

## MEMORANDUM

**TO:** Missouri Public Service Commission  
Official Case File, Case No. SM-2024-0130  
Confluence Rivers Utility Operating Company, Inc.

**FROM:** Jared Giacone – Auditing Department  
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/s/ Jarrod Robertson 01/12/2024  
Senior Research/Data Analyst

**SUBJECT:** Recommendation of Approval of Application

**DATE:** January 12, 2024

### **Case Background**

On September 29, 2023, Confluence Rivers Utility Operating Company, Inc. (“Confluence”) filed an *Application and Motion for Waiver* (“Application”) with the Missouri Public Service Commission (“Commission”), seeking permission to acquire the assets of North Oak Sewer District, Inc. (“North Oak”). Additionally, Confluence requests a new CCN be issued authorizing it to own, install, construct, operate, control, manage, and maintain the sewer system it requests to acquire from North Oak.

On October 2, 2023, the Commission issued its *Order Directing Notice and Setting a Deadline for Intervention Requests*, directing notice of the application be given to the county commission of Jefferson County, Missouri and setting a deadline for intervention requests, October 23, 2023.

On October 9, 2023, Confluence filed a *Supplement to the Application*, containing an updated Service Area Map and Service Area Legal Description.

On October 24, 2023, the Commission issued an *Order Directing Filing of Staff Recommendation* (“Order”), directing filing of the staff recommendation or status report, November 29, 2023. On November 29, 2023, Public Service Commission Staff (“Staff”) filed a *Status Report* detailing Staff would file its Recommendation on January 12, 2024. On December 4, 2023, the Commission issued its *Order Directing Filing of Staff Recommendation*, approving of Staff’s requested filing date, January 12, 2024.

No parties sought to intervene in the case, and to date, no one has entered a public comment in this docket.

### **Background of Confluence**

Confluence is a Missouri corporation with its principle office and place of business at 1630 Des Peres Rd., Suite 140, St. Louis, MO 63131, and it is a public utility subject to the jurisdiction of the Commission. Confluence is currently providing water service to approximately 5,200 customers and sewer service to approximately 5,100 customers in the State of Missouri. In recent years, Confluence has acquired several existing small water and sewer systems.

Confluence is a subsidiary of Central States Water Resources, Inc. (“CSWR”), which entered into a Purchase and Sale Agreement (“Agreement”) with North Oak on March 28, 2023.

### **Background of North Oak Sewer**

North Oak is a “sewer corporation” and a “public utility” as defined by Section 386.020, RSMo, with a principle office located at 634 Highway MM, Moscow mills, Missouri 63362, and is in good standing with the Missouri Secretary of State. On July 13, 2000, the Commission granted North Oak a CCN to provide sewer services in Commission File No. SA-2000-417. North Oak currently provides sewer services to approximately 20 residential homes, four (4) commercial buildings, four (4) apartment buildings, and two (2) mobile home parks containing approximately 55 mobile homes in the North Oak subdivision in Warren County, Missouri.

### **Staff’s Investigation**

Staff visited North Oak on November 2, 2023. The access road is suitable and was easily traversed with a PSC vehicle, and therefore is suitable for all weather access for maintenance. Structurally, the wastewater plant is in fair condition. Staff believes that small improvements can be made to the plant itself and to the operation practices of plant management to ensure proper effluent compliance. Specifically, the plant would benefit from additional solid waste removal measures, and more diligent maintenance and cleaning practices from the operator. The facility operates under National Pollutant Discharge Elimination System (“NPDES”) Permit No. MO-0109673. According to the Echo Environmental Protection Agency (“EPA”) Online Database, the facility has had violations for both Biochemical Oxygen Demand (“BOD”) and the bacteria, *Escherichia coli* (“E. coli”), once over the past twelve (12) quarters.

In a well-constructed plant, solid waste (trash) that is inappropriately flushed by customers is removed by screening before it enters the treatment system, and then properly disposed of in a landfill. Vegetation and algae can grow in a plant that is not cleaned or poorly maintained. At North Oak, there is visible vegetation growing in the two aeration basins in the middle of the plant. Solid waste is accumulating on both the influent and the effluent ends of the plant’s clarifier, and the main body of the clarifier between the influent and effluent is blanketed with duckweed. These issues will prevent the plant from operating properly by impeding the biological treatment process, blocking flow and pumps, reducing the hydraulic capacity of the treatment plant, and potentially causing equipment to break. Access to the plant in order to conduct maintenance is somewhat

dangerous as surface access consists of metal grates, which are in poor condition, that are moved to wherever the operator needs to walk. Otherwise there are no safety measures to prevent an operator from falling into a basin. Staff also examined other locations throughout the sewer system, including the neighborhood on North Oak Drive, and the adjacent mobile home parks.

The system collects from separate, isolated locations that consist of several access points, varying types of housing, and changing topography. Consequently, staff found the collection system to be somewhat more complicated than a typical small-sized collection system. Staff recommends that Confluence be diligent in training its contract operators regarding the unusual collection system.

### **System Improvements**

Per Confluence's response to Data Request 0025 "Please note that the recommended improvements and capital estimate included are a preliminary plan recommended by Confluence's third-party engineering partner who is licensed and experienced in the state of Missouri, but do not represent a final system improvement design, quote, or bid. Plans will be finalized in the future if Confluence is granted acquisition approval for the North Oak system." The following improvements have been recommended by engineers with 21 Design Group, Inc.:

- Installation of remote monitoring;
- Install a new electrical distribution panel and a manual transfer switch with a generator quick connect to allow for the use of a portable generator for use in emergency situations;
- Remove vegetation from the interior of the treatment plant, remove brush from the plant site, clean up solid waste;
- Remove excess solids from influent and effluent clarifier baffled sections;
- New walkways should be installed along the width of the clarifier and the digester, all existing grating should be removed as it is a safety hazard that is not safe to walk on;
- Replace the existing influent screen;
- Install new duplex Positive Displacement blower system and control panels;
- Install ultraviolet disinfection system downstream from the secondary clarifier;
- New airlifts should be installed in the clarifier at effective locations to prevent solids buildup;
- Investigate sources of Inflow and Infiltration ("I&I") to the collection system, so that remedial steps can be taken.

### **Service Area**

On October 9, 2023, Confluence submitted a supplement to its Application containing an updated service area map and service area legal description. Staff considers the updated map and description satisfactory for submission with the tariff revisions.

## **Rate Base**

The Auditing Department Staff reviewed information provided by Confluence in response to Staff's data requests ("DRs") and the information in Confluence's Application, which included sale agreement documents. Confluence responded to a DR requesting documentation of improvements or retirements to the system that they had asked North Oak but no documentation was available<sup>1</sup>.

As discussed below, the purchase price is significantly above Staff's calculated rate base. Since Confluence was unable to provide documentation of a higher rate base as support for the purchase price, and since North Oak is a regulated utility, Auditing Staff reviewed North Oak's most recent rate case which was SR-2004-0306 to determine a rate base. Auditing Staff used the rate base balances as of December 31, 2002, and Commission approved depreciation rates from that small utility rate case as the starting point for determining the current rate base of the system. A 42% allocation factor was applied to rate base and built in to the revenue requirement approved by the Commission in the SR-2004-0306 rate case. That allocation factor is the percent of asset investment that was allowed in rate base. Attachment A of this memo includes the workpapers from Case No. SR-2004-0306 that supported the Commission approved revenue requirement and show the allocation factor used.<sup>2</sup> Staff's recommended rate base value listed below continues to reflect the 42% allocation factor approved at that time. This allocation factor should undergo review in the next rate case to determine whether it is still appropriate and if so, what the factor should be.

Auditing Staff also reviewed the Annual Reports of the regulated North Oak sewer system that were submitted from years 2003-2022. Annual Report submissions provided by the utility companies are only reviewed by Staff for completeness, not accuracy. However, since there is no other documentation available for this system, Auditing accepted most of the adjustments to plant accounts for the sewer system as listed on the annual reports in order to update rate base from Case No. SR-2004-0306 to December 31, 2023<sup>3</sup>.

Typically, Staff recommends the value of plant investment, or rate base, by evaluating supporting documentation of the original cost of the utility plant, depreciation expense, and whether or not interactions with non-utility parties resulted in contributed plant-in-service. In this instance, based on the lack of the original cost documentation for the plant and lack of documentation for any improvements to the original plant, Staff recommends a rate base value based on the review of North Oak's most recent rate case, updated for adjustments provided on annual reports. Confluence responded to Staff DR No. 0039 that North Oak's startup costs and intangibles<sup>4</sup> were

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1 Confluence's response to Data Request No. 0032.

2 Attachment A, pages 11 and 17 specifically list the 42% allocation factor used

3 North Oak Annual Reports reviewed through calendar year 2022, no documentation of the most recent calendar year 2023 improvements or retirements was provided in Confluence's response to DR No. 0032

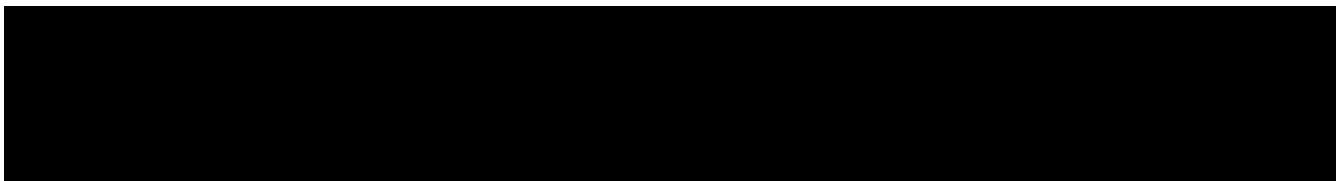
4 North Oak's startup costs and intangibles included legal, accounting and consulting fees

not included in the sale and as such the balance of those are not included in Staff's recommended rate base in this case. Staff's recommended net book value of rate base as of December 31, 2023 is \*\* [REDACTED] which reflects a 42% allocation factor as determined in North Oak's most recent rate case and the removal of intangibles and original startup costs of North Oak. It should be noted that at 100% (no allocation), the net book value of rate base would be \*\* [REDACTED] in Confluence's next rate case, the allocation factor for the North Oak sewer system needs to be reviewed but the maximum possible recommended net book value rate base starting point as of December 31, 2023 would be \*\* [REDACTED] \*\*.

### **Purchase Price**

Confluence entered into a purchase agreement in order to acquire the wastewater system assets of North Oak. According to Confluence the final purchase price of the system was the result of arms-length negotiations, where each party approved a purchase price that is agreeable to its own interests. Plant Instruction No. 5 of the Commission-approved Uniform System of Accounts ("USOA") provides guidance on how to record the acquisition of utility systems. This instruction describes how the cost of the acquisition should be charged to various rate base accounts as well as accounts that generally do not affect the ratemaking revenue requirement; including Account 114 – Utility Plant Acquisition Adjustments. Conceptually, this account holds the difference between the net book value of assets acquired and the purchase price of those assets. The accounting industry also commonly refers to the amount of purchase price over book value as an acquisition premium (or if the book value exceeds the purchase price, an acquisition discount). If the acquisition transactions at the center of this case were to close on December 31, 2023, the system would have the following acquisition premium:

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Confluence is not seeking regulatory treatment for acquisition premiums or discounts as part of the current application, but it may request recovery from ratepayers in a future rate case.<sup>5</sup> The purchase price is a management decision of the Company and paying over net book value (Staff's recommended rate base amount) for a system that needs repairs and upgrades, could negatively affect the feasibility of the proposal if Confluence requests an acquisition premium in a future rate case. However, Staff finds that deferral of ratemaking decisions related to the purchase price is not detrimental to the public interest because a rate case is the proper venue to consider all relevant factors. Staff recommends that the Commission explicitly order Confluence

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<sup>5</sup> According to Confluence's response to Staff Data Request 0029

to adhere to the acquisition accounting guidance provided in the USOA so that a request for rate recovery can be properly audited in Confluence's next rate case.

### **Financial Analysis**

To understand the effects of the proposed consolidation on Confluence, the surviving entity, Staff analyzed historical and pro forma financial statements submitted by the Applicant and responses to Staff data requests. The purchase price of the transaction is \*\* [REDACTED] \*\* with a total project cost of \*\* [REDACTED] Confluence states that it has, "the financial strength and resources necessary to make expenditures and investments required to maintain the system."<sup>7</sup>

A review of Confluence's pro forma financial statements indicates that the total anticipated cost of the project will be paid with equity infusions from its parent company, CSWR, as well as money borrowed from CSWR.<sup>8</sup> Given the fact that the funding for this merger and acquisition is coming from Confluence's parent company, Staff reviewed the current financial and business risk profile of both companies as well as the effect this project will have on each company's credit quality. Staff additionally reviewed the most recent financials for North Oaks to ensure its financial profile would not negatively impact Confluence's credit quality.

According to the projected Statement of Operations for Confluence and CSWR, total operating revenue is anticipated to increase as a result of this transaction.<sup>9</sup> Net income is projected to remain negative; however, Confluence and CSWR both consistently report negative "Net Income" from 2020 to current as well as in the pro forma.<sup>10</sup> Additionally, North Oaks' 2021 and 2022 annual report also indicates negative Net Incomes for North Oaks.<sup>11</sup> Despite this, Confluence's and CSWR's June 30, 2023 Balance Sheets show that the companies have \*\* [REDACTED] \*\* in cash, respectively, and have historically had cash available when needed.<sup>12</sup> The overall result of this consolidation does not greatly affect either Confluence's or CSWR's financial statements.<sup>13</sup>

While Confluence, CSWR, and North Oaks are not publicly traded, a review of Confluence's and

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6 Appendix A-C & Appendix C-C, The Application and Confluence's response to Staff Data Request No. 0005.

7 Paragraph 14, The Application.

8 According to Confluence's response to Data Requests No. 0005 & No. 0001, this money is classified by Confluence as "Payable to Associated Companies" on its balance sheet. Although it is recorded in the Long-Term Liabilities section of Confluence's balance sheet, this amount has no "repayment, interest or other financing terms" as discussed in response to Data Request No. 0007.3 in case WF-2023-0023. Confluence additionally considers this amount as equity in its debt to capital ratios.

9 Confluence's responses to Data Requests No. 0001 & No. 0016.

10 Confluence's response to Data Request No. 0001 & Confluence's response to Data Request No. 0002 in SA-2023-0187.

11 Confluence's response to Data Request No. 0016.

12 Confluence's response to Data Request No. 0001.

13 Ibid.

CSWR’s financial ratios before and after the merger and acquisition, shows the following ratios:<sup>14</sup>

**Confluence Rivers**

	<u>As of June 30, 2023</u>			<u>Pro Forma</u>		
			<u>Financial Risk</u>			<u>Financial Risk</u>
<b>FFO/Debt (%)</b>	**	██████	** Highly Leveraged	**	██████	** Highly Leveraged
<b>Debt/EBITDA (x)</b>	**	██████	** Minimal	**	██████	** Minimal
<b>Debt/Capital (%)</b>	**	██████	** Highly Leveraged	**	██████	** Highly Leveraged

**CSWR**

	<u>As of June 30, 2023</u>			<u>Pro Forma</u>		
			<u>Financial Risk</u>			<u>Financial Risk</u>
<b>FFO/Debt (%)</b>	**	██████	** Highly Leveraged	**	██████	** Highly Leveraged
<b>Debt/EBITDA (x)</b>	**	██████	** Minimal	**	██████	** Minimal
<b>Debt/Capital (%)</b>	**	██████	** Minimal	**	██████	** Minimal

In reviewing the Debt/Capital ratios, Confluence has a Highly Leveraged financial risk while CSWR has a Minimal Financial risk.<sup>15</sup> Additionally, both companies report negative ratios for both Funds from Operations (“FFO”) to Debt as well as Debt to Earnings before Interest, Taxes, and Depreciation/Amortization (“EBITDA”). Negative financial ratios are nonsensical in nature as these ratios are typically positive<sup>16</sup> and due to that reason are unable to truly reflect the financial position of the companies. The negative ratios for FFO/Debt and Debt/EBITDA for both companies result from FFO and EBITDA themselves being negative numbers. The negative FFO in the FFO/Debt ratio indicates that operations earnings are not enough to cover debt expenses. A negative EBITDA typically indicates poor cash flow and in the Debt/EBITDA ratio would indicate earnings are not exceeding debt. Despite the negative financial ratios, the Debt/EBITDA Ratio and Debt/Capital Ratio shows improvement in the pro forma while the FFO/Debt Ratio shows a minimal adverse change.

Confluence has a projected average annual capital expenditure of \*\* ████████ \*\* for each of the next five years,<sup>17</sup> while CSWR shows a projected average annual capital expenditure

<sup>14</sup>Confluence’s response to Data Request No. 0001 and No. 0002 and McKinley’s Workpaper.

<sup>15</sup>S&P’s Ratings Services, Ratings Direct, “Criteria Methodology: Business Risk/Financial Risk Matrix Expanded” , published September, 18, 2023.

<sup>16</sup>FFO/Debt ratios typically range from less than 12 for “Highly Leveraged” risk companies to greater than 60 for “Minimal” risk companies. Debt/EBITDA typically ratios range from less than 1.5 for “Minimal” risk companies to greater than 5 for “Highly Leveraged” risk companies.

<sup>17</sup>Confluence’s response to Data Request No. 0004.

of \*\* [REDACTED] of the next five years. The total cost of this consolidation appears to be around half of the average of Confluence’s anticipated five-year capital expenditures, while it is roughly less than 1% of CSWR’s projected annual capital expenditures.<sup>19</sup>

In recent years, the water and sewer sector, “has experienced an expansion in the geographic footprint of transactions and diversity in the acquirers of water and wastewater systems nationwide. Given sector demographics, the lion’s share of water utility acquisition activity will continue to stem from the acquisition of financially challenged, small private systems and municipal utility systems by the largest investor-owned utilities.”<sup>20</sup> See the below table for a breakdown of recent acquisition cases filed by Confluence.<sup>21</sup>

	Purchase Price	Total Project Cost
<b>2023 Fiscal Year</b>		
WA-2023-0003	** [REDACTED] **	** [REDACTED] **
WA-2023-0026/SA-2023-0027	** [REDACTED] **	** [REDACTED] **
WA-2023-0092/SA-2023-0093	** [REDACTED] **	** [REDACTED] **
SA-2023-0187	** [REDACTED] **	** [REDACTED] **
SA-2023-0215	** [REDACTED] **	** [REDACTED] **
WA-2023-0284/SA-2023-0285	** [REDACTED] **	** [REDACTED] **
SA-2023-0396/WA-2023-0398	** [REDACTED] **	** [REDACTED] **
SA-2023-0437	** [REDACTED] **	** [REDACTED] **
WA-2023-0450/SA-2023-0451	** [REDACTED] **	** [REDACTED] **
<b>2023 FY Total</b>	** [REDACTED] **	** [REDACTED] **
<b>2024 Fiscal Year</b>		
WA-2024-0048/SA-2024-0049	** [REDACTED] **	** [REDACTED] **
SA-2024-0129	** [REDACTED] **	** [REDACTED] **
<b>2024 FY Total</b>	** [REDACTED] **	** [REDACTED] **
<b>Total Including SM-2024-0130</b>	** [REDACTED] **	** [REDACTED] **

A review of the CCN cases filed by Confluence during fiscal year 2023 shows in that fiscal year alone, Confluence filed nine CCN cases, with five of them being joint sewer and water cases.<sup>22</sup>

18 Confluence’s response to Data Request No. 0183 as a part of Case No. WR-2023-0006.

19 The percentage of the total acquisition cost from the average five year capital expenditure provided by Confluence in case WR-2023-0006.

20 S&P Capital IQ Pro, Financial Focus, “Water utility transactions trickle in while long-term demand remains elevated”, published July, 14, 2023.

21 McKinley’s Workpaper.

22 These Cases include: WA-2023-0003, WA-2023-0026/SA-2023-0027, WA-2023-0092/SA-2023-0093, SA-2023-0187, SA-2023-0215, WA-2023-0284/SA-2023-0285, WA-2023-0398/SA-2023-0396, SA-2023-0437, and WA-2023-0450/SA-2023-0451.



Furthermore, from July 1, 2023 to date, Confluence filed two additional CCN cases.<sup>23</sup> The total purchase cost for all 17 of Confluence's most recent CCN's as well as this merger is \*\* [REDACTED] is six times more than Confluence's average annual projected capital expenditures, but less than 7.5% of CSWR's average annual projected capital expenditures. The total estimated project cost of Confluence's 17 CCNs is \*\* [REDACTED] s more than 12 times Confluence's average annual projected capital expenditures but roughly 14.6% of CSWR's average annual projected capital expenditures. This indicates that Confluence has an aggressive business practice but with the help of its parent company, is able to accommodate its aggressive business risks. Additionally, larger companies acquiring smaller financially challenged water and sewer systems such as North Oaks appears to be on par with other companies nationwide.

While Staff has concerns regarding Confluence's financial risk profile, acquiring and merging with North Oaks does not significantly affect its financial ratios or financial statements. Additionally, the projected total cost of the merger will be obtained from CSWR and is less than 1% of CSWR's average projected capital expenditures and less than 2% of its cash available. Furthermore, CSWR has a "Minimal" financial risk profile that is mostly unchanged by this transaction. Given these facts, Staff does not have any evidence that CSWR cannot provide the necessary support needed by Confluence to acquire, upgrade, operate, maintain, and otherwise control and manage North Oaks. Staff concludes that Confluence, with the assistance of its parent company, CSWR, is financially capable of the consolidation as requested in the application.

### **Depreciation**

Staff recommends the use of the sewer depreciation rates ordered by the Commission in Confluence's last rate case, consolidated Case No. WR-2023-0006.

### **Customer Experience**

#### **Publicity and Customer Notice**

According to information provided in response to Staff Data Request 0006, Confluence stated that it is not aware of any notifications or meetings held to inform the residents of the pending case.

#### **Customer Service and Billing**

The business office for Confluence will not change as a result of the proposed acquisition. The main office for Confluence is located at 1630 Des Peres Road, Suite 140, St. Louis, MO 63131. Customers will be able to contact Confluence's customer service department by calling the toll-free phone number (866)945-3920, the emergency toll-free number (866)945-3920 option

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23 These cases include: WA-2024-0048/SA-2024-0049 and SA-2024-0129.

24 Review of applications of all FY 2023-2024 Confluence CCN cases. Purchase costs were taken from purchase agreements provided in the application and totaled. Estimated Total Project Costs were taken from the feasibility study included with the application.

two (2) or by sending an email to customer service at [support@confluenceriversuoc.com](mailto:support@confluenceriversuoc.com). The emergency number, website and email are available 24/7. According to Confluence, this information will be provided in the customer brochure, the website, and in all written materials that will be sent to customers. The main office is open from 8:00 am to 5:00 pm M-F to respond to customer concerns forwarded by operations or customer service personnel. Additionally, main office customer service personnel are available to be contacted after hours for emergency calls.

Confluence has been informed by North Oak that the current payment option for customers is by check. Once Confluence acquires the system, the payment options will include check, money order, cashier's check, e-check, credit/debit cards, Apple Pay, Google Pay, PayPal Cash and Check Free Pay. Online payments can be made using any of the methods listed.

In order to incorporate North Oak customers' information into its billing and customer service system, Confluence will obtain a customer list from the current owners/operators. That data will then be entered into Confluence's billing system via data import or by manual data entry.

Confluence will utilize its standard billing process. Bills will be calculated near the first week of each month utilizing the Confluence's billing software, Muni-Link. Bills are mailed by a mailing service. Bills will have a due date of the last business day of the month, at least 21 days after each bill's rendition. Late fees are posted the day after the due date or within the first few days following the due date by CSWR Billing Specialists. Payments are posted automatically if paid by debit/credit card or e-check using Muni-Link Software and Invoice Cloud (third party provider of electronic bill pay). Auto-pay occurs three (3) days prior to due date. Posting occurs prior to bill rendition and payments are manually posted daily by CSWR Billing Specialists. Customers are contacted twice prior to disconnection via a written delinquent notice and a door hanger.

### **Rate and Tariff Matters**

In the Application, Confluence proposes to adopt the existing tariffs and rates of North Oak. North Oak's current rates are as follows:

- Sewer Rate Schedule "A" – Single Family Dwellings: \$37.70/month
- Sewer Rate Schedule "B.1" – Multiple Family Dwellings where collecting sewers serving each unit are owned by the utility: \$30.16/month
- Sewer Rate Schedule "B.2" – Multiple Family Dwellings where collecting sewers are NOT owned by the utility: \$30.16 per unit/month
- Sewer Rate Schedule "C" – Commercial Establishments: \$41.17/month
- Sewer Rate Schedule "D" – Industrial Waste: \*a Special Contract for service approved by the Missouri Public Service Commission shall set industrial waste rates.

These rates will be reevaluated during Confluence's next rate case.

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

Staff utilizes the concepts of Technical, Managerial, and Financial capacities (“TMF”) in studying applications involving existing water and/or sewer systems. Staff has reviewed and stated its position on the TMF capacities regarding each of Confluence’s affiliates in previous CCN and transfer of assets cases before the Commission. Staff’s position on Confluence’s ability to meet TMF criteria remains positive regarding those affiliates, and similarly takes the position that Confluence has adequate TMF capacity in this case. It is Staff’s position that Confluence has the ability to secure funding, to oversee construction of any necessary upgrades or repairs, and the ability to manage operations of the North Oak system.

When considering a request for a new CCN, the Commission applies criteria originally developed in a CCN case filed by the Tartan Energy Company and referred to now as the “Tartan criteria.” The Tartan criteria contemplate 1) the need for service; 2) the utility’s qualifications; 3) the utility’s financial ability; 4) the economic feasibility of the proposal; and, 5) promotion of the public interest. Similar to the TMF capacities, in previous CCN cases Staff investigated these criteria and that investigation relates to this proposed acquisition. The results of Staff’s investigation are outlined below:

#### **(1) Need for Service**

There is both a current and future need for sewer service, as the existing North Oak customer base has both a desire and need for service.

#### **(2) Applicant’s Qualifications**

Confluence is an existing sewer corporation and public utility subject to the jurisdiction of the Commission. Confluence is currently providing water service to approximately 5,200 customers and sewer service to approximately 5,100 customers throughout Missouri, exemplifying Confluence’s ability to provide safe and adequate service. Confluence is a subsidiary of CSWR.

#### **(3) Applicant’s Financial Ability**

Confluence has the financial capacity to acquire this system through access to capital from its parent company. This purchase is being made with a capital infusion and as a result, the purchase does not have a negative impact on the purchaser’s capital structure or financial ratios.

#### **(4) Feasibility of the Proposal**

Confluence anticipates no need for additional external financing to complete this acquisition, and has demonstrated over numerous years that it has adequate resources to operate utility systems it owns, to acquire new systems, to undertake construction of new systems and expansions of existing systems, to plan and undertake schedules capital improvements, and timely respond and resolve emergency issues when such situations arise.

The final determination of the existing rate base (before future investment upgrades) and certainly,

any return of their investment and return on their investment for any future rate base additions would be determined in a future rate case. Any investment upgrades need to be prudent, in-service, used and useful before they are included in Confluence's revenue requirement. In other words, the Company does not get recovery of their investment or a return on any future investment until after rates are set in a future rate case.

The proposed adoption of the existing rates which were approved by this Commission in North Oak's most recently completed rate case will be reviewed in Confluence's next rate case. It is likely the rates for this system would increase in a future rate case, even if this system was consolidated with other systems, because of the investment upgrades Confluence will need to make to this system. Confluence can draw upon the significant resources of its parent company, should any shortfall arise prior to the next rate case.

Sewer utilities are capital-intensive operations that require compliance with numerous State and Federal regulations. These systems often require significant investment to repair and update them just to work towards compliance with current regulations. The upgrades and repairs proposed by Confluence for these systems appear reasonable, and are likely to enable the troubled system to begin providing safe and adequate service. This demonstrates the technical and operational feasibility of the Company's proposal.

Staff believes the acquisition by a knowledgeable and capable larger utility of a small sewer system that needs investment and improvement is feasible.

#### **(5) Promotion of the Public Interest**

Staff finds the proposed transaction promotes the public interest, as there is a current and future need for service, and the customers may be better served by Confluence as the operator of the sewer system in the provision of safe and adequate service.

#### **Other Issues**

Confluence is currently listed as an Active Limited Liability Company with the Missouri Secretary of State.

North Oak has no outstanding annual assessment obligations due to the Commission, and it has no pending actions before the Commission.

Confluence is a corporation that is in good standing with the Missouri Secretary of State.

Confluence is current with annual report filings with the Commission through calendar year 2022, as documented on the Commission's Electronic Filing and Information System ("EFIS").

Confluence is current on its annual assessment quarterly payments through the third quarter of fiscal year 2023.

### **Staff's Conclusions and Recommendations**

Staff recommends the Commission find that Confluence has complied with the requirements of Section 393.320, RSMo, and approve Confluence's request for CCN, subject to the following conditions and actions:

1. Grant Confluence a CCN to provide sewer service in the proposed North Oak service area, as modified as outlined herein;
2. Approve existing North Oak sewer rates for the North Oak system;
3. Require Confluence to submit tariff sheets, to become effective before closing on the assets, to include a service area map, service area written description, rates and charges to be included in its EFIS tariffs P.S.C. MO No. 31, applicable to sewer service;
4. Require Confluence to notify the Commission of closing on the assets within five (5) days after such closing;
5. If closing on the water and sewer system assets does not take place within thirty (30) days following the effective date of the Commission's order approving such, require Confluence 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 Confluence determines that the transfer of the assets will not occur;
6. If Confluence determines that a transfer of the assets will not occur, require Confluence 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 Confluence to submit tariff sheets as appropriate that would cancel service area maps and descriptions applicable to the North Oak service area in its water and sewer tariffs, and rate and charges sheets applicable to customers in the North Oak service area in both the water and sewer tariffs;
7. Require Confluence to keep its financial books and records for plant-in-service and operating expenses in accordance with the NARUC Uniform System of Accounts ("USOA");
8. Require Confluence to adhere to the acquisition accounting guidance provided in the USOA so that a request for rate recovery can be properly audited in Confluence's next rate case.
9. Require Confluence to adopt the sewer depreciation rates ordered in Case No. WR-2023-0006 for the North Oak assets;
10. Require Confluence to provide training to its call center personnel regarding rates and rules applicable to the sewer customers in the acquired area;

11. Require Confluence to distribute to the customers in the acquired area an informational brochure detailing the rights and responsibilities of the utility and its customers consistent with the requirements of Commission Rule 20 CSR 4240-13, within thirty (30) days of closing on the assets;
12. Require Confluence to provide to the Customer Experience Department (“CXD”) Staff an example of its actual communication with the North Oak customers regarding its acquisition and operations of the water, and how customers may reach Confluence, within ten (10) days after closing on the assets;
13. Require Confluence to provide to the CXD Staff a sample of five (5) billing statements from the first three month’s billing for the sewer system within ten (10) days of the billings; and;
14. Require Confluence to file notice in this case outlining completion of the above-recommended training, customer communications, notifications and billing for each acquired company within ten (10) days after such communications and notifications;
15. Require Confluence to include the sewer customers in its established monthly reporting to the CXD Staff on customer service and billing issues, on an ongoing basis after closing on the assets;
16. Require Confluence to complete cleaning, vegetation removal, solid waste removal, and other deferred maintenance activities within sixty (60) days of closing on the assets.
17. Require Confluence to complete upgrades, repairs, and safety improvements to the plant to ensure that the wastewater treatment facility can consistently comply with Department of Natural Resources requirements within thirty (30) months of closing on the assets.

### **Attachments**

- A. Revenue Requirement workpapers from SR-2004-0306

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


In the Matter of the Application of                     )  
Confluence Rivers Utility Operating                 )  
Company, Inc., for Authority to Acquire             )  
Certain Sewer Assets in an Area of                 )  
Warren County, Missouri (North Oak                )  
Sewer District, Inc.)                                     )  
File No. SM-2024-0130

**AFFIDAVIT OF JARED GIACONE**

STATE OF MISSOURI     )  
                                  )  
COUNTY OF CASS    )            ss.

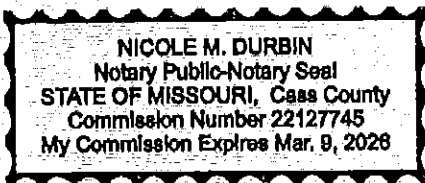
**COMES NOW JARED GIACONE** and on his oath declares that he is of sound mind and lawful age; that he contributed to the foregoing *Staff Recommendation in Memorandum form*, and that the same is true and correct according to his best knowledge and belief.


Further the Affiant sayeth not.

  
**JARED GIACONE**

**JURAT**

Subscribed and sworn before me, a duly constituted and authorized Notary Public, in and for the County of Cass, State of Missouri, at my office in Belton, on this 8 day of January 2024.



  
Notary Public

**BEFORE THE PUBLIC SERVICE COMMISSION**

**OF THE STATE OF MISSOURI**

In the Matter of the Application of	)	
Confluence Rivers Utility Operating	)	
Company, Inc., for Authority to Acquire	)	<u>File No. SM-2024-0130</u>
Certain Sewer Assets in an Area of	)	
Warren County, Missouri (North Oak	)	
Sewer District, Inc.)	)	

**AFFIDAVIT OF NATHAN BAILEY**

STATE OF MISSOURI	)	
	)	ss.
COUNTY OF JACKSON	)	

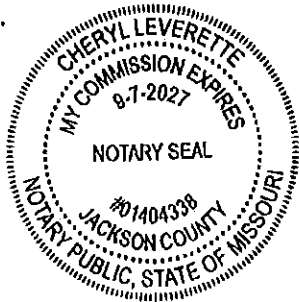
**COMES NOW NATHAN BAILEY** and on his oath declares that he is of sound mind and lawful age; that he contributed to the foregoing *Staff Recommendation in Memorandum form*, and that the same is true and correct according to his best knowledge and belief.


Further the Affiant sayeth not.

  
 \_\_\_\_\_  
**NATHAN BAILEY**

**JURAT**

Subscribed and sworn before me, a duly constituted and authorized Notary Public, in and for the County of Jackson, State of Missouri, at my office in Kansas City, on this 3rd day of January 2024.



  
 \_\_\_\_\_  
 Notary Public









**BEFORE THE PUBLIC SERVICE COMMISSION**

**OF THE STATE OF MISSOURI**

In the Matter of the Application of )  
Confluence Rivers Utility Operating )  
Company, Inc., for Authority to Acquire ) File No. SM-2024-0130  
Certain Sewer Assets in an Area of )  
Warren County, Missouri (North Oak )  
Sewer District, Inc.) )

**AFFIDAVIT OF ADAM STAMP**

STATE OF MISSOURI )  
 ) ss.  
COUNTY OF COLE )

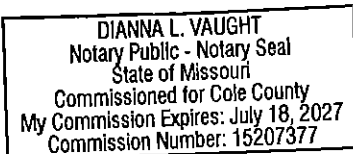
**COMES NOW ADAM STAMP** and on his oath declares that he is of sound mind and lawful age; that he contributed to the foregoing *Staff Recommendation in Memorandum form*, and that the same is true and correct according to his best knowledge and belief.

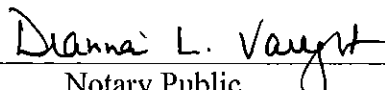
Further the Affiant sayeth not.

  
\_\_\_\_\_  
**ADAM STAMP**

**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 11<sup>th</sup> day of January 2024.



  
\_\_\_\_\_  
Notary Public



# ATTACHMENT A

# ATTACHMENT C

## Revenue Requirement workpapers from SR-2004-0306

Source: EFIS, Case No. SR-2004-0306, Item No. 7, "SR-2004-0306-attachments and appendix"  
Pages 14-32

# North Oak Sewer District, Inc.

Small Company Rate Filing - Sewer Service

Work ID # QS-2003-0019

Sewer

## Rate Making Income Statement

	As Adjusted		
Revenue	\$19,584		
Expenses			Minimum Bill Allocated
Support Staff Salary & Empl PR Tax	\$2,580		\$2,580
Contract Operator	\$5,760		\$5,760
Waste Water Testing	\$600		\$600
Electricity-Treatment Plant	\$2,464		\$2,464
Sludge Hauling	\$750		\$750
Materials & Supplies	\$500		\$500
Professional Services - Accounting	\$350		\$350
Shared Office Costs	\$900		\$900
Postage	\$194		\$194
DNR Fees	\$800		\$800
Taxes & Licenses	\$45		\$45
Bank charges	\$80		\$80
Insurance	\$520		\$520
PSC Expense	\$1,807		\$1,807
Depreciation	\$1,557		\$1,557
Return On Investment	\$4,527		\$4,527
			\$0
<b>Total Cost of Service</b>	<b>\$23,434</b>		<b>\$23,434</b>
Less: Other Revenues	\$0		\$0
<b>Cost to recover from Rates</b>	<b>\$23,434</b>		<b>\$23,434</b>
<b>Total COS</b>	<b>\$23,434</b>		
<b>Increase Needed</b>	<b>\$3,850</b>	<b>19.7%</b>	

August 13, 2003  
Missouri Public Service Commission Staff

Page 1 of 5  
W. R. Hubbs



# North Oak Sewer District, Inc.

Small Company Rate Filing - Sewer Service

Work ID # QS-2003-0019

Sewer
-------

## Sewer Rate Development

### Sewer Rates

	Customer Numbers	Class Weighting	Class Equivalents	Annual Class Equivalents
Single Family Residential	16	1	16	192
Multi-Family Residential	10	0.8	8	96
Mobile Homes in a Park	32	0.8	25.6	307.2
Commercial - Small	2	1.1	2.2	26.4
<b>Totals</b>	<b>60</b>		<b>51.8</b>	<b>621.6</b>

Total Cost of Service \$23,434 (from page 1 of 5) Postage Allocation  
 Divided by Class Equivalents 621.6  
 Equivalent Cost per Month \$ 37.70

#### RATE CLASSES

Class	Class Weighting	Equivalent Cost Per Month	Class Rates
<b>Single Family Residential</b>	1	\$ 37.70	<b>\$37.70</b>
<b>Multi-Family Residential</b>	0.8	\$ 37.70	<b>\$30.16</b>
<b>Mobile Homes in a Park</b>	0.8	\$ 37.70	<b>\$30.16</b>
<b>Commercial - Small</b>	1.1	\$ 37.70	<b>\$41.47</b>

August 13, 2003  
 Missouri Public Service Commission Staff

Page 2 of 5  
 W. R. Hubbs

# North Oak Sewer District, Inc.

Small Company Rate Filing - Sewer Service

Work ID # QS-2003-0019

Sewer
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<b>Residential Sewer Customer Impact</b>
--

Single Family Residential Rate	Monthly Charge	Monthly Charge
Proposed Rates	\$37.70	\$37.70
Current Rates	\$30.00	\$30.00
Difference	\$7.70	\$7.70
Percentage Difference from Current Rates	25.66%	25.66%

Multi-Family & Mobile Home Park RATES	Monthly Charge	Monthly Charge
Proposed Rates	\$30.16	\$30.16
Current Rates	\$26.00	\$26.00
Difference	\$4.16	\$4.16
Percentage Difference from Current Rates	16.00%	16.00%

Commercial Rate	Monthly Charge	Monthly Charge
Proposed Rates	\$41.47	\$41.47
Current Rates	\$30.00	\$30.00
Difference	\$11.47	\$11.47
Percentage Difference from Current Rates	38.23%	38.23%

August 13, 2003  
Missouri Public Service Commission Staff

Page 3 of 5  
W. R. Hubbs

# North Oak Sewer District, Inc.

Small Company Rate Filing - Sewer Service  
 Work ID # QS-2003-0019

Sewer
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<b>Proposed Charges</b> <b>Annualized &amp; Normalized Sewer Revenues</b>
--

<b>Sewer Revenues</b>
-----------------------

**Minimum Bill Revenues**

Residential Customer Number - Single Family	16
Customer Bills	192
Times:	
Proposed Monthly Customer Charge	\$37.70
Equals:	
Annualized Minimum Bill Revenue	\$7,238
Residential Customer Number - Multi-Family	10
Customer Bills	120
Times:	
Proposed Monthly Customer Charge	\$30.16
Equals:	
Annualized Minimum Bill Revenue	\$3,619
Residential Customer Number - Mobile Home Park	32
Customer Bills	384
Times:	
Proposed Monthly Customer Charge	\$30.16
Equals:	
Annualized Minimum Bill Revenue	\$11,581
Commercial Customer Number	2
Customer Bills	24
Times:	
Proposed Monthly Customer Charge	\$41.47
Equals:	
Annualized Minimum Bill Revenue	\$995

<b>Total Sewer Rate Revenues @ Current Rate</b>	<b>\$23,434</b>
---	-----------------

<b>Miscellaneous Revenues</b>	<b>\$0</b>
-------------------------------	------------

<b>Total Sewer Service Revenues @ Current Rates</b>	<b>\$23,434</b>
---	-----------------

# North Oak Sewer District, Inc.

Small Company Rate Filing - Sewer Service

Work ID # QS-2003-0019

Sewer

## Accounting Department Test Year Annualized & Normalized Revenues

### Sewer Revenues

#### Minimum Bill Revenues

Residential Customer Number - Single Family 16

Customer Bills 192

Times:

Existing Minimum Monthly Charge \$30.00

Equals:

Annualized Minimum Bill Revenue \$5,760

Residential Customer Number - Multi-Family 42

Customer Bills 504

Times:

Existing Minimum Monthly Charge \$26.00

Equals:

Annualized Minimum Bill Revenue \$13,104

Commercial Customer Number 2

Customer Bills 24

Times:

Existing Minimum Monthly Charge \$30.00

Equals:

Annualized Minimum Bill Revenue \$720

Total Sewer Rate Revenues @ Current Rate \$19,584

Miscellaneous Revenues \$0

Total Sewer Service Revenues @ Current Rates \$19,584

August 13, 2003  
Missouri Public Service Commission Staff

Page 5 of 5  
W. R. Hubbs

North Oak Sewer District, Inc  
Informal Rate/Certificate Case  
Tracking Number QS-2003-0019  
Test Year Ending Dec, 31, 2002  
RATE DESIGN SCHEDULE

Rate Making Income Statement - Sewer

A Description	B Account Number (Optional)	C Staff Annualized	D	E
			Customer Charge	Commodity
Annualized Revenues		\$19,584		
<b>OPERATIONS EXPENSES</b>				
Support Staff Salary & Employer's PR Tax (1)		\$2,580		
Contract Operator (1)		\$5,760		
Waste water testing		\$600		
Electricity- Treatment Plant (50% Allocation)		\$2,464		
Sludge Hauling		\$750		
Total Operations Expense		\$12,154		
<b>MAINTENANCE EXPENSES</b>				
Materials & Supplies		\$500		
Total Maintenance Expense		\$500		
<b>ADMINISTRATIVE &amp; GENERAL EXPENSES</b>				
Professional Services- Accounting		\$350		
Shared Office Costs		\$900		
Postage		\$194		
DNR Fees		\$800		
Taxes & Licenses		\$45		
Bank Charges		\$80		
Insurance		\$520		
Total Administrative and General		\$2,889		
<b>OTHER OPERATING EXPENSES</b>				
Other Expenses				
PSC Assessment		\$1,230		
Depreciation		\$1,557		
<b>TOTAL EXPENSES BEFORE INCOME TAX</b>		<b>\$18,330</b>		
Return on Investment & Current Income Taxes	3	4,527		
<b>TOTAL COST OF SERVICE</b>		<b>22,857</b>	\$0	\$0
Less: Miscellaneous Revenues	4	0	0	
<b>COST TO RECOVER IN RATES</b>		<b>22,857</b>	0	0
<b>INCREMENTAL INCREASE IN RATE REVENUES</b>		<b>3,273</b>		
<b>REQUESTED INCREASE IN REVENUES</b>		<b>\$18,000</b>		

- changed to \$1,807  
 ↓  
 added \$577  
 → 3,434  
 → 23,434  
 + \$5.77 = \$3,850

Revenue Summary

North Oak Sewer District, Inc  
Informal Rate/Certificate Case  
Tracking Number QS-2003-0019  
Test Year Ending Dec, 31, 2002  
**REVENUE SUMMARY SCHEDULE**

**ANNUALIZED & NORMALIZED REVENUES**

<u>A</u> Description	<u>Apt's &amp; Mobile Homes</u>		<u>Single Family Resid.</u>		<u>Commercial</u>		<u>Total</u>	
	<u>B</u> Amount	<u>C</u> Amount	<u>D</u> Amount	<u>E</u> Amount	<u>F</u> Amount	<u>G</u> Amount	<u>H</u> Amount	<u>I</u> Amount
<b><u>Customer Charge Revenues:</u></b>								
Customer Number	42		16		2		60	
Customer Bills Per year	504		192		24		720	
Existing Monthly Customer Charge Tariff	<u>\$26.00</u>		<u>\$30.00</u>		<u>\$30.00</u>			
Annualized Customer Charge Revenues		\$13,104		\$5,760		\$720		\$19,584
<b><u>Commodity Charge Revenues:</u></b>								
Total Gallons Sold	-		-				-	
Less: Base Gallons Included In Customer Charge	<u>-</u>		<u>-</u>		<u>-</u>		<u>-</u>	
Commodity Gallons	-		-				-	
Existing Commodity Charge / 1,000 gallons	<u>\$0.00</u>		<u>\$0.00</u>		<u>\$3.00</u>			
Annualized Commodity Charge Revenues		<u>\$0</u>		<u>\$0</u>		<u>\$0</u>		<u>\$0</u>
Total Annualized Sewer Rate Revenues		\$13,104		\$5,760		\$720		\$19,584
Miscellaneous Revenues		<u>\$0</u>		<u>\$0</u>		<u>\$0</u>		<u>\$0</u>
Total Annualized Sewer Service Revenues		<u>\$13,104</u>		<u>\$5,760</u>		<u>\$720</u>		<u>\$19,584</u>

North Oak Sewer District, Inc  
Informal Rate/Certificate Case  
Tracking Number QS-2003-0019  
Test Year Ending Dec, 31, 2002  
EXPENSE SCHEDULE

<u>A</u> Description	<u>B</u> Account Number (Optional)	<u>C</u> Company/ Test Year Amount	<u>D</u> Staff Annualized	<u>E</u> Difference (1)	<u>F</u> Adjustment Number
<b>OPERATIONS EXPENSES</b>					
Support Staff Salary & Employer's PR Tax (1)		\$0	\$2,580	\$2,580	W-1
Contract Operator (1)		\$12,160	\$5,760	-\$6,400	W-2
Waste water testing		\$550	\$600	\$50	W-3
Electricity- Treatment Plant (50% Allocation)		\$12,929	\$2,464	-\$10,465	W-4
Sludge Hauling		\$0	\$750	\$750	W-5
<u>Total Operations Expense</u>		<u>\$25,639</u>	<u>\$12,154</u>	<u>-\$13,485</u>	
<b>MAINTENANCE EXPENSES</b>					
Materials & Supplies		\$777	\$500	-\$277	W-6
<u>Total Maintenance Expense</u>		<u>\$777</u>	<u>\$500</u>	<u>-\$277</u>	
<b>ADMINISTRATIVE &amp; GENERAL EXPENSES</b>					
Professional Services- Accounting		\$2,010	\$350	-\$1,660	W-7
Shared Office Costs		\$2,800	\$900	-\$1,900	W-8
Postage		\$90	\$194	\$104	W-9
DNR Fees		\$1,450	\$800	-\$650	W-10
Taxes & Licenses		\$45	\$45	\$0	
Bank Charges		\$80	\$80	\$0	
Insurance		\$520	\$520	\$0	
Bad Debt Expense		\$26	\$0	-\$26	W-11
<u>Total Administrative and General</u>		<u>\$7,021</u>	<u>\$2,889</u>	<u>-\$4,132</u>	
<b>OTHER OPERATING EXPENSES</b>					
Taxes Other Than Income					
PSC Assessment		\$2,336	\$1,230	-\$1,106	W-12
Depreciation & Amortization		\$8,509	\$1,557	-\$6,952	
<u>Total Other Operating Expenses</u>		<u>\$10,845</u>	<u>\$2,787</u>	<u>-\$8,058</u>	
<u>TOTAL EXPENSES BEFORE INCOME TAX</u>		<u>\$44,282</u>	<u>\$18,330</u>	<u>-\$25,952</u>	

(1) Automatic Description Required Description Should Provide Breakdown of Salaries

(2) Explained in Expense Adjustments Schedule

North Oak Sewer District, Inc  
Informal Rate/Certificate Case  
Tracking Number QS-2003-0019  
Test Year Ending Dec, 31, 2002  
Expense Adjustment Schedule

A Expense Adjustment Number	B Subset Adjustment	C Adjustment Description	D Account Number	E Adjustment Subtotal (2)	F Total Adjustment Amount
		<u>Salary Allowance</u>			
W-1		Staff Salary - 24hr./moth@\$8.00 per hour		2,304	
		+ 12% employer's PR tax		276	
		<u>Total Salary Allowance Adjustment</u>		<u>2,580</u>	
W-2		Allow Contract Sewer Plant Operator @\$480/month		(6,400)	
W-3		Allow Lab tests \$50 per month		50	
W-4		<u>Electricity - Treatment Plant</u>			
		Capitalize 3 phase installation		(8,000)	
		Allow 50% Allocation on remaining \$4929		(2,465)	
		<u>Total Electricity Adjustment</u>		<u>(10,465)</u>	
W-5		Allow Sludge Hauling 3 times/year @\$250 each		750	
W-6		Allow \$500 R & R and Supplies		(277)	
W-7		<u>Accounting Service Fees</u>			
		Remove Accrual Balance (Duplicate Expense)		(1,950)	
		Allow \$350 est. tax return prep.		290	
		<u>Total Accounting Adjustment</u>		<u>(1,660)</u>	
W-8		Allow shared office estimate (\$75/month)		(1,900)	
W-9		Allow postage 60 bills/month@\$.27 each		104	
W-10		Allow estimated 03 DNR fees		(650)	
W-11		Eliminate Bad Debt Expense (Cash Basis)		(26)	
W-12		<u>PSC Assessment</u>			
		Eliminate excess accrual for PSC Assessment		(2,048)	
		Allow Annual Estimated PSC Assessment (\$1230)		942	
		<u>Total PSC Adjustment</u>		<u>(1,106)</u>	

Attachment E - 9

Description Should Provide Breakdown of Salaries  
in Expense Schedule



North Oak Sewer District, Inc  
 Informal Rate/Certificate Case  
 Tracking Number QS-2003-0019  
 Test Year Ending Dec, 31, 2002  
**RATE BASE, RETURN on INVESTMENT  
 and INCOME TAX SCHEDULE**

<u>A</u> Rate Base Description	<u>B</u> Dollar Amount	
Plant In Service	\$105,639	From Plant Schedule
Less Accumulated Depreciation Reserve	\$7,643	From Depreciation Reserve Schedule
Net Plant In Service	<u>\$97,996</u>	
Other Rate Base Items:	\$0	
Total Rate Base	<u>\$97,996</u>	
Total Weighted Rate of Return Including Income Tax	11.00%	From Return & Taxes
Allocation Factor	42.00%	
Required Return & Income Tax	<u>\$4,527</u>	

North Oak Sewer District, Inc  
 Informal Rate/Certificate Case  
 Tracking Number QS-2003-0019  
 Test Year Ending Dec, 31, 2002  
 Rate of Return Including Income Tax

	<u>A</u>		<u>B</u>	formulas
State Income Tax Rate Statutory / Effective	0.00%	(2)	0.00%	$(1 - (B2 \times .5)) \times A1$
Federal Income Tax Rate Statutory / Effective	0.00%	(1) & (2)	0.00%	$(1 - B1) \times A2$
Composite Effective Income Tax Rate			0.00%	$B1 + B2$
Equity Tax Factor			1.0000	$1 / (1-B3)$
Recommended Weighted Rate of Return on Equity - Common and Preferred			<u>11.00%</u>	From Capital Structure
Weighted Rate of Return on Equity Including Income Tax			11.00%	$B4 \times B5$
Recommended Weighted Rate of Return on Debt - Long-Term and Short-Term			<u>0.00%</u>	From Capital Structure
Total Weighted Rate of Return Including Income Tax			<u>11.00%</u>	$B6 + B7$
				To Rate Base

**Tax Rate Table**

Net Income	Tax Rate
\$0 - 50,000	15%
\$50,001 - 75,000	25%
\$75,001 - 100,000	34%
\$100,001 - 335,000	39%
\$335,001 - and over	34%

Attachment E - 11

(2) Insert 0s For The Tax Rates If Sub-Chapter S Corporation

North Oak Sewer District, Inc  
 Informal Rate/Certificate Case  
 Tracking Number QS-2003-0019  
 Test Year Ending Dec, 31, 2002  
 Capital Structure Schedule

<u>A</u> Description	<u>B</u> Dollar Amount	<u>C</u> Percentage of Total Capital Structure	<u>D</u> Embedded Cost of Capital	<u>E</u> Weighted Cost of Capital
Common Stock	\$90,623	82.97%	11.00%	9.127%
Preferred Stock	\$0	0.00%	8.00%	0.000%
Advances From Affiliates	\$18,601	17.03%	11.00%	1.873%
Short Term Debt	<u>\$0</u>	<u>0.00%</u>		<u>          </u>
<b>TOTAL CAPITALIZATION</b>	<b><u>\$109,224</u></b>	<b><u>100.00%</u></b>		<b><u>11.0000%</u></b>
				To PreTax Return Rate

North Oak Sewer District  
Informal Rate/Certificate Case  
Tracking Number QS-2003-0019  
Test Year Ending Dec, 31, 2002  
Rate Base In Service

Line Number	A Account # (Optional)	B Plant Account Description	C Total Plant	D Adjustment Number	E Adjustments	F As Adjusted Plant
		<b>301 - INTANGIBLES</b>				
		E.K. Williams - Accounting	\$985		\$0	\$985
		Brydon Swearington - Legal	\$6,310		\$0	\$6,310
		Sankpill - Consulting	\$2,758		\$0	\$2,758
		Undefined Others	\$817		\$0	\$817
		<b>Total Intangibles</b>	<b>\$10,870</b>		<b>\$0</b>	<b>\$10,870</b>
		<b>310 - LAND</b>				
		Land (pre 2001)	\$5,000		\$0	\$5,000
		<b>Total Land</b>	<b>\$5,000</b>		<b>\$0</b>	<b>\$5,000</b>
		<b>311 - STRUCTURES &amp; IMPROVEMENTS</b>				
		Fence pre 2001	\$10,394		\$0	\$10,394
		Rock pre 2001	\$7,033		\$0	\$7,033
		Rock - 2001	\$8,660		\$0	\$8,660
		<b>Total Structures &amp; Improvements</b>	<b>\$26,087</b>		<b>\$0</b>	<b>\$26,087</b>
		<b>352.2 GRAVITY MAINS</b>				
		Gravity Mains - pre-2001	\$4,314		\$0	\$4,314
		<b>Total Gravity Mains</b>	<b>\$4,314</b>		<b>\$0</b>	<b>\$4,314</b>
		<b>373 - TREATMENT &amp; DISPOSAL</b>				
		Treatment & Disposal pre 2001	\$46,278		\$0	\$46,278
		Electrical Equipment 2001	\$1,090		\$0	\$1,090
		Capitalize 3 phase Electric 2001 & 2002	\$0	P-1	\$12,000	\$12,000
		<b>Total Treatment &amp; Disposal</b>	<b>\$47,368</b>		<b>\$12,000</b>	<b>\$59,368</b>
		<b>TOTAL PLANT IN SERVICE</b>	<b>\$93,639</b>		<b>\$12,000</b>	<b>\$105,639</b>

To Rate Base & Depreciation Schedules

North Oak Sewer District, Inc  
Informal Rate/Certificate Case  
Tracking Number QS-2003-0019  
Test Year Ending Dec, 31, 2002  
Schedule of Adjustments for  
Plant In Service

<u>A</u> Plant Adjustment Number	<u>B</u> Plant In Service Adjustments Description	<u>C</u> Adjustment Subtotal	<u>D</u> Total Adjustment Amount
P-1	Capitalize 3 phase electric install-2001 Capitalize 3 phase electric install-2002	4000 8000	12,000

North Oak Sewer District, Inc  
Informal Rate/Certificate Case  
Tracking Number QS-2003-0019  
Test Year Ending Dec, 31, 2002  
Accumulated Depreciation Reserve

Line Number	A Account Number	B Depreciation Reserve Description	C Total Reserve	D Adjustment Number	E Adjustments	F As Adjusted Reserve
1		<u>310 - LAND</u>				
2		Land (pre 2001)	\$0			\$0
3						
5		<u>Total Land</u>	<u>\$0</u>			<u>\$0</u>
6		<u>311 - STRUCTURES &amp; IMPROVEMENTS</u>				
7		Structures & Improvements -pre-2001	\$1,307			\$1,307
8		Rock - 2001	\$390			\$390
9						
12		<u>Total Structures &amp; Improvements</u>	<u>\$1,697</u>			<u>\$1,697</u>
13						
14		<u>352.2 GRAVITY MAINS</u>				
15		Gravity Mains - pre-2001	\$215			\$215
18		<u>Total Gravity Mains</u>	<u>\$215</u>			<u>\$215</u>
19						
19		<u>373 - TREATMENT &amp; DISPOSAL</u>				
19		Treatment & Disposal - pre-2001	\$5,207			\$5,207
20		Elec. Equipment	\$74			\$74
26		3 phase Electric	\$450			\$450
27		<u>Total Treatment &amp; Disposal</u>	<u>\$5,731</u>			<u>\$5,731</u>
28						
29		<u>301 - INTANGIBLES</u>				
30		E.K. Williams - Accounting	\$0			\$0
31		Brydon Swearington - Legal	\$0			\$0
32		Sankpill - Consulting	\$0			\$0
33		Undefined Others	\$0			\$0
38		<u>Total Intangibles</u>	<u>\$0</u>			<u>\$0</u>
39						
40		<u>TOTAL PLANT IN SERVICE</u>	<u>\$7,643</u>			<u>\$7,643</u>
41						
42						

To Rate Base

North Oak Sewer District, Inc  
Informal Rate/Certificate Case  
Tracking Number QS-2003-0019  
Test Year Ending Dec, 31, 2002  
Depreciation Expense

**ALLOCATION FACTOR = 42%**

Line Number	A Account Number	B Plant Account Description	C Adjusted Plant	D Depreciation Rate	E Depreciation Expense
1		<b>310 - LAND</b>			
2		Land (pre 2001)	\$5,000	0.0000%	\$0
5		<b>Total Land</b>	<b>\$5,000</b>		<b>\$0</b>
6		<b>311- STRUCTURES &amp; IMPROVEMENTS</b>			
7		Fence pre 2001	\$17,427	2.5000%	\$183
8		Rock - 2001	\$8,660	2.5000%	\$91
15		<b>Total Land Improvements</b>	<b>\$26,087</b>		<b>\$274</b>
16		<b>352.2 - GRAVITY MAINS</b>			
17		Gravity Mains - pre-2001	\$4,314	2.0000%	\$36
19		<b>Total Sewer Treatment Plant</b>	<b>\$4,314</b>		<b>\$36</b>
20		<b>373 - TREATMENT AND DISPOSAL</b>			
22		Treatment & Disposal pre 2001	\$46,278	5.0000%	\$972
23		Electrical Equipment 2001	\$1,090	5.0000%	\$23
		3 phase electric -2001	\$4,000	5.0000%	\$84
29		3 phase electric -2002	\$8,000	5.0000%	\$168
30		<b>Total Treatment &amp; Disposal</b>	<b>\$59,368</b>		<b>\$1,247</b>
31		<b>301 - INTANGIBLES</b>			
32		E.K. Williams - Accounting	\$985	0.0000%	\$0
33		Brydon Swearington - Legal	\$6,310	0.0000%	\$0
38		Sankpill - Consulting	\$2,758	0.0000%	\$0
39		Undefined Others	\$817	0.0000%	\$0
40					
41		<b>Total Intangibles</b>	<b>\$10,870</b>		<b>\$0</b>
42		<b>Total Depreciation</b>	<b>\$105,639</b>		<b>\$1,557</b>

**North Oak Sewer District, Inc.**  
**QS-2003-0019**  
**Rate Base Analysis**

Description	Per PSC			
	Land	Trtmt & Disposal	Structures & Imp	Mains
Per Company Detail List		46278	17427	4314
Add: Land	5000			
Add: Sankpill True Up				
Add: Unidentified			34	
<b>Total Plant - SA-2000-417</b>	<b>5000</b>	<b>46312</b>	<b>17427</b>	<b>4314</b>
at June 23, 2000				
<b>2000 Subsequent Additions</b>				
<b>AJE's&amp;RJE's After 06-23-2000</b>				
E.K. Williams - Accounting				
Brydon Swerington - Legal				
Undefined Others				
Eliminate Above Unidentified			34	
Sewer Pipe Duplicated				
Sankpill \$2758 Duplicated				
Unidentified				
<b>PSC Total Plant at 12-31-00</b>	<b>5000</b>	<b>46278</b>	<b>17427</b>	<b>4314</b>
<b>2001 Additions</b>				
March 3 - Rock			420	
April 2 - Rock			163	
April 11 - Rock			312	
June 30 - Rock			425	
RJE from expense - Rock			7340	
RJE from expense - Elec. Equip		1090		
PSC RJE 3 Phase Elec		4000		
<b>PSC Total Plant at 12-31-01</b>	<b>5000</b>	<b>51368</b>	<b>26087</b>	<b>4314</b>
<b>2002 Additions</b>				
PSC RJE 3 Phase Electric		8000		
<b>PSC Total Plant at 12-31-02</b>	<b>5000</b>	<b>59368</b>	<b>26087</b>	<b>4314</b>



<u>Intangibles</u>	<u>Total Rate Base</u>	<u>Plant Not In Rate Base</u>	<u>Total Per Worksheet</u>	<u>Balance per GL</u>	<u>Worksheet Over (Under) G/L</u>
2500	70519	5850	76369		
	0		0		
	5000		5000		
258	258		258		
	34		34		
	0		0		
<b>2758</b>	<b>75811</b>	<b>5850</b>	<b>81661</b>		N/A
	0		0		
	0		0		
	0		0		
985	985		985		
6310	6310		6310		
817	817		817		
	34		34		
	0		0		
	0		0		
	0		0		
		2095	2095		
		2758	2758		
		210	210		
<b>10870</b>	<b>83889</b>	<b>10913</b>	<b>94802</b>	<b>94802</b>	<b>0</b>
	0		0		
	0		0		
	420		420		
	163		163		
	312		312		
	425		425		
	7340		7340		
	1090		1090		
	4000		4000		
			0		
<b>10870</b>	<b>97639</b>	<b>10913</b>	<b>108552</b>	<b>108552</b>	<b>0</b>
	8000		8000		
<b>10870</b>	<b>105639</b>	<b>10913</b>	<b>116552</b>	<b>116552</b>	<b>0</b>

**North Oak Sewer District, Inc.  
DEPRECIATION RATES**

**QS-2003-0019**

<u>ACCOUNT NUMBER</u>	<u>ACCOUNT</u>	<u>DEPRECIATION RATE %</u>	<u>AVERAGE SERVICE LIFE (YEARS)</u>
351	Structures & Improvements	2.5%	40
352.2	Collection Sewers (Gravity)	2.0%	50
372	Treatment & Disposal Facilities	5.0%	20
393	Stores Equipment	4.0%	25
394	Tools, Shop, and Garage Equipment	5.0%	20