benefits to the customers and comply with
16 the Commission's Chapter 13 rules. This includes 24-hour emergency service
17 phone lines for potential service issues, on-call emergency service contractor
18 personnel, implementation of a computerized maintenance management system
19 for wastewater and drinking water utility assets, real time remote monitoring to
20 ensure service stability, customer dissemination of MDNR drinking water testing
21 information, on-line bill-pay options, up-to-date website bulletins about current
22 service status, and service initiation or discontinuance procedures.

1 **Q. DOES OUOC HAVE THE TECHNICAL CAPACITY TO OPERATE THE**
2 **ASSETS IT PROPOSES TO PURCHASE?**

3 A. Yes. We have experience in the design and operation of water and sewer
4 systems. OUOC intends to utilize a contract operator for plant operations,
5 utilizing the services of appropriately qualified and licensed utility system
6 operators (for water and for sewer) ultimately supervised by me. The contract
7 operator will undertake routine day-to-day inspections, checks, sampling,
8 reporting, and meter reading for the water and sewer systems, as well as
9 accomplish most system repairs and extraordinary operations tasks as needs
10 arise, to address proper facility operations and customer service matters. All
11 these activities will be tracked inside CSWR's computerized maintenance
12 management system. Computerized maintenance monitoring also feeds in
13 remote monitoring data from individual plants, which together with the
14 maintenance data, integrate with a water information management system for all
15 CSWR facilities.

16 **Q. DOES OUOC HAVE THE FINANCIAL CAPACITY TO OPERATE THE ASSETS**
17 **IT PROPOSES TO PURCHASE?**

18 A. Yes. OUOC has been able to attract investment capital to construct and
19 maintain facilities necessary to provide safe and reliable water and wastewater
20 service. Additionally, attached as **Schedule JC-2C** is an adjusted balance sheet
21 and income statement showing the results of the acquisition of properties
22 acquired by CSWR and its affiliates, which shows CSWR is a substantial
23 company with the financial wherewithal to own and operate the systems at issue

1 in this case. **Schedule JC-2C** has been identified as Confidential in accordance
2 with Commission Rule 4 CSR 240-2.135(2)(A)(3) and (6), as it contains market
3 specific information and information representing strategies employed in contract
4 negotiations. **Schedule JC-3C** is a feasibility study for the water and sewer
5 systems required by the Commission's rules, which includes estimated expenses
6 and revenues during the first three years of operation by OUOC of the systems at
7 issue in this case. **Schedule JC-3C** has been identified as Confidential in
8 accordance with Commission Rule 4 CSR 240-2.135(2)(A)(3) and (6), as it
9 contains market specific information and information representing strategies
10 employed in contract negotiations.

11 **Q. DOES OUOC HAVE THE MANAGERIAL CAPACITY TO OPERATE THE**
12 **ASSETS IT PROPOSES TO PURCHASE?**

13 A. Yes. Like routine facility operations, OUOC intends to utilize a contract billing
14 agent and utilize an emergency answering service. The billing agent will be
15 responsible for computing, printing, and sending monthly bills to customers, and
16 then collecting payment. The billing agent will also have customer service staff
17 that will be able to take and process customer inquiries pertaining to billing, make
18 bill adjustments, and enter into payment plans within company guidelines,
19 interact with the Commission's Staff in working with customer complaints, and
20 manage new customer accounts and the closing of customer accounts. The
21 contract billing agent will also be available to route service complaints and
22 inquiries. In addition, I will also be personally available by telephone when severe

1 emergencies arise. OUOC will comply with the Commission's rules and
2 standards regarding the provision of water and sewer services.

3 **Q. IF THE COMMISSION APPROVES THE AMENDED APPLICATION, IS**
4 **OUOC WILLING AND ABLE TO MAKE IMPROVEMENTS NECESSARY TO**
5 **BRING THE OSAGE WATER COMPANY AND REFLECTIONS WATER AND**
6 **WASTEWATER SYSTEMS UP TO APPLICABLE COMMISSION STANDARDS**
7 **AND INTO COMPLIANCE WITH MDNR REGULATIONS?**

8 A. Yes. If the Commission grants OUOC the authority it seeks in the Amended
9 Application, OUOC and CSWR have access to adequate capital and are willing
10 and able to invest the capital necessary to bring the water and wastewater
11 systems at issue in this case up to standard and maintain compliance with
12 applicable MDNR regulations.

13 **Q. HOW DOES OUOC PLAN TO FINANCE THE PURCHASE OF THE SYSTEMS**
14 **TO BE ACQUIRED AND THE MAKING OF THE NECESSARY**
15 **IMPROVEMENTS?**

16 A. OUOC plans to fund the purchases using equity infused by OUOC's parent
17 company, CSWR, LLC. OUOC has not yet determined whether improvements
18 at each system will be funded by equity, debt, or a combination of both. The
19 terms of any debt financing that OUOC would enter into would be subject to the
20 approval of the Commission.

21 **SYSTEMS TO BE ACQUIRED**

22 **Q. WHAT DOES OUOC PROPOSE IN THIS MATTER?**

1 A. OUOC proposes to acquire substantially all the water and sewer system assets
2 of Osage Water Company, including its CCNs. OUOC also proposes to acquire
3 all of the water and sewer system assets that serve Reflections and requests the
4 Commission grant it a CCN to operate the systems and provide service to the
5 public.

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

8 A. All the systems to be acquired lack the financial, technical, and/or managerial
9 capacity needed to provide safe and reliable water and/or sewer service. Osage
10 Water Company filed for bankruptcy on October 11, 2017. Great Southern Bank
11 has foreclosed on the Reflections' systems. In addition to financial problems, the
12 systems have distinct operational problems that I will generally discuss on a
13 system by system basis. I will also provide a general overview of the systems
14 and their state of operation. The direct testimony of Todd Thomas will address
15 the detailed conditions of the systems and OUOC's proposed improvements to
16 those systems in greater detail.

17 **Q. PLEASE DESCRIBE OSAGE WATER COMPANY**

18 A. In 1989, Osage Water Company was granted a CCN to operate a water and
19 sewer utility in Commission Case No. WA-89-73. However, on December 10,
20 2002, the Commission issued a Report and Order in Case No. WC-2003-0134,
21 finding, among other things:

22 . . . that Osage Water Company has been effectively abandoned by
23 its owners and that it is unable or unwilling to provide safe and
24 adequate service to its customers. The Commission directs its

1 Staff to file a petition in circuit court seeking an order attaching the
2 assets of Osage Water and appointing a receiver to take control
3 and responsibility of the company. The Commission also directs its
4 Staff to seek a determination from the circuit court that Osage
5 Water Company should not be returned to its owners but rather
6 should be liquidated by the receiver, acting in the best interest of
7 the company's customers.
8

9 *See Report and Order* in Case No. WC-2003-0134, p. 2.

10 Osage Water Company consists of four water and wastewater service areas:
11 Chelsea Rose Water and Sewer Service Area, Cimarron Bay Water and Sewer
12 Service Area, Cedar Glen Water and Sewer Service Area, and Eagle Woods
13 Water and Sewer Service Area. OUOC proposes to acquire each of these
14 service areas. Currently, the systems provide water service to approximately 402
15 customers and sewer service to approximately 420 customers, all in Camden
16 County, Missouri.

17 **Q. WAS OSAGE WATER COMPANY PLACED INTO PERMANENT**
18 **RECEIVERSHIP?**

19 A. Yes. On October 21, 2005, Osage Water Company was placed into permanent
20 receivership and a Receiver was appointed by Order of the Camden County
21 Circuit Court. A copy of the Court's Order is attached to my testimony as
22 **Schedule JC-4**. By the same Order, the Court further directed the Receiver to
23 liquidate Osage Water Company's assets as quickly as practicable on terms that
24 protect the interests of Osage Water Company's customers, subject to approval
25 by the Court. *Id.* On August 28, 2017, the Court authorized the Receiver to file
26 an action in Federal Bankruptcy Court for the liquidation of assets and discharge

1 of debt of Osage Water Company. The Court's Order authorizing the filing of a
2 bankruptcy petition is attached to my testimony as **Schedule JC-5**.

3 **Q. HAS OSAGE WATER COMPANY SINCE FILED FOR BANKRUPTCY?**

4 A. Yes. On October 11, 2017, Osage Water Company filed a voluntary petition for
5 relief under Chapter 11 of the United States Bankruptcy Code before the U.S.
6 Bankruptcy Court for the Western District of Missouri. The petition is attached to
7 my testimony as **Schedule JC-6**. On October 27, 2017, the Bankruptcy Court
8 approved the appointment of Jill D. Olsen as Trustee to manage the business
9 affairs of Osage Water Company during the pendency of the case. *See Order of*
10 *the Court*, Case No. 17-42759-drd11, October 27, 2017.

11 **Q. HAS THE TRUSTEE SOUGHT A SALE OF OSAGE WATER COMPANY'S**
12 **ASSETS?**

13 A. Yes. On August 26, 2018, the Trustee filed a motion with the Court seeking an
14 order authorizing her to sell substantially all Osage Water Company's assets
15 pursuant to the bid procedures attached to the sale motion. Copies of the
16 Trustee's motion and bid procedures are attached to my testimony as **Schedule**
17 **JC-7**. On September 19, 2018, the Bankruptcy Court entered its Order
18 approving the procedures for the solicitation of offers and sale of Osage Water
19 Company's assets. **Schedule JC-8**. On October 24, 2018, an auction was
20 conducted and OUOC was the successful bidder for the assets of Osage Water
21 Company. **Schedule JC-9**. On November 14, 2018, the Bankruptcy Court
22 issued an Order approving the Sale of Osage Water Company's assets, wherein
23 the Court approved CSWR as a successful bidder for the assets set forth in the

1 executed asset purchase agreement by and among CSWR and the Trustee.

2 **Schedule JC-10.**

3 **Q. HAS OUOC AND THE TRUSTEE EXECUTED AN ASSET PURCHASE**
4 **AGREEMENT?**

5 A. Yes. The *Agreement For Sale of Utility System between OUOC and the Trustee*
6 *of Osage Water Company* (“Asset Purchase Agreement”) is attached as
7 **Schedule JC-11.** Pursuant to the Asset Purchase Agreement, OUOC proposes
8 to purchase substantially all the water and sewer assets of Osage Water
9 Company from the bankruptcy estate, as specifically described in the agreement
10 and under the terms and provisions further described in the agreement. Such
11 assets include the Osage Water Company CCNs.

12 ***Reflections Subdivision***

13 **Q. PLEASE DESCRIBE THE DEVELOPMENT OF REFLECTIONS SUBDIVISION.**

14 A. Abba Development Company, L.L.C., (“Abba Development”) developed the
15 Reflections subdivision located on Lake of the Ozarks in Camden County,
16 Missouri. The development consists of three condominium buildings containing a
17 total of 50 units along with the water and wastewater facilities. After
18 development, Abba Development recorded the *Declaration of Restrictions for*
19 *Reflections Subdivision* (“*Declaration*”) on March 5, 2002, in the Camden County,
20 Missouri Recorder’s Office.

21 **Q. DOES ABBA DEVELOPMENT OPERATE THE SYSTEMS AT REFELCTIONS**
22 **SUBDIVISION?**

1 A. No. On or about November 12, 2012, Abba Development defaulted on the
2 development loan it had with Great Southern Bank. Great Southern Bank took
3 title to the real estate in Reflections Subdivision, including the parcels that the
4 utility systems are located on. See **Schedule JC-12**.

5 **Q. DOES THE DECLARATION CONTAIN ANY PROVISIONS RELATED TO THE**
6 **OPERATION OF THE WATER AND SEWER FACILITIES AT REFLECTIONS**
7 **SUBDIVISION?**

8 A. Yes. Pursuant to the *Declaration*, the Reflections Subdivision Master
9 Association, Inc., was charged with the operation of the water and sewer facilities
10 serving the Reflections Subdivision. Pursuant to Section 16.1.5 of the
11 *Declaration*, the Reflections Subdivision Master Association, Inc., is required to
12 convey the wastewater system to any public authority, municipal corporation, or
13 private corporation certificated by the Commission as soon as practical when any
14 such entity is willing to accept such conveyance and perform all functions relating
15 to the system. Further, pursuant to Section 3.3.1 of the *Declaration* and
16 Reflections Subdivision Master Association, Inc.'s bylaws, Reflections
17 Subdivision Master Association, Inc. also has authority to convey the water
18 system to a buyer.

19 **Q. HAS REFLECTIONS SUBSDIVISION MASTER ASSOCIATION, INC. TAKEN**
20 **STEPS TO CONVEY THE SYSTEMS TO A BUYER?**

21 A. Yes. CSWR, Great Southern Bank, and Reflections Subdivision Master
22 Association, Inc., entered into an agreement dated October 11, 2018, to transfer
23 the water and wastewater systems to CSWR.

1 **Q. HAS REFLECTIONS CONDOMINIUM OWNERS ASSOCIATION, INC. TAKEN**
2 **STEPS TO CONVEY THE SYSTEMS TO A BUYER?**

3 A. Yes. Subsequent to the October 11, 2018, agreement, the Reflections
4 Condominium Owners Association, Inc., voted to approve the transfer of the
5 water system to CSWR. Then on December 4, 2018, Great Southern Bank,
6 Reflections Subdivision Master Association, Inc., Reflections Condominium
7 Owners Association, Inc., and CSWR entered into an *Amended and Restated*
8 *Agreement For Sale of Utility System* ("Amended Agreement for Sale"), for
9 CSWR to purchase the water and wastewater systems in the Reflections
10 subdivision. A copy of the Amended Agreement for Sale is attached to my
11 testimony as **Schedule JC-13C** and has been identified as Confidential in
12 accordance with Commission Rule 4 CSR 240-2.135(2)(A)(3) and (6), as it
13 contains market specific information and information representing strategies
14 employed in contract negotiations.

15 **Q. PLEASE DISCUSS THE GENERAL CONDITION OF THE OSAGE WATER**
16 **COMPANY SYSTEMS TO BE ACQUIRED.**

17 **Osage Water Company—Chelsea Rose Water and Sewer Service Area:**

18 Chelsea Rose is a residential community with approximately 42 water and
19 38 wastewater residential connections to townhomes developed in the greater
20 Lake of the Ozarks area in and around Camden County, Missouri.

21 The water system has two well house structures. One well is inactive and
22 inoperable and the active well and well house are significantly deteriorated.
23 There is no treatment or disinfection of water in the Chelsea Rose system.

1 OUOC proposes to invest in upgrades to make the water system viable and
2 maintain compliance with Missouri Department of Natural Resources (MDNR)
3 regulations.

4 The wastewater system consists of an extended aeration plant with two
5 aeration chambers, one clarifier, one aerobic sludge digester, and chlorination
6 and dichlorination equipment. The wastewater treatment system is in a general
7 state of disrepair and OUOC proposes to invest in upgrades to make the
8 wastewater system viable and maintain compliance with MDNR regulations.

9 The direct testimony of Todd Thomas discusses the state of these
10 systems in more detail and the projected cost of the proposed improvements.

11 **Osage Water Company—Cimarron Bay Water and Sewer Service Area:**

12 Cimarron Bay is a residential community with approximately 110
13 residential water and 110 wastewater connections developed in the greater Lake
14 of the Ozarks area in and around Camden County, Missouri. Cimarron Bay, a
15 residential town home subdivision, and Harbour Bay, a condominium community,
16 collectively known at the Cimarron Bay service area, are served by one water
17 system and one wastewater treatment system.

18 The water system consists of a well house, one well, one submersible well
19 pump, a master meter, a 35,000 gallon hydro-pneumatic pressure tank, and a
20 bladder tank. The well house is dilapidated and requires repairs inside and out,
21 the electrical wiring needs updating, and there are no flushing hydrants on the
22 distribution system. There is no treatment or disinfection of water in the Cimarron

1 Bay system. OUOC proposes to invest in upgrades to make the water system
2 viable and maintain compliance with MDNR regulations.

3 The wastewater system consists of a recirculating sand filter facility with a
4 central septic tank. The gravity collection system delivers wastewater to a lift
5 station that pumps the wastewater to the treatment facility. The wastewater
6 treatment system is in a general state of disrepair and OUOC proposes to invest
7 in upgrades to make the wastewater system viable and maintain compliance with
8 MDNR regulations.

9 The direct testimony of Todd Thomas discusses the state of these
10 systems in more detail and the projected cost of the proposed improvements.

11 **Osage Water Company—Cedar Glen Water and Sewer Service Area:**

12 Cedar Glen is a residential condominium community with approximately
13 216 water and 216 wastewater connections, located in Camdenton, Camden
14 County, Missouri.

15 The water system consists of one well house, one well, one submersible
16 well pump, a master meter, a 35,000-gallon hydro-pneumatic pressure tank,
17 piping and valves, and three unused bladder tanks. The well house is in poor
18 shape with exposed wiring either hanging or stapled to the walls. The system
19 does not have adequate storage capacity for the number of customers served.
20 There is no treatment or disinfection of water in the Cedar Glen system, and the
21 distribution system is without flushing hydrants. OUOC proposes to invest in
22 upgrades to make the water system viable and maintain compliance with MDNR
23 regulations.

1 The wastewater system consists of a gravity collection system, lift station,
2 and a recirculating sand filter treatment facility with a central septic tank. The
3 sand plant consists of four beds, with the northeast-most bed appearing to have
4 integrity issues and some failed piping. The control panel has caught fire a
5 couple of times and the system has difficulty dealing with the irregular flows due
6 to the seasonality of the residents. The wastewater treatment system is in a
7 general state of disrepair, and OUOC proposes to invest in upgrades to make the
8 wastewater system viable and maintain compliance with MDNR regulations.

9 The direct testimony of Todd Thomas discusses the state of these
10 systems in more detail and the projected cost of the proposed improvements.

11 **Osage Water Company—Eagle Woods Water and Sewer Service Area:**

12 The Eagle Woods subdivision is a residential development located in
13 Camden County, Missouri, with approximately 34 drinking water connections.
14 The sewer service area consists of the Eagle Woods subdivision with 33
15 wastewater connections, and the Golden Glade subdivision with 23 customers,
16 each located in Camden County, Missouri. The treatment facility serving Golden
17 Glade and Eagle Woods is known as the Highway KK facility.

18 The water system consists of one well house, one well, chlorine
19 disinfection, two ground storage tanks, and a 357-gallon hydro-pneumatic tank
20 for system pressure. Chlorine is stored in the well house with the system
21 equipment, which is causing the metal components to corrode. The system is
22 short on storage capacity and needs improved pressure control to meet MDNR

1 recommendations. OUOC proposes to invest in upgrades to make the water
2 system viable and maintain compliance with MDNR regulations.

3 The wastewater system is a recirculating sand filter facility with chlorine
4 disinfection. Sewage from customers' homes flows through the collection system
5 to multi-home septic tanks for partial treatment. The effluent then flows by
6 gravity to the treatment facility, with three lift stations assisting in hilly portions.

7 The sand plant has two failing concrete beds, both with cracks in the walls
8 and issues with failing distribution piping. The makeshift chlorine disinfection
9 system consists of a plastic storage container that was converted to a contact
10 chamber with blocks for travel path requirements of MDNR. The wastewater
11 treatment system is in a general state of disrepair and OUOC proposes to invest
12 in upgrades to make the wastewater system viable and maintain compliance with
13 MDNR regulations.

14 The direct testimony of Todd Thomas discusses the state of these
15 systems in more detail and the projected cost of the proposed improvements.

16 **Reflections Water and Wastewater Systems**

17 **Q. PLEASE DISCUSS THE GENERAL CONDITION OF THE REFLECTIONS**
18 **SYSTEMS TO BE ACQUIRED.**

19 A. The water system consists of one well house. The well house has seven 119-
20 gallon pressure tanks. The system does not disinfect the drinking water prior to
21 distribution. There is exposed electrical wiring inside the well house, and the
22 exterior of the well house has not been maintained, which will lead to premature
23 failure of the structure. The main water line feeding the condominium units is

1 exposed but has some form of insulation. This will be an ongoing concern in the
2 winter when usage is low. OUOC proposes to invest in upgrades to make the
3 water system viable and maintain compliance with the applicable statutes and
4 regulations of MDNR.

5 The wastewater system is a series of interconnected, above-ground,
6 poured-in-place concrete basins, consisting of flow equalization, extended
7 aeration, clarification, chlorination, and sludge holding. The gravity collection
8 system collects wastewater from the three condominium buildings the system
9 serves, and two pump stations assist in conveying wastewater to the treatment
10 plant. Sludge is hauled off and disposed of by a contract hauler. The treatment
11 facility has serious structural defects and operational impairments. The concrete
12 structure is in poor shape. The walls are nearing failure due to corroding steel.
13 Various corners of the structure are crumbling, and chunks of concrete have
14 already separated and fallen from the walls. The walls are also leaking, which
15 will continue to expedite the concrete deterioration until the leakage is
16 addressed. The clarifier has a large amount of sludge at the surface, which will
17 lead to washout and potential for contamination of the lake. The wastewater
18 treatment system is in a general state of disrepair and OUOC proposes to invest
19 in upgrades to make the wastewater system viable and maintain compliance with
20 MDNR regulations.

21 The direct testimony of Todd Thomas discusses the state of these
22 systems in more detail and the projected cost of the proposed improvements.

1 **Q. HAS OUOC REQUESTED CCNS FOR THE REFLECTIONS' WATER AND**
2 **SEWER SYSTEMS?**

3 A. Yes. As part of both the Application filed December 19, 2018, and the Amended
4 Application filed February 19, 2019, OUOC requests the Commission grant it
5 permission, approval, and a CCN to install, own, acquire, construct, operate,
6 control, manage, and maintain water and sewer systems for the public in an area
7 of Camden County, Missouri, as set forth on the map attached hereto and
8 labeled **Schedule JC-14**, and the legal description found on **Schedule JC-15**.

9 **TARIFFS AND RATES**

10 **Q. IF THE AMENDED APPLICATION IS APPROVED, WHAT RATES DOES**
11 **OUOC REQUEST TO UTILIZE FOR THE PROVISION OF SERVICE?**

12 A. OUOC proposes to use the existing rates for Osage Water Company customers.

13 The current water rates for Osage Water Company are as follows:

14 Monthly Minimum: (Includes 2,000 gallons of water)
15 For Service through a 5/8" water meter \$24.76 per month
16 For Service through a 1" water meter \$34.27 per month
17 For Service through a 1 1/2" water meter \$58.80 per month
18 For Service through a 2" meter \$66.98 per month
19 For Service through a 3" meter \$96.19 per month
20 For Service through a 4" meter \$243.89 per month

21 Commodity Charge: For metered usage greater than 2,000 gallons per month
22 \$5.86 per 1,000 gallons

23 Any applicable federal, state, or local taxes computed on a billing basis would be
24 added as a separate item in each bill.

25 The current sewer rates for Osage Water Company are as follows:

26 Monthly Bill
27 Unmetered Condominium \$29.02 per month

1 For Service through a 5/8" water meter \$29.02 per month
2 For Service through a 1" water meter \$51.34 per month
3 For Service through a 1 1/2" water meter \$109.96 per month
4 For Service through a 2" meter \$129.49 per month
5 For Service through a 3" meter \$199.25 per month
6 For Service through a 4" meter \$363.14 per month

7 Any applicable federal, state, or local taxes computed on a billing basis would be
8 added as a separate item in each bill.

9 As for Reflections, the Reflections Condominium Owners Association,
10 Inc., charges a flat rate for water and wastewater service based on the size of the
11 unit serviced:

12 3 bedroom townhouse--\$59.00/month
13 3 bedroom garden--\$51.00/month
14 3 bedroom -- \$48.00/month
15 2 bedroom -- \$40.00/month
16

17 OUOC proposes to charge a flat rate of \$25.00 for water service and \$25.00 for
18 wastewater service, for a combined total of \$50.00 for both services.

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

20 A. Yes. The current rates for Osage Water Company and Reflections do not reflect
21 the current cost of providing service. Additionally, as indicated above, these
22 systems will require substantial investment after the purchases by OUOC that will
23 likely result in a rate increase of some amount after those additions have been
24 completed. However, any such increase would require a separate, future rate
25 case for the purpose of considering such factors.

26 **Q. IF THE AMENDED APPLICATION IS APPROVED, WHAT RULES AND**
27 **REGULATIONS DOES OUOC PLAN TO UTILIZE FOR THE PROVISION OF**
28 **SERVICE?**

1 A. OUOC proposes to adopt the rules and regulations currently approved for
2 Osage Water Company. OUOC proposes to add Reflections into the adopted
3 Osage Water Company tariff.

4 **REQUEST FOR ACQUISITION INCENTIVES**

5 **Q. IS OUOC REQUESTING ANY ACQUISITION INCENTIVES IN CONJUNCTION**
6 **WITH ITS ACQUISITION OF THE OSAGE WATER COMPANY AND**
7 **REFLECTIONS SYSTEMS?**

8 A. Yes. OUOC requests a rate of return premium and a debt acquisition adjustment
9 equal to the difference between the total purchase prices and the total rate base
10 values for the Osage Water Company and Reflections systems.

11 **Q. ARE THE OSAGE WATER COMPANY AND REFLECTIONS SYSTEMS**
12 **NONVIABLE UTILITIES WITHIN THE MEANING OF THE COMMISSION'S**
13 **RULES?**

14 A. Yes. The Osage Water Company and Reflections systems are nonviable utilities
15 within the meaning of Commission Rule 4 CSR 240-10.085(1)(C). The Osage
16 Water Company has filed bankruptcy and the Trustee is liquidating the utility's
17 assets. Abba Development defaulted on the loan for Reflections and now Great
18 Southern Bank holds title to the land the systems are located on. As such,
19 neither Osage Water Company or Reflections are expected to furnish and
20 maintain safe and adequate service and facilities in the future. The respective
21 purchase agreements are the result of arm's length negotiations between the
22 parties and the terms are fair and reasonable given the systems' current
23 procedural states and operating conditions.

1 **Q. IS OUOC A VIABLE UTILITY WITHIN THE MEANING OF THE**
2 **COMMISSION'S RULES?**

3 A. OUOC is a viable utility and will not be materially impaired by the acquisition of
4 these systems. OUOC and CSWR have the resources to rehabilitate the
5 systems it proposes to acquire, and the managerial, technical, and financial
6 capabilities to safely and adequately operate the systems going forward. The
7 testimony of Todd Thomas explains the plant improvements necessary to make
8 these systems viable, all of which will be completed by OUOC. MDNR has
9 already reached out to OUOC regarding the negotiation of Agreements on
10 Consent to establish reasonable compliance timeframes for any necessary
11 improvements after the closing. OUOC anticipates further discussions occurring
12 with MDNR. Any deficiencies that can be corrected without capital improvements
13 will be completed as timely as possible after closing, but no later than six months
14 from the closing.

15 **Q. ARE ACQUISITIONS OF THE OSAGE WATER COMPANY AND**
16 **REFLECTONS SYSTEMS UNLIKELY TO OCCUR WITHOUT THE**
17 **PROBABILITY OF OBTAINING A RATE OF RETURN PREMIUM AND A DEBT**
18 **ACQUISITION ADJUSTMENT?**

19 A. OUOC is proposing to acquire 10 separate utility systems as part of this case.
20 The acquisition of all 10 utility systems, all requiring some level of investment in
21 improvements, is unlikely to occur without the probability of obtaining a rate of
22 return premium and acquisition adjustment. If the Commission decides not to

1 award the incentives requested, OUOC will need to reevaluate its risk in taking
2 on numerous failing systems to determine how it will move forward.

3 **STAFF'S PROPOSED CONDITIONS**

4 **Q. STAFF FILED A RECOMMENDATION IN REGARD TO THE AMENDED**
5 **APPLICATION. HAVE YOU REVIEWED THE STAFF'S RECOMMENDATION?**

6 A. Yes. The Staff recommends approval of the transfer of assets of Osage Water
7 Company and transfers of the relevant CCNs, and approval of the transfer of
8 assets of Reflections and issuance of new CCNs for Reflections, with 17
9 conditions and actions. They are:

10 1. Issue a new CCN to OUOC to provide water and sewer service for the
11 proposed Reflections service area, with OUOC to begin providing such
12 service upon closing of the assets;

13
14 2. Approve rates of \$25 per month for water service, and \$25 per month
15 for sewer service, for OUOC, applicable to customers in the Reflections
16 service area;

17
18 3. Require OUOC to submit appropriate tariff sheets for water and sewer
19 service, as a thirty (30) day filing, within ten (10) days after the effective
20 date of approval of a CCN for Reflections by the Commission, to become
21 effective before OUOC closes on the Reflections' assets;

22
23 4. Authorize OWC to sell and transfer utility assets to OUOC, and transfer
24 the CCN's currently held by OWC to OUOC upon closing on any of the
25 respective systems;

26
27 5. Upon closing on each of the OWC water and sewer systems, authorize
28 OWC to cease providing service, and authorize OUOC to begin providing
29 service;

30
31 6. Require OUOC to file Tariff Adoption Notice tariff sheets for the
32 corresponding water and sewer tariffs of the regulated OWC systems
33 within ten (10) days after closing on the OWC assets;

34
35 7. Upon closing on each of the water and sewer systems, authorize
36 OUOC to provide service by applying, on an interim basis, the existing

1 rates, rules and regulations as outlined in OWC's water tariff and sewer
2 tariff, until the effective date of respective adoption notice tariff sheets, as
3 recommended above;

4
5 8. Require OUOC to create and keep financial books and records for plant
6 in service, revenues, and operating expenses (including invoices) in
7 accordance with the NARUC Uniform System of Accounts;

8
9 9. Require OUOC to, going forward, keep and make available for audit
10 and review all invoices and documents pertaining to the capital costs of
11 constructing and installing the water and sewer utility assets;

12
13 10. Approve depreciation rates for water and sewer utility plant accounts
14 as described and shown herein;

15
16 11. Require OUOC to distribute to all customers an informational brochure
17 detailing the rights and responsibilities of the utility and its customers
18 regarding its water service, consistent with the requirements of
19 Commission Rule 4 CSR 240-13, within thirty (30) days after the effective
20 date of approval of a CCN by the Commission;

21
22 12. Require OUOC to, within ninety (90) days of the effective date of a
23 Commission order approving OUOC's Application, complete repairs to
24 resolve the bypassing of treatment at any wastewater treatment system;

25
26 13. Resolve all issues regarding noncompliance with Missouri Department
27 of Natural Resources (DNR) regulations for all water and sewer systems;

28
29 14. Require OUOC to provide adequate training for the correct application
30 of rates and rules to all customer service representatives, including those
31 employed by contractors, prior to the customers receiving their first bill
32 from OUOC;

33
34 15. Require OUOC to provide to the Customer Experience Department
35 Staff a sample of ten (10) billing statements of bills issued to OWC and
36 Reflections customers within thirty (30) days of such billing;

37
38 16. Require OUOC to file notice in this case once Staff's
39 recommendations regarding customer communications and billing, listed
40 above, have been completed; and

41
42 17. Require OUOC to file a rate case with the Commission no later than
43 twenty-four (24) months after the effective date of an order approving
44 OUOC's Application.
45

1 **Q. ARE STAFF'S RECOMMENDED ACTIONS AND CONDITIONS ACCEPTABLE**
2 **TO OUOC?**

3 A. Yes. Should the Commission award the requested acquisitions incentives and
4 OUOC moves forward with acquiring all 10 utility systems, Staff's conditions are
5 acceptable to OUOC.

6 **PUBLIC INTEREST**

7 **Q. HOW DO YOU BELIEVE THE PROPOSED TRANSACTIONS RELATE TO THE**
8 **PUBLIC INTEREST?**

9 A. As my testimony explains, the proposed acquisition of the specified assets of
10 Osage Water Company and the related transactions are not detrimental to the
11 public interest of the State of Missouri. Further, a grant of the requested
12 certificates of convenience and necessity associated with the proposed
13 acquisition of the specified assets of Reflections and the related transactions are
14 in the public interest of the State of Missouri. The assets would be acquired by
15 OUOC and be subject to the jurisdiction of the Commission. OUOC is fully
16 qualified, in all respects, to own and operate the systems to be acquired and to
17 otherwise provide safe and adequate service – something that is not present at
18 the current time.


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

20 A. Yes, it does.

AFFIDAVIT

STATE OF MISSOURI)
)
COUNTY OF ST. LOUIS) ss

I, Josiah Cox, state that I am the President of Osage Utility Operating Company, Inc.; that the Direct Testimony and schedules attached hereto have been prepared by me or under my direction and supervision; and, that the answers to the questions posed therein are true to the best of my knowledge, information and belief.



Subscribed and sworn to before me this 10th day of July, 2019.



Notary Public

My Commission Expires:

01/31/2021
(SEAL)

