

MEMORANDUM

TO: Missouri Public Service Commission
Official Case File, Case No. WA-2024-0325
Missouri-American Water Company

FROM: Scott J. Glasgow – Customer Experience Department
Seoungjoun Won, PhD. – Financial Analysis Department
Melanie Clark – Water, Sewer and Steam Department
Jarrod J. Robertson – Water, Sewer and Steam Department
Adam Stamp – Water, Sewer and Steam Department

/s/ Jarrod J. Robertson 7/15/2024
Case Manager / Date

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

DATE: July 15, 2024

CASE BACKGROUND

On May 1, 2024, Missouri American Water Company, Inc. (“MAWC”) filed an Application (“Application”) with the Missouri Public Service Commission (“Commission”) for a Certificate of Convenience and Necessity (“CCN”) authorizing it to install, own, acquire, construct, operate, control, manage, and maintain the water system in DeKalb, Missouri (“City”). In its Application, MAWC states that it intends to acquire substantially all the water utility assets (“system”) that are presently owned by the City, but currently being operated by MAWC. The City water system, as a municipal utility, is not currently subject to the jurisdiction of the Commission.

On June 18, 2024, the Commission issued its *Order and Notice*, setting an intervention deadline of July 9, 2024, and directing Staff to file a recommendation or a status report (“Order”) by July 15, 2024.

No parties sought to intervene in the case. No public comments have been submitted.

BACKGROUND OF MAWC

MAWC is an existing water and sewer corporation and public utility subject to the jurisdiction of the Commission. MAWC is currently providing water service to approximately 484,000 customers and sewer service to more than 24,000 customers in several service areas throughout Missouri. In

APPENDIX A

recent years, MAWC has acquired several existing small water and sewer systems.

MAWC is a subsidiary of American Water Works Company, Inc. (“American Water”), and is affiliated with other American Water companies that undertake some of the tasks associated with utility service, such as customer billing, and share technical resources.

BACKGROUND OF DEKALB

DeKalb is located in Buchanan County, Missouri, with a population of approximately 230 individuals, which equates to approximately 100 water service accounts.

STAFF’S INVESTIGATION

Staff Inspection

Staff visited the City on June 4, 2024. MAWC was also present to help staff navigate the water system and discuss future plans should the acquisition be approved.

Water System

The City, located in southwest Buchanan County, had a population of 233 as of the 2020 census. It is part of the St. Joseph, MO–KS Metropolitan Statistical Area. The City’s drinking water has traditionally been supplied by Buchanan County Public Water Supply District #1 (“PWSD”), which in-turn purchases its water from MAWC, the company that supplies water to St. Joseph and other surrounding areas.

According to its Application, the system consists of approximately 14,200 linear feet of water main of various material types ranging in diameter from 2-inch to 6-inch. The water system also includes two interconnection vaults, associated valving, hydrants, and approximately 100 service lines with associated meters and vaults.

The City recently erected a new water tower to supply the town’s distribution system. MAWC proposes to lease the water tower for 33 years, after which it would fully own the structure. The Company also pledged to take over all aspects of operations and invest \$150,000 into the community’s water system over the next five (5) years.

Service Area

Staff reviewed the service area map and legal description submitted with the Application and proposes an addition of labeling which defines a major road serving as an eastern delineation boundary of the service area, “SW State Rte. JJ”. Besides this minor addition to aid in locating this service area, Staff found the legal description and map to be adequate.

Proposed Improvements

According to information shared by MAWC during the June 4 on-site visit and MAWC’s response to Staff Data Request No. 0019, the following are the proposed known improvements:

- New service lines
- Installation of Advanced Metering Infrastructure (“AMI”)
- New meter pits
- Remote monitoring
- Three (3) Sample stations

Staff agrees that these improvements will be necessary, as the majority of the system is around 50 years old, with the exception of the elevated storage and a few new hydrants. The newly built storage and the surrounding security fencing are in great condition.

Additional System Information

Staff considered other possible situations that would have an effect on the customers, such as the condition of the PWSD infrastructure that will deliver water to the City, and whether or not MAWC could bypass the PWSD and deliver its own water straight to the City from the St Joseph supply point. According to MAWC, the PWSD systems are in good condition and have been replaced recently. Additionally, MAWC claimed that it would need to install about three (3) miles of pipe to connect the City to MAWC-owned assets without a PWSD interconnection, which would eventually be an unnecessary burden on customer rates.

Rate Base

Plant-In-Service Balances

Staff reviewed information provided by MAWC in response to Staff’s data requests, MAWC’s Application with the included sale agreement documents, and MAWC’s work papers. Staff reviewed invoices and other documentation provided by MAWC to determine and confirm the

current net book value of the City assets. Based upon the supported levels of plant in service and Commission approved depreciation rates,¹ Staff determined the balances of accumulated depreciation for the water system.

Staff determined the value of net plant investment, or “rate base,” by reviewing invoices and other documentation provided by MAWC along with annual depreciation expense, and considering whether plant facilities or money was contributed by customers or land developers. MAWC’s calculated net book value is ** [REDACTED] **. ² Based upon its analysis, Staff’s calculation of the net book value of the City assets, updated to June 30, 2024, is approximately \$3,922. Several of the assets date back to 1957. Based on their age, they are presumed to be fully depreciated, resulting in a net zero rate base value for those assets.

The following is a breakdown of the rate base components:

	Water
Plant in Service	\$180,990
Accumulated Depreciation	\$177,068
CIAC	0
Net Plant minus CIAC	\$3,922
CIAC Amortization	0
Net Rate Base	\$3,922

It is Staff’s position that the acquisition premium is *de minimis*.³

Depreciation

In MAWC’s last rate case, Case No. WR-2022-0303, the Commission ordered the continued use of the depreciation rates currently ordered for all divisions of MAWC. Staff recommends the use of these rates for all plant in the City service area.

¹ Depreciation rates were approved in a previous MAWC rate case, WR-2022-0303.

² MAWC’s calculated book value can be found in the confidential Appendix G-C filed with its Application.

³ MAWC stated in its application that the purchase price was \$297,000, but in response to DR 0004 MAWC admitted this amount included lease payments for the water tower over the next 33 years, further clarified below. Staff uses MAWC restated purchase price of \$5,000 throughout this recommendation.

Publicity and Customer Notice

According to information provided by MAWC in its Application, the City held a meeting on June 29, 2023, with the Mayor, Board Members, and the City Clerk to present a proposal by MAWC for the purchase of the City's water system assets and a long-term lease for its water tower. The members approved the sale the City's water assets and the lease with MAWC. The Mayor and the Board held a Town Hall Meeting on October 10, 2023, to discuss the sale. An election was held on November 7, 2023, with 98% of the votes (92 yes, 2 no) in favor of the City selling its water system to MAWC.

Customer Experience

The same customer service team that takes care of all MAWC customers will be available for the City customers to contact toll-free from 7:00 a.m. to 7:00 p.m., Monday through Friday, with 24/7 coverage for emergencies. MAWC proposes to serve the City's customers at its already established business office at 3524 South Leonard Road in St. Joseph, Missouri 64503. Customers will be able to visit the office location from 7:30 a.m. to 3:30 p.m., Monday through Friday, for billing and customer service inquiries.

MAWC will offer payment options including, cash, check, credit/debit cards, and electronic funds transfers. Online payments can be made using check or credit/debit cards. Customers can also make payments by cash or check in person at approved payment locations. Approved payment locations may be found at www.amwater.com/myaccount. Customers also have the ability to make payments over the phone using the Interactive Voice Response ("IVR") or with a live agent by calling 866-430-0820.

In order to incorporate the City customers into its billing and customer service systems, it will be necessary for MAWC to properly enter the appropriate customer information into its systems and apply the Commission-approved rate. In its response to Staff Data Request No. 0023, MAWC stated they have not identified any issues that would keep them from integrating the City's customers into their billing system. MAWC will also need to provide training to its call center personnel regarding rates and rules applicable to the City customers so that customer service matters are handled accurately and in a timely manner.

Rate and Tariff Matters

Current City residential water customer rates are as follows:

- Customer Charge (including 1,000 gallons): \$62.00
- Commodity Rate: \$18.40 per each additional 1,000 gallons

Currently, a residential water customer, using 5,000 gallons a month would have a monthly bill of \$135.60.

MAWC proposes to provide water service pursuant to the existing rates currently applicable to MAWC's All Missouri Areas Outside of St. Louis County and to utilize the rules governing rendering of water service currently found in MAWC's water tariff P.S.C. MO No. 13, until such time the rates and rules are changed according to law.

The aforementioned tariff rates and charges for residential water customers would be as follows:

- Customer Charge: \$9.00 per month
- Commodity Rate: \$6.2469 per 1,000 gallons

A residential water customer, using 5,000 gallons a month would have a monthly bill of \$40.23.

For comparison:

- If this Application is approved, all City residential water customers using 5,000 gallons would see a savings of \$95.37 per month.

A map and a legal description of the proposed service area, similar to those provided with the Application, will need to be included in MAWC's water tariff, MO P.S.C. No. 13. Also, any applicable tariff sheets affected by this acquisition will need to be revised and submitted along with the aforementioned service area map and legal description.

Staff recommends that after approval, but before MAWC closes on the utility assets, MAWC submit the new or revised water tariff sheets such that they may become effective on or before the date MAWC closes on the City assets.

Additional Service Issue

While the City system assets associated with the provision of water service within the City service area are proposed to be acquired by MAWC, the PWSO will still own the distribution line leading

to and beyond the City (the PWSD has multiple customers located both prior to, and downstream of the connection to the City.) According to Staff Data Request 0019, MAWC and the PWSD have discussed and are in agreement in principle to wheel water through the PWSD1 system (Permit No. MO1024064) from MAWC's St. Joseph facility (Permit No. MO1010714). A final agreement will be executed if MAWC receives an Order Approving Transfer of Assets, granting a CCN from the Commission.

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 MAWC's affiliates in previous CCN and transfer of assets cases before the Commission. Staff's position on MAWC's ability to meet TMF criteria remains positive regarding those affiliates, and similarly takes the position that MAWC has adequate TMF capacity in this case. It is Staff's position that MAWC has the ability to secure funding, to oversee construction of any necessary upgrades or repairs, and the ability to successfully manage operations of the City utility systems.

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 water service. The existing customer base in the City has both a desire and need for service. In addition, there is a need for the necessary steps to be taken to update the City's water system, and to ensure the provision of safe and adequate service.

(2) Applicant's Qualifications

MAWC is an existing water and sewer corporation and public utility subject to the jurisdiction of the Commission. MAWC is currently providing water service to approximately 484,000 customers several service areas throughout Missouri. MAWC is a subsidiary of American Water, and is affiliated with other American Water companies that undertake some of the tasks associated with utility service, such as customer billing, and technical resources. Through its current operation of utility systems MAWC has demonstrated its qualifications to operate the City system.

(3) Applicant's Financial Ability

MAWC anticipates no need for external financing to complete the acquisition.⁴ The total value of the City system assets is \$3,922. MAWC will utilize available operating cash to finance the purchase price, with the remainder funded via the Company's commercial paper program.⁵ Currently, MAWC assumes the lease payments that the City makes for their water tower, so the purchase price of the City's system assets is \$5,000, and the City's annual lease payment is approximately \$10,000.⁶ Given MAWC's financial capacity, the Applicant has the financial ability to provide the service. MAWC is a wholly owned subsidiary of American Water. Over the next five years (2024-2028), S&P expects that American Water's elevated capital spending will amount to approximately \$1 billion on utility investments, with an available credit facility of \$2.675 billion.⁷ S&P and Moody's rated American Water as investment grade. S&P rated as "A", while Moody's rated them as "Baa1".⁸ Considering the fact that the proposed cost for the Project is less than 0.1% of American Water's capital expenditures through 2024, it is reasonable to conclude that MAWC has the financial ability to construct, operate, and maintain the City system.

4 Paragraph 14, The Application

5 Updated MAWC's response to Staff's Data Response No. 0005.

6 Updated MAWC's response to Staff's Data Response No. 0004.

7 Ratings Direct, S&P Global Ratings. March 4, 2024.

8 S&P Capital IQ Pro.

(4) Feasibility of the Proposal

As noted previously, MAWC anticipates no need for external financing to complete the acquisition, and MAWC can draw upon the significant resources of its parent company, should any shortfall arise prior to the next rate case.

(5) Promotion of the Public Interest

Additionally, due to involvement by customers of the City in voting to approve the sale of the City's system, specifically to MAWC, and for the reasons outlined previously in this memorandum, Staff asserts that MAWC's request for a CCN and related acquisition of the City water assets promotes the public interest.

Staff's conclusion is that MAWC satisfies the TMF capacities and the Tartan Energy criteria. Staff further finds that approving utilities' the sale to MAWC is not detrimental to the public interest and that issuance of a CCN to MAWC is necessary or convenient for the public service. Staff recommends that the Commission authorize MAWC to enter into, execute, and perform in accordance with the terms described in the Purchase Agreement. Staff further recommends that MAWC be granted a CCN to provide water service in the territory currently served by the City.

OTHER ISSUES

The City, as an unregulated water operation, has no obligations due to the Commission, and has no pending actions before the Commission.

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

MAWC is current with annual report filings with the Commission through calendar year 2023, as documented on the Commission's Electronic Filing and Information System ("EFIS").

MAWC is current on its annual assessment quarterly payments through the first quarter of fiscal year 2024.

MAWC has other pending cases before the Commission, but none that would impact this decision.

STAFF RECOMMENDATION

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

1. Grant MAWC a CCN to provide water service in the proposed City service area, as modified and outlined herein;
2. Approve existing MAWC water rates for the City system;
3. Require MAWC 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. 13, applicable to water service;
4. Require MAWC to notify the Commission of closing on the assets within five (5) days after such closing;
5. If closing on the water system assets does not take place within thirty (30) days following the effective date of the Commission's order approving such, require MAWC to submit a status report within five (5) days after this thirty (30) day period regarding the status of closing, and additional status reports within five (5) days after each additional thirty (30) day period, until closing takes place, or until MAWC determines that the transfer of the assets will not occur;
6. If MAWC determines that a transfer of the assets will not occur, require MAWC to notify the Commission of such no later than the date of the next status report, as addressed above, after such determination is made, and require MAWC to submit tariff sheets as appropriate that would cancel service area maps and descriptions applicable to the City service area in its water tariff, and rate and charges sheets applicable to customers in the City service area in the water tariff;
7. Require MAWC to record depreciation of the City assets in accordance with the depreciation rates ordered in Case No. WR-2022-0303;
8. Require MAWC to provide to the Customer Experience Department ("CXD") Staff an example of its actual communication with the City water system customers regarding its acquisition and operations of the water system assets, and how customers may reach MAWC, within ten (10) days after closing on the assets;
9. Require MAWC to provide to the CXD Staff an example of its actual communication with the City water and sewer system customers regarding its acquisition and operations of the water system assets, and how customers may reach MAWC, within ten (10) days after closing on the assets;
10. Require MAWC to provide to the CXD Staff a sample of ten (10) billing statements from the first month's billing within thirty (30) days after closing on the assets;
11. Require MAWC to provide training to its call center personnel regarding rates and rules applicable to the City water system customers;
12. Require MAWC to include the City water system 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; and,
13. Require MAWC to file notice in this case outlining completion of the above recommended training, customer communications, and notifications within ten (10) days after such communications and notifications.

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of Missouri-American Water)
Company for a Certificate of Convenience)
and Necessity Authorizing it to Install, Own,)
Acquire, Construct, Operate, Control, Manage)
and Maintain a Water System in and around)
the City of DeKalb, Missouri)

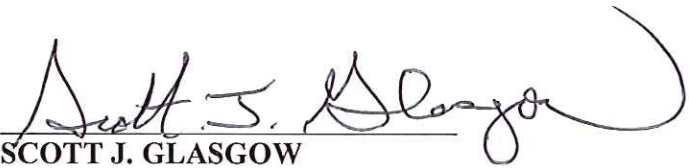
File No. WA-2024-0325

AFFIDAVIT OF SCOTT J. GLASGOW

STATE OF MISSOURI)
)
COUNTY OF COLE) ss.

COMES NOW SCOTT J. GLASGOW 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.



SCOTT J. GLASGOW

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 15th day of July 2024.

D. SUZIE MANKIN
Notary Public - Notary Seal
State of Missouri
Commissioned for Cole County
My Commission Expires: April 04, 2025
Commission Number: 12412070



Notary Public

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of Missouri-American Water)
Company for a Certificate of Convenience) File No. WA-2024-0325
and Necessity Authorizing it to Install, Own,)
Acquire, Construct, Operate, Control, Manage)
and Maintain a Water System in and around)
the City of DeKalb, Missouri)

AFFIDAVIT OF SEOUNG JOUN WON, PhD

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

COMES NOW SEOUNG JOUN WON, PhD 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.



SEOUNG JOUN WON, PhD

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 12th day of July 2024.

D. SUZIE MANKIN
Notary Public - Notary Seal
State of Missouri
Commissioned for Cole County
My Commission Expires: April 04, 2025
Commission Number: 12412070



Notary Public

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of Missouri-American Water)
Company for a Certificate of Convenience) File No. WA-2024-0325
and Necessity Authorizing it to Install, Own,)
Acquire, Construct, Operate, Control, Manage)
and Maintain a Water System in and around)
the City of DeKalb, Missouri)

AFFIDAVIT OF MELANIE CLARK

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

COMES NOW MELANIE CLARK and on her oath declares that she is of sound mind and lawful age; that she contributed to the foregoing *Staff Recommendation* in memorandum form; and that the same is true and correct according to her best knowledge and belief.

Further the Affiant sayeth not.




MELANIE CLARK

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 12th day of July 2024.





Notary Public

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

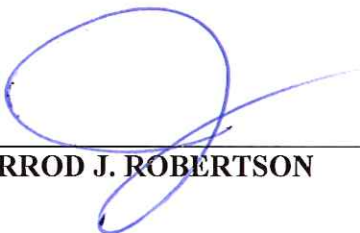
In the Matter of Missouri-American Water)
Company for a Certificate of Convenience) File No. WA-2024-0325
and Necessity Authorizing it to Install, Own,)
Acquire, Construct, Operate, Control, Manage)
and Maintain a Water System in and around)
the City of DeKalb, Missouri)

AFFIDAVIT OF JARROD J. ROBERTSON

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

COMES NOW JARROD J. ROBERTSON 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.




JARROD J. ROBERTSON

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 12th day of July 2024.

D. SUZIE MANKIN
Notary Public - Notary Seal
State of Missouri
Commissioned for Cole County
My Commission Expires: April 04, 2025
Commission Number: 12412070



Notary Public

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of Missouri-American Water)
Company for a Certificate of Convenience)
and Necessity Authorizing it to Install, Own,)
Acquire, Construct, Operate, Control, Manage)
and Maintain a Water System in and around)
the City of DeKalb, Missouri)

File No. WA-2024-0325

AFFIDAVIT OF ADAM STAMP

STATE OF MISSOURI)
)
COUNTY OF COLE) ss.

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 15th day of July 2024.

D. SUZIE MANKIN
Notary Public - Notary Seal
State of Missouri
Commissioned for Cole County
My Commission Expires: April 04, 2025
Commission Number: 12412070



Notary Public