

MEMORANDUM

TO: Missouri Public Service Commission
Official Case File, File No. SM-2025-0067

FROM: Keith D. Foster – Auditing Department
Melanie Marek – Auditing Department
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Kelli Malki – Financial Analysis Department
Jarrod J. Robertson – Water, Sewer, Gas & Steam Department
Adam Stamp – Water, Sewer, Gas & Steam Department

/s/ Jarrod J. Robertson 12/30/2024
Case Manager / Date

SUBJECT: Recommendation of Approval of Requested Transfer of Assets

DATE: December 30, 2024

EXECUTIVE SUMMARY & CASE BACKGROUND

On August 27, 2024, Confluence Rivers Utility Operating Company, Inc. (“Confluence”) and Missouri-American Water Company (“MAWC”) filed a *Joint Application and Motion for Waiver* (“Application”) with the Missouri Public Service Commission (“Commission”). In that application, MAWC proposes to sell and Confluence proposes to purchase 19 small wastewater systems.

On August 29, 2024, the Commission issued its *Order Directing Notice and Setting a Deadline for Intervention Requests*, setting a deadline for applications to intervene no later than September 19, 2024. As of the date of this filing, no applications to intervene have been filed in this case.

On September 20, 2024, the Commission issued its *Order Directing Filing of Staff Recommendation*, setting a deadline of October 9, 2024, for Commission Staff (“Staff”) to either file its Recommendation or a Status Report detailing when Staff intended to file its Recommendation. On October 3, 2024, Staff filed a *Staff Notice*, notifying the Commission that Staff intended to file its Recommendation no later than December 9, 2024. On October 4, 2024, the Commission issued its *Order Granting Extension*, approving of Staff’s intended December 9, 2024 filing date.

On October 8, 2024, MAWC filed a *Notice of Communication* due to communications occurring between MAWC and the Commission regarding a cyber-security incident that occurred at MAWC.

At the time, this incident delayed MAWC's ability to respond to Staff Data Requests ("DRs"). Since then, no other issues have arisen and MAWC has responded to all outstanding DRs in this case.

On November 21, 2024, Confluence filed a *Supplement to Application*, which provided individual service area maps and legal descriptions pertaining to each specific wastewater treatment facility.

On December 2, 2024, Confluence and MAWC filed a *Joint Motion for Extension of Time*, requesting an extension of 21 days to the previously ordered December 9, 2024 deadline for Staff to file its Recommendation, and the same day, the Commission filed its *Order Granting Extension*, approving of Staff's intended December 30, 2024, filing date.

BACKGROUND OF MAWC

MAWC is a Missouri corporation with its principal office and place of business at 727 Craig Road, St. Louis, Missouri 63141. MAWC is a Missouri corporation in good standing. A certified copy of MAWC's certificate of good standing was filed with the Commission in its File No. WO-2021-0343 and is incorporated herein by reference. MAWC currently provides water service to approximately 483,000 customers and sewer service to approximately 24,000 customers in several counties throughout the state of Missouri. MAWC is a "water corporation," a "sewer corporation," and a "public utility" as those terms are defined in Section 386.020 and 393.1000(7), RSMo., and is subject to the jurisdiction and supervision of the Commission as provided by law.

BACKGROUND OF CONFLUENCE

Confluence is a Missouri corporation with its principal office and place of business at 1630 Des Peres Rd., Suite 140, St. Louis, Missouri 63131. Confluence is a Missouri corporation in good standing, and a subsidiary of Central States Water Resources ("CSWR"). A certified copy of Confluence's certificate of good standing was filed in File No. WM-2018-0116 and is incorporated herein by reference. Confluence provides water service to approximately 5,800 connections and sewer service to approximately 6,000 connections in the State of Missouri, pursuant to Certificates of Convenience and Necessity ("CCNs") previously granted by the Commission. Confluence is a "water corporation," a "sewer corporation," and a "public utility," as those terms are defined in Section 386.020, RSMo, and is subject to the jurisdiction and supervision of the Commission as provided by law.

PROPOSED FACILITIES TO BE ACQUIRED

The table below lists the assets to be sold by MAWC, which were originally acquired by MAWC from Aqua Missouri, Inc., Aqua Development, Inc., and Aqua/RU, Inc., d.b.a. Aqua Missouri, Inc., pursuant to approval granted by the Commission in Case No. WO-2011-0168.

No.	Facility Name	Permit ID #	Connections	Plant Type Detail	County
1	Big Sky Subdivision WWTP	MOGDS0022	30	Extended Aeration	Callaway
2	Calley Trail	MOGDS0036	11	Recirculating Sand Filter	Callaway
3	Cedar Hills Subdivision WWTF	MO0121061	19	Recirculating Sand Filter	Callaway
4	Dogwood Lake	MOGDS0050	18	Extended Aeration	Callaway
5	Evergreen Drive Acres WWTF	MO0138517	25	Extended Aeration	Callaway
6	Golden Ponds Lagoon WWTF	MO0118800	30	Facultative Lagoon	Callaway
7	Halifax Road WWTF	MOGDS0071	38	Extended Aeration	Callaway
8	Hidden Valley	MOGDS0038	20	Recirculating Sand Filter	Callaway
9	Hillers Creek Lagoon WWTF	MO0119407	43	Facultative Lagoon	Callaway
10	Hunter's Creek	MOGDS0052	67	Extended Aeration	Callaway
11	Lee Street	MOGDS0075	34	Extended Aeration	Callaway
12	Maple Leaf WWTF	MO0120022	15	Facultative Lagoon	Callaway
13	Ozark Meadows	MOGDS0078	26	Extended Aeration	Morgan
14	Ryan's Lake Subdivision WWTP	MOGDS0015	85	Recirculating Sand Filter	Callaway
15	Southwind Meadows	MOGDS0083	29	Extended Aeration	Callaway
16	Sterling Ridge	MOGDS0085	20	Extended Aeration	Callaway
17	Stoney Creek	MOGDS0047	23	Recirculating Sand Filter	Callaway
18	Summit View	MOGDS0047	44	Extended Aeration	Callaway
19	The Highlands WWTF	MO0039012	29	Facultative Lagoon	Callaway

STAFF'S INVESTIGATION

Staff visited 18 wastewater sites in Callaway County on October 18, 2024, and the final Morgan County site on October 28, 2024. Staff was accompanied by representatives from both MAWC and Confluence. Staff took photographs, noted observations, and asked questions about each system. Staff questioned company representatives on site-specific issues, site construction, and Department of Natural Resources (“DNR”) effluent limit compliance. Staff discovered that a common theme with many of these systems is that they are properly constructed and have been well maintained, but they are aged. The plants were capable of complying with effluent limits during the time period for which they were designed, but as compliance limits tighten, these older plants sometimes experience difficulty meeting said limits. Common solutions to aging infrastructure not meeting current limits are to install additional filtration equipment, which adds another step of cleansing to the treatment process. It should be noted that the overall cost of purchasing the 19 systems and updating them to reach modern and future limits will be substantial.

The plants at issue in this case can be classified into three types of treatment systems:

- Ten sites use “Extended Aeration.” In this type of system, wastewater passes through several chambers that utilize air and clarification equipment to cleanse the water. These chambers create one large structure that is referred to as a “plant.” The walls of this plant

are made of steel or concrete that extend below the surface. Additional necessities like power supply, monitoring equipment, and aeration equipment can be located nearby or directly on top of the structure.

- Five of the sites contain a “Recirculating Sand Filter.” In this type of treatment process, wastewater is applied to and flows through a filtration bed containing multiple layers of natural aggregates for cleansing.
- Four of the sites utilize a “Facultative Lagoon,” where long-term retention of wastewater in ponds allows biological processes to supply treatment.

Staff submitted a sunshine request to DNR requesting records dating back to 2021. Any mention of compliance in the following section is based on Staff’s review of said records. Additionally, possible or likely improvements that will be mentioned are due to Staff’s review of engineer reports for each system.

Description of Individual Wastewater Treatment Facilities

Big Sky Subdivision

The Big Sky Subdivision contains a collection system serving 30 connections, and uses a small steel extended aeration plant for wastewater treatment. The system has only failed effluent compliance once since 2021, which was due to an extreme winter weather event that caused the system to not operate properly. Therefore, its performance is not currently an issue – but Staff did note that the plant is starting to show its age. The blowers and electric motors that maintain aeration are in good condition, but the main structure of the plant itself is made of steel and it is starting to suffer from heavy corrosion. Additionally, the wooden structure that supports all of the plant’s controls is weathered, and the fencing that surrounds the facility will need proper maintenance. Engineers recommend that Confluence have a long-term expenditure plan of \$238,000 for this location.

Calley Trail

The Calley Trail neighborhood wastewater facility serves 11 connections and utilizes a recirculating sand filter for treatment. The system is well-kept, but it is old and has difficulty complying with assigned effluent limits. According to Engineering Reports submitted by Confluence in response to Staff DR No. 0027, some likely solutions will be:

- Install a structure that can better regulate influent so that flow can be controlled and the treatment process is not overloaded.

- Install a Mixed Bed Biofilm Reactor (“MBBR”), which is an additional form of water filtration, to reduce the amount of ammonia that is being discharged – as the plant did fail to meet effluent limits on one occasion in 2023.
- Update the chlorine contact structure on the final stage of treatment before water is returned to the environment via the outfall. The current structure does not provide for the proper amount of contact time between chlorine and water. Chlorine treatment to precede the outfall is required during the period of April through October.

Engineering reports show the cost of these updates to be approximately \$260,000.

Cedar Hills

The Cedar Hills wastewater treatment facility collects from 19 connections and utilizes a recirculating sand filter. The filtration bed and the surrounding walls are well-kept and in good shape, though some minor concrete repairs may be necessary. Like Calley Trail, the Cedar Hills system has had brief occurrences where it could not meet effluent limit compliance. Therefore, engineers have suggested the same formula of adding better flow control on the influent side of the plant, and an additional step of filtration via an MBBR on the effluent side. Engineering reports estimate the total cost of improvements to be about \$206,000.

Dogwood Lake

The Dogwood Lake wastewater treatment facility uses an extended aeration package plant that collects from 18 connections in a neighborhood that continues to expand. Staff saw no problems at this site. The concrete framework of the plant appears to be in good condition, the blowers and motors that provide the aeration for treatment are in working order, the current road is providing adequate access, and the plant has maintained effluent compliance for approximately ten (10) years. Engineering reports submitted to Staff by Confluence mention the installation of proper monitoring equipment so that the plant can be overseen remotely, and long-term costs accounting for improvements and eventual aeration equipment replacement are estimated to be approximately \$193,000.

Evergreen Drive Acres

The Evergreen Drive Acres neighborhood serves 25 connections with an extended aeration package plant. This plant is in good condition and has no issues meeting effluent requirements, with the exception of a large rain event that upset the plant’s chemistry in 2023. Engineering reports recommended that Confluence install an MBBR and remote monitoring, and these improvements, paired with long-term replacement of current equipment, should eventually amount to approximately \$274,000.

Golden Ponds

This site contains a facultative three-cell lagoon that collects wastewater from 30 residential connections. Staff submitted a sunshine request to DNR and found multiple effluent limit compliance problems. Because this site is a simple lagoon, it does not currently have access to a power source. This, along with additional upgrades to get back into compliance, are unknown but will be costly.

Halifax Road

Halifax Road is an extended aeration system serving 38 connections. The plant is in fair condition, but has exceeded effluent limits in recent years. Engineers' recommendations include remote monitoring, better plant maintenance, and basic equipment replacement, which could eventually cost approximately \$214,000.

Hidden Valley

Hidden Valley is a recirculating sand filter that serves 20 connections. The neighborhood appears to be planning to expand. This system contains two filtration beds, but is currently only operating one of them due to the low connection count. The plant has performed well and stayed within compliance limits, but engineers recommend the addition of an MBBR to meet the potentially more scrupulous limits of the future. Cost estimates for improvements here equate to approximately \$205,000.

Hiller's Creek

The Hiller's Creek wastewater treatment system contains a facultative lagoon that serves 47 residential connections across a 150-acre service area. The lagoon consists of three cells with a fourth cell used for storm water storage and effluent blending. The subdivision is almost fully built out, and has room for three additional lots totaling 50 connections when full. While future flow quantities fall within the design range, engineers believe the lagoon will require process upgrades and operational improvements to consistently meet its effluent limits. In the last three years, the Hiller's Creek facility has had multiple violations due to exceedances of the monthly effluent limitations for ammonia but has been otherwise compliant.

Hunter's Creek

The wastewater treatment plant located at Hunter's Creek serves approximately 52 residential connections. The plant is made of buried pre-cast concrete and utilizes extended aeration for treatment. Compliance history indicates a single violation occurrence in 2023, but it was not due to effluent exceedance. Engineers estimate long-term expenditures of maintenance and existing equipment replacement to cost approximately \$197,000.

Lee Street

The Lee Street wastewater treatment system is an underground extended aeration system package plant installed in a concrete tank structure, and serves approximately 34 residential connections. Influent to the plant is supplied by two lift stations in the neighborhood. Compliance history indicates two prior violations have occurred at this treatment facility, one in 2021 and the other 2022. These instances were apparently caused by blower failure which ceased aeration operations within the plant. Both lift stations will need rehabilitation work. This, combined with the possible addition of an MBBR, leads engineers to estimate a long-term cost total of \$269,000.

Maple Leaf

The Maple Leaf wastewater treatment facility consists of a three-cell lagoon that collects from 15 residential connections. Present and expected future flows of the Maple Leaf service area fall within design range. However, engineers believe the lagoon will require minor process upgrades and operational improvements to consistently meet its effluent limits, considering the recent addition of effluent limitations for both E. coli and ammonia in 2023. As with the other lagoon systems in this case, the location has no power supply. Engineers recommend that Confluence install a power source, monitoring equipment, and add aeration to the lagoon for further treatment. Confluence will also need to install chlorine disinfection at the outfall, which DNR requires during “recreation season” (April-October). Cost estimates are approximately \$378,000.

Ozark Meadows

Ozark Meadows consists of approximately 30 residential connections, a retirement community, and a community church. The wastewater generated at the subdivision is treated at an onsite extended aeration wastewater treatment plant. The bulk of the adjacent land has been purchased for future expansion by a heavy equipment company, and it is not known if the residential area will expand. The plant has reliably complied with effluent limits, so performance is not an issue, but the steel structure of the plant is starting to suffer from heavy corrosion. The long-term construction cost estimate is \$188,000.

Ryan’s Lake

This treatment facility serves 85 active connections. It consists of a septic tank, recirculation tank, recirculating media filter, MBBR, disinfection system, and effluent flow metering. After the treatment facility received multiple noncompliance violations from 2020-2022, MAWC installed a MBBR, and the facility has since maintained effluent compliance.

Southwind Meadows

The Southwind Meadows neighborhood will likely expand in the future. Currently, the wastewater treatment facility serves 29 residential connections with a concrete extended aeration package plant, and has reliably maintained DNR effluent compliance limits for at least the last three years. Staff found the site and all equipment to be well maintained and in very good condition.

Sterling Ridge

The Sterling Ridge wastewater treatment facility serves 20 residential connections with a concrete extended aeration plant. The plant is in good shape and has operated well, maintaining compliance for at least the last three years. It's likely that the Sterling Ridge community will continue to expand. To ensure that effluent compliance is maintained in light of the expected expansion, engineers recommend that Confluence install an MBBR in the future.

Stoney Creek

The Stoney Creek wastewater treatment plant serves 23 active connections located within a single subdivision. The facility consists of a septic tank, recirculation tank, recirculating sand filter, disinfection system, and effluent flow metering. The treatment facility has received multiple noncompliance violations, and engineers recommend the addition of an MBBR as the solution. Staff found the current equipment to be in fair condition.

Summit View

The Summit View subdivision contains 44 residential connections that supply wastewater to a buried concrete extended aeration package plant. The plant is in good shape and has upheld effluent compliance. It is likely that it will require an MBBR to meet more stringent limits in the future.

The Highlands

The Highlands wastewater treatment facility currently serves approximately 60 residential connections consisting of single family, duplex, triplex, and quadplex homes across a 29-acre service area. It consists of a two-cell facultative lagoon with chlorine disinfection. The subdivision serviced by the plant is not fully built-out and is expected to have approximately 100 connections when fully complete. Engineers believe the lagoon will require process upgrades and operational improvements to consistently meet its effluent limits as growth occurs in the subdivision. The facility has already had multiple violations due to exceedances of monthly effluent limitations for ammonia. One likely solution will be to add aeration to the facultative lagoons. Additional upgrades will likely be necessary.

Rate Base

As part of its review in this case, Staff’s Auditing Department reviewed information provided by Confluence as part its application. Additionally, Staff reviewed information provided by Confluence and MAWC through Staff DRs. Staff also reviewed current effective tariffs and annual reports for MAWC. Confluence is seeking to acquire 19 small wastewater systems from MAWC for ** [REDACTED] **.

Staff recommends that the net book value of the systems being acquired as of December 31, 2024, be used to determine the rate base in this case. To determine this value, Staff’s starting point was the balances of these assets as calculated by MAWC provided in response to Staff DR No. 0020. From that starting point, Staff reviewed the invoices for plant additions and retirements to determine the updated plant in service and depreciation reserve balances. Staff updated the depreciation reserve balances through December 31, 2024. The chart below summarizes Staff’s estimated rate base for the systems being acquired as of December 31, 2024:

Plant in Service	Depreciation Reserve	CIAC	Amortized CIAC	Net Book Value
** [REDACTED] **	** [REDACTED] **	** [REDACTED] **	** [REDACTED] **	** [REDACTED] **

Based upon Staff’s review of the information provided in this case, Confluence’s purchase price is ** [REDACTED] ** above the current net book value of the MAWC systems being acquired. If the Commission approves Confluence’s request in this case, Staff would expect that an updated rate base level will be established when Confluence files its next rate case for these systems. It has been Staff’s position in prior cases that rates should be based upon the remaining net book value of the original cost of the utility plant at the time it was placed in service, and that no acquisition adjustment, above or below net book value, should be reflected in rates.

Depreciation

Confluence will utilize the depreciation rates as approved in MAWC’s most recent rate case, Case No. WR-2022-0303.

Financial Analysis

Staff investigated whether Confluence has the financial ability to acquire all or substantially all of the sewer system assets of the currently regulated systems of MAWC and upgrade, own, operate, maintain, or otherwise control and manage said systems. The purchase cost of the acquisition is

** [REDACTED] **¹ with a total project cost of ** [REDACTED] **. ² Confluence states that it has, “the technical, managerial, and financial capabilities to provide safe and reliable service to all of its customers.”³

A review of Confluence’s pro forma financial statements indicates that the total anticipated cost of the project will be funded through equity infusions by its parent company, CSWR, as well as money borrowed from CSWR.⁴ Given the fact that the funding for this acquisition and improvement 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.

While neither Confluence nor CSWR are publicly traded, a review of Confluence’s and CSWR’s financial ratios show the following:⁵

Confluence

	<u>As of June 30, 2024</u>			<u>Pro Forma</u>				
			<u>Financial Risk</u>			<u>Financial Risk</u>		
Debt/EBITDA (x)	**	[REDACTED]	**	Highly Leveraged	**	[REDACTED]	**	Highly Leveraged
Debt/Capital (%)	**	[REDACTED]	**	Highly Leveraged	**	[REDACTED]	**	Aggressive

CSWR

	<u>As of June 30, 2024</u>			<u>Pro Forma</u>				
			<u>Financial Risk</u>			<u>Financial Risk</u>		
Debt/EBITDA (x)	**	[REDACTED]	**	Highly Leveraged	**	[REDACTED]	**	Highly Leveraged
Debt/Capital (%)	**	[REDACTED]	**	Minimal	**	[REDACTED]	**	Minimal

1 Appendix A-C, The Application.

2 Confluence’s response to Data Request No. 0024.

3 Confluence’s response to Data Request No. 0025.

4 Money borrowed is classified by Confluence as “Payable to Associated Companies” on its balance sheet. Though 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 No. WF-2023-0023. Confluence additionally considers this amount as equity in its debt to capital ratios.

5 Confluence’s response to Data Requests No. 0021, No. 22, and Malki’s Workpaper.

A review of Confluence's and CSWR's financial ratios shows that both companies' Debt to Earnings before Interest, Taxes, Depreciation, and Amortization ("EBITDA") increase in the pro forma. These ratios for both companies are considered "Highly Leveraged", which typically means a higher amount of debt with less coverage. In contrast, the financial statements show a significant decrease in Confluence's Debt to Capital Ratio and a minor decrease in CSWR's Debt to Capital Ratio. The drastic change for Confluence's Debt to Capital Ratio is primarily due to the large equity infusion of ** [REDACTED] **. ⁶ Due to negative Funds from Operations ("FFO"), Confluence and CSWR both show negative FFO to Debt Ratios. ⁷ A company's FFO to debt ratio is typically positive as it indicates its ability to service its debt through its operating cash flow. So, a negative FFO – which represents a company's operating cash flow – makes this ratio nonsensical in nature. ⁸ For this reason, Confluence's and CSWR's FFO to Debt ratios are unable to truly reflect the financial position of the companies.

Confluence has a projected average annual capital expenditure of ** [REDACTED] ** ⁹ for the next five years, while CSWR shows a projected average annual capital expenditure of ** [REDACTED] ** ¹⁰ for the next five years. While the total project cost of this acquisition exceeds Confluence's projected average annual capital expenditure, it is only around 5% of CSWR's average annual projected capital expenditures. ¹¹

Additional review of both Confluence's and CSWR's financials show that, historically, both companies have had the funds available as needed to support their acquisition and merger purchases. ¹² Despite this, Confluence and CSWR both consistently report negative "Net Income" from 2020 to current as well as in the pro forma. ¹³

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

6 Confluence's response to Data Request No. 0021.

7 Confluence's response to Data Requests No. 0021, No. 22, and Malki's Workpaper.

8 FFO/Debt ratios typically range from less than 12 for "Highly Leveraged" risk companies to greater than 60 for "Minimal" risk companies.

9 Confluence's response to Data Request No. 0005 as a part of Case No. WA-2023-0398.

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

11 The percentage of the purchase cost (** [REDACTED] **) from the average five-year capital expenditure provided by Confluence in Case No. WR-2023-0006 (** [REDACTED] **).

12 Confluence's response to Data Request No. 0001, No. 0002, & No. 0002.1 as a part of Case No. WA-2023-0398 and Confluence's response to Data Request No. 0021.

13 Ibid.

municipal utility systems by the largest investor-owned utilities.”¹⁴ A review of the merger and acquisition cases filed by Confluence during fiscal years 2023-2024¹⁵ shows that, in those fiscal years alone, Confluence filed thirteen acquisition and merger cases, with six of them being joint sewer and water cases.¹⁶ Furthermore, from July 1, 2024, to date, Confluence has filed four additional acquisition and merger cases, including this one.¹⁷ The total purchase cost for all seventeen of Confluence’s most recent CCN’s and Mergers is ** [REDACTED] **¹⁸ which is roughly nine times more than Confluence’s average annual projected capital expenditures, but less than 10% of CSWR’s average annual projected capital expenditures. The total estimated project cost of Confluence’s thirteen CCN’s and Mergers from Fiscal Years 2023-2025 including this current case is ** [REDACTED] **. ¹⁹ This is more than 19 times Confluence’s average annual projected capital expenditures but roughly 21% of CSWR’s average annual projected capital expenditures. This indicates that Confluence has fairly aggressive business practices, but with the financial support of its parent company,²⁰ it is able to accommodate its aggressive business risks. Additionally, larger companies acquiring smaller, financially-challenged water and sewer systems appears to be on par with other companies nationwide. This is what the vast majority of Confluence’s recent mergers and acquisitions entail – excluding this case.

In regards to the effect this transaction would have on ratepayers, Confluence indicated that it has the “technical, managerial, and financial capabilities to provide safe and reliable service to all of its customers. If rates currently in effect (which will remain in effect immediately after closing) are not fully compensatory, Confluence Rivers believes it will be able to sustain any short-term negative impacts to net income until the effective date of rates in the initial rate case involving the systems at issue in this docket.”²¹ MAWC additionally indicated that, “[t]he sale of these systems allows for each company to focus on their core competencies and align resources in a more cost-effective way to the benefit of Missouri-American Water Company’s ratepayers.”²²

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

15 Fiscal year 2023 went from July 1, 2022 to June 30, 2023.

16 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, WA-2024-0048/SA-2024-0049, SA-2024-0129, SM-2024-0130, and SA-2024-0307.

17 These cases include: WA-2025-0012/SA-2025-0013, WM-2025-0065, SM-2025-0067, and SM-2025-0080.

18 Review of applications and corresponding data requests of all FY 2023-2025 Confluence merger and acquisition cases. Purchase costs were taken from purchase agreements provided in the applications and totaled.

19 Review of applications and corresponding Data Requests of all FY 2023-2025 Confluence merger and acquisition cases. Estimated Total Project Costs were taken from the feasibility study included with the application or requested as a part of a Data Request.

20 Confluence’s response to Data Request No. 0021 shows all costs associated with this case coming from its parent company, CSWR.

21 Confluence’s response to Data Request No. 0025.

22 MAWC’s response to Data Request No. 0026.

While Staff has concerns regarding Confluence's "Highly Leveraged" financial risk profile, its debt to capital ratio shows improvement in the pro forma. Additionally, the projected total cost of this acquisition and improvement will be provided by CSWR in the form of debt and equity and is less than 5% of CSWR's projected average annual capital expenditures. Furthermore, despite CSWR providing the funding for this transaction, its financial risk profile is mostly unchanged by it. Given this information, Staff does not have any evidence that CSWR cannot provide the necessary support for Confluence to purchase, upgrade, own, operate, maintain, and otherwise control and manage the 19 MAWC sewer systems. Staff concludes that Confluence, with the assistance of its parent company, CSWR, is financially capable of the acquisition and improvement requested in the application.

Publicity and Customer Notice

According to information provided to Staff, Confluence is not aware of any notifications or meetings being held to inform the affected MAWC customers of Confluence's intentions to purchase certain MAWC sewer systems. Confluence does plan to send a Welcome Letter to affected customers, including various pieces of information about Confluence and the purchased wastewater systems, after the acquisition has closed.

Customer Service and Billing

Confluence's business office address will not change as a result of the proposed acquisition. The main office location is 1630 Des Peres Road, Suite 140, St. Louis, Missouri 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 2) or by sending an email to customer service at 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 all written materials disbursed to customers. The main office is open from 8:00 a.m. to 5:00 p.m. Monday through Friday to respond to customer concerns forwarded by operations or customer service personnel. Main office customer service personnel are available after hours for emergency calls.

After the acquisition, 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.

In order to incorporate MAWC's customer information into its billing and customer service system, Confluence will obtain a customer list from MAWC. 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 Confluence's billing software, Muni-Link. Bills are physically 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 billing specialists at CSWR. Payments are posted automatically if paid by debit/credit card or by e-check using either Muni-Link software or InvoiceCloud (a third-party electronic bill pay provider). Auto-pay occurs three (3) days prior to the bill's 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 its Application, Confluence proposes to adopt MAWC's existing tariffs and rates related specifically to these 19 wastewater systems. Confluence also proposes to submit tariff sheets, to be effective before closing on the assets, to include a service area map, service area written description, and rates to be included in its Electronic Filing Information System ("EFIS") tariff P.S.C. MO No. 31, applicable to sewer service.

Technical, Managerial, and Financial Capacity

In studying most situations involving transfers of assets and CCN's involving existing regulated water and/or sewer systems, Staff utilizes the concepts of technical, managerial, and financial capacity, or "TMF," originally developed by the United States Environmental Protection Agency. Staff has reviewed and stated its position regarding TMF regarding Confluence in previous CCN and transfer of assets cases before the Commission. Staff again reviewed Confluence's TMF capabilities in the context of this application, and takes the position that Confluence continues to demonstrate adequate TMF capability.

Technical Capacity

As noted above, Confluence is an existing regulated water and sewer utility currently providing water service to more than 5,800 connections and sewer service to approximately 6,000 connections in several service areas throughout Missouri. Confluence has acquired several small existing water and sewer systems, and – as a subsidiary of CSWR – is affiliated with other companies that undertake some of the tasks associated with utility service, such as customer billing, and technical resources. As such, it is Staff's position that Confluence has the requisite technical capacities to acquire and operate these 19 wastewater systems, as well as complete the necessary maintenance proposed by Confluence for these facilities.

Managerial Capacity

Confluence intends to incorporate the 19 wastewater systems to be acquired into its current billing and customer service system. Confluence's current customer service representatives will be available to take and process customer inquiries pertaining to billing and/or service issues, make necessary bill adjustments, enter into payment plans within company guidelines, interact with Staff in working with customer complaints, and manage new customer accounts and the closing of customer accounts. In the operation of its current system, Confluence has demonstrated the requisite managerial abilities to operate the proposed 19 wastewater systems.

Financial Capacity

Confluence has the financial capacity to acquire, operate, and complete the recommended maintenance of the 19 wastewater systems through access to capital through its upstream affiliates. Its parent company, CSWR, owns several water and sewer utilities in several states. It is Staff's opinion, based upon its current operations and past acquisitions, that Confluence has demonstrated that it has the requisite financial capacity to acquire, operate, and complete the recommended maintenance of the 19 wastewater systems proposed to be acquired.

Tartan Criteria

When considering a request for a new CCN, the Commission applies criteria originally developed in a CCN case filed by the Tartan Energy Company (Case No. GA-94-127), and referred to now as the "Tartan criteria." The Tartan criteria contemplate: 1) the need for service; 2) the applicant's qualifications; 3) the applicant'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 and sewer service, as the existing sewer customer base has both a desire and need for service.

(2) Applicant's Qualifications

Confluence is an existing water and sewer corporation and public utility subject to the jurisdiction of the Commission. Confluence is currently providing sewer service to approximately 6,000 customers throughout Missouri, and Confluence is a subsidiary of CSWR.

(3) Applicant's Financial Ability

Confluence, with the assistance of its parent company, CSWR, is financially capable of the acquisition.

(4) Feasibility of the Proposal

The fourth Tartan Criteria calls for an evaluation of the economic feasibility of the proposal. Additionally, it is Staff's opinion that the feasibility of the engineering aspects of the proposal must be addressed as well. As such, both are addressed here. Staff has evaluated the proposals for upgrading the systems and finds them to be reasonable. Confluence has demonstrated over numerous years that it has adequate resources to operate utility systems it owns. The current rates, which Confluence is adopting, were designed to support the cost of service. Staff does not have any evidence that CSWR cannot provide the necessary support for Confluence to purchase, upgrade, own, operate, maintain, and otherwise control and manage the MAWC sewer systems.

(5) Promotion of the Public Interest

Staff finds that due to the positive nature of the preceding criteria, coupled with the present and future need for utility service, this proposed acquisition promotes the public interest.

Staff's conclusion is that all Tartan Energy criteria are met for this case.

OTHER ISSUES

Confluence is current on its water and sewer PSC assessment payments and is current on its annual reports. Confluence is also in good standing with the Secretary of State's office. MAWC is current on its water and sewer PSC assessment payments and is current on its annual reports. MAWC is also in good standing with the Secretary of State's office. Neither company has a proceeding before the Commission that should impact the outcome of this case.

STAFF'S RECOMMENDATIONS AND CONCLUSIONS

Staff's position, based on its review as described herein, is that the transfer of utility assets is not detrimental to the public interest. Staff therefore recommends that the Commission authorize the transfer of assets from MAWC to Confluence. In light of all Tartan Criteria having been fulfilled, Staff also recommends that the Commission cancel MAWC's CCNs for the systems at issue in this case, and grant Confluence new CCNs for the acquired systems at issue in this case. These recommendations are subject to the conditions and actions as outlined herein:

1. Authorize MAWC to sell and transfer utility assets to Confluence;
2. Cancel MAWC's CCNs for the systems at issue in this case, and grant Confluence new CCNs upon closing on any of the respective systems;

3. Upon closing of the asset transfer, authorize MAWC to cease providing service, and authorize Confluence to begin providing service;
4. Require Confluence to submit an adoption notice prior to closing on the assets, to adopt the existing MAWC tariffs;
5. Require Confluence to create and keep financial books and records for plant-in-service, revenues, and operating expenses (including invoices) in accordance with the National Association of Regulatory Utility Commissioners (“NARUC”) Uniform System of Accounts (“USOA”), to be reviewed in the next rate case;
6. Require Confluence to provide training to its call center personnel regarding rates and rules applicable to the customers acquired from MAWC, prior to the customers receiving notification of the pending acquisition;
7. Require Confluence to distribute to the newly acquired customers, prior to the first billing from Confluence, an informational brochure detailing the rights and responsibilities of the utility and its customers regarding its utility service, consistent with the requirements of Commission Rule 20 CSR 4240-13, as well as notification regarding changes to the billing cycle, bill format, and payment options within fifteen (15) days of closing on the assets;
8. Require Confluence to provide to the CXD Staff a sample of its actual communication with its newly acquired customers regarding its acquisition and operations of the utility assets, and how customers may reach Confluence, within 15 days after closing on the assets;
9. Require Confluence to provide to the CXD Staff a sample of five (5) billing statements for the acquired company from the first month’s billing within 30 days of such billing;
10. Require Confluence to file notice in this case once the Staff Recommendations regarding staff training, informational brochure, communications, and billing are completed; and billing for the acquired wastewater systems within ten (10) days after such communications and notifications;
11. Require Confluence to include the wastewater 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;
12. Make no finding that would preclude the Commission from considering the ratemaking treatment to be afforded any matters in any later proceeding.

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of the Joint Application of)
Confluence Rivers Utility Operating Company,) File No. SM-2025-0067
Inc., and Missouri-American Water Company for)
Authority for Confluence Rivers Utility Operating)
Company, Inc. to Acquire Certain Sewer Assets)
of Missouri-American Water Company in)
Callaway and Morgan Counties, Missouri)

AFFIDAVIT OF KEITH D. FOSTER

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

COMES NOW KEITH D. FOSTER 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.



KEITH D. FOSTER

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 23rd day of December 2024.





Notary Public

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of the Joint Application of)
Confluence Rivers Utility Operating Company,) File No. SM-2025-0067
Inc., and Missouri-American Water Company for)
Authority for Confluence Rivers Utility Operating)
Company, Inc. to Acquire Certain Sewer Assets)
of Missouri-American Water Company in)
Callaway and Morgan Counties, Missouri)

AFFIDAVIT OF SCOTT J. GLASGOW

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

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 23rd day of December 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 the Joint Application of)
Confluence Rivers Utility Operating Company,) File No. SM-2025-0067
Inc., and Missouri-American Water Company for)
Authority for Confluence Rivers Utility Operating)
Company, Inc. to Acquire Certain Sewer Assets)
of Missouri-American Water Company in)
Callaway and Morgan Counties, Missouri)

AFFIDAVIT OF KELLI MALKI

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

COMES NOW KELLI MALKI 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.


KELLI MALKI

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 27th day of December 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 the Joint Application of)
Confluence Rivers Utility Operating Company,) File No. SM-2025-0067
Inc., and Missouri-American Water Company for)
Authority for Confluence Rivers Utility Operating)
Company, Inc. to Acquire Certain Sewer Assets)
of Missouri-American Water Company in)
Callaway and Morgan Counties, Missouri)

AFFIDAVIT OF MELANIE MAREK

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

COMES NOW MELANIE MAREK 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 MAREK

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 26th day of December 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 the Joint Application of)
Confluence Rivers Utility Operating Company,)
Inc., and Missouri-American Water Company for)
Authority for Confluence Rivers Utility Operating)
Company, Inc. to Acquire Certain Sewer Assets)
of Missouri-American Water Company in)
Callaway and Morgan Counties, Missouri)

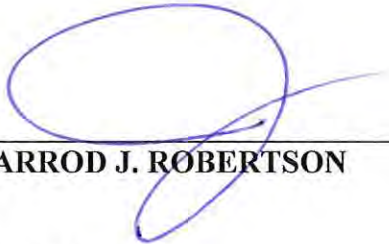
File No. SM-2025-0067

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 23rd day of December 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 the Joint Application of)
Confluence Rivers Utility Operating Company,) File No. SM-2025-0067
Inc., and Missouri-American Water Company for)
Authority for Confluence Rivers Utility Operating)
Company, Inc. to Acquire Certain Sewer Assets)
of Missouri-American Water Company in)
Callaway and Morgan Counties, Missouri)

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.

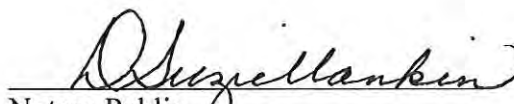
Further the Affiant sayeth not.


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 23rd day of December 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