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**MISSOURI PUBLIC SERVICE COMMISSION**

**CASE NO. SM-2025-0067**

**SURREBUTTAL TESTIMONY**

**OF**

**AARON J. SILAS**

**ON BEHALF OF**

**CONFLUENCE RIVERS UTILITY OPERATING COMPANY, INC.**

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AARON J. SILAS  
CONFLUENCE RIVERS UTILITY OPERATING COMPANY, INC.  
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**SURREBUTTAL TESTIMONY  
AARON J. SILAS**

**I. INTRODUCTION**

**Q. Please state your name and business address.**

A. My name is Aaron J. Silas. My business address is 1630 Des Peres Road, Suite 140, St. Louis, Missouri, 63131.

**Q. Are you the same Aaron Silas who previously submitted Direct Testimony in this proceeding before the Missouri Public Service Commission (“Commission”)?**

A. Yes.

**Q. What is the purpose of your Surrebuttal Testimony in this proceeding?**

A. The purpose of my Surrebuttal Testimony is to respond on behalf of Confluence Rivers Utility Operating Company, Inc. (“Confluence Rivers” or “Company”) to the rebuttal testimonies of Office of the Public Counsel (“OPC”) witnesses Geoff Marke and David Murray,

**II. CONFLUENCE RIVERS AND CSWR**

**Q. Did you review OPC witness Marke’s Rebuttal Testimony in this case?**

A. Yes, I did.

**Q. Do you have any concerns with that testimony?**

A. Yes, I do. Dr. Marke recommends the Commission reject the joint application in this case in its entirety (Marke RT, p. 2), and I strongly disagree with that recommendation. In numerous previous acquisition cases, Confluence Rivers has demonstrated it has the technical managerial experience and expertise and financial resources necessary to successfully own and operate small water and wastewater systems in Missouri. Because it approved each of those previous acquisitions, the Commission has clearly signaled it

1 agrees. Because neither Dr. Marke nor Mr. Murray has provided any evidence in this case  
2 demonstrating otherwise, the Commission should reject Dr. Marke's recommendation.

3 **Q. On page 8 of his Rebuttal Testimony, Dr. Marke suggests that Confluence Rivers**  
4 **would not be able to successfully operate the nineteen systems at issue in this case**  
5 **because the Company currently does not operate within the same county or vicinity**  
6 **as those systems. How do you respond?**

7 A. Dr. Marke's suggestion: (1) ignores the fact the Company already has operations  
8 reasonably close to the systems it proposes to acquire and (2) ignores Confluence Rivers'  
9 operational history in Missouri and its record of successfully operating systems much more  
10 remote than those under consideration in this case.

11 **Q. Please respond to Dr. Marke's suggestion that Confluence Rivers has no current**  
12 **operations reasonably proximate to the systems it seeks to acquire from MAWC.**

13 A. All the systems Confluence Rivers proposes to acquire from MAWC are in Callaway  
14 County, except the Ozark Meadows system, which is in Morgan County. Therefore,  
15 although it is technically true, as Dr. Marke states in his testimony, that "Confluence Rivers  
16 does not operate any systems in the same county as the majority of the systems involved  
17 in this transaction," it would be wrong to infer from that fact the Company cannot  
18 successfully operate those systems if the Commission approves the pending application. I  
19 have attached to my testimony as **Schedule AJS-1**, a map showing where the systems under  
20 consideration in case are located in relation to systems Confluence Rivers already owns  
21 and operates. The schedule shows the Company currently owns systems in Morgan County,  
22 and the Ozark Meadows system at issue in this case is proximate to not only those systems  
23 but also to a cluster of systems in Camden County. Although Confluence Rivers currently

1 has no systems in Callaway County, the cluster of systems there it proposes to acquire from  
2 MAWC – which are identified by the red diamonds near the center of the map – are  
3 proximate to, and within easy driving distance from, systems the Company already owns  
4 in Cole, Montgomery, and Boone Counties. Therefore, I am confident that if the  
5 Commission approves the pending application Confluence Rivers will be able to provide  
6 the Callaway County systems under consideration in this case the same level of  
7 professional support and operational expertise it currently provides all the water and  
8 wastewater systems it currently owns in Missouri.

9 **Q. You also mentioned Confluence Rivers’ operational history in Missouri and the fact**  
10 **certain systems the Company already owns are much more remote than the Callaway**  
11 **County systems under consideration in this case. Why is that relevant to the questions**  
12 **Dr. Marke raised?**

13 A. Dr. Marke attempts to raise in the Commission’s mind a concern that because Confluence  
14 Rivers currently owns and operates no systems in Callaway County the Company cannot  
15 properly operate the MAWC systems located there. But, as I demonstrated in my response  
16 to the previous question, that concern is unfounded. However, the concerns Dr. Marke  
17 attempts to raise also can be refuted by looking at Confluence Rivers’ operational history  
18 and its current Missouri operations, both of which demonstrate the Company’s ability to  
19 own and operate systems much more remote than MAWC’s Callaway County systems.

20 Since it commenced operations, Confluence Rivers (and its pre-merger affiliates)  
21 has acquired systems in geographically dispersed locations across Missouri. Indeed, its first  
22 four acquisitions included systems in Johnson County, near the state’s western border, and  
23 Cape Girardeau County, which borders the state of Illinois and is among Missouri’s

1 easternmost counties. I have attached to my surrebuttal testimony a map, designated  
2 **Schedule AJS-2**, that shows the geographic dispersion of the counties where Confluence  
3 Rivers acquired water or wastewater systems between February 2015 and September 2020  
4 – the initial years of the Company’s operations. If the Commission believed Confluence  
5 Rivers could provide service to systems in those dispersed locations in 2015, the  
6 Commission should have no fear that a much more experienced and operationally mature  
7 Company can successfully assimilate the Callaway County systems under consideration in  
8 this case.

9 In addition, the Commission should also take note that Confluence Rivers’  
10 operating footprint already includes systems much more remote than those in Callaway  
11 County. The wastewater system previously owned by the Village of Luray (acquisition  
12 authorized in File No. SA-2023-0437) is in the extreme northeast corner of Missouri while  
13 the water and wastewater systems previously owned by the Willows Utility Company  
14 (acquisition authorized in File No. WM-2018-0116) and Branson Cedars Resort Utility  
15 Company (acquisition authorized in File No. SM-2020-0283) are located in the extreme  
16 southwest corner. None of these systems is as close to another Company-owned system as  
17 the Callaway County systems under consideration in this case, but that fact hasn’t deterred  
18 Confluence Rivers from operating them all in a manner that ensures they comply with  
19 applicable health, safety, and environmental laws and provide safe and reliable service to  
20 customers.

21 **Q. Did Dr. Marke or the OPC raise similar concerns in the cases referenced in your**  
22 **previous answer that Confluence Rivers could not adequately service those remote**  
23 **systems?**

1 A. I reviewed the Commission's Electronic Filing and Information System (EFIS) for each of  
2 the acquisition cases referenced in my previous answer and I found no filings by either Dr.  
3 Marke or the OPC expressing concerns that because Confluence Rivers had no operations  
4 within the same county or vicinity as the Village of Luray, Willows Utility, or Branson  
5 Cedars systems the Company would be unable to operate any or all those systems. For  
6 whatever reason, it appears OPC's concerns are limited to the wastewater systems in  
7 Callaway County that MAWC proposes to sell to Confluence Rivers.

8 **Q. OPC witness Marke further comments in regard to the number of persons served by**  
9 **subsidiaries of CSWR, LLC ("CSWR"). (Marke RT, pp. 2-3). Would you describe**  
10 **the customers served by CSWR?**

11 A. Yes. As of the filing of my Direct Testimony (p. 4, 5), CSWR subsidiaries in Missouri,  
12 Kentucky, Louisiana, Texas, Tennessee, Mississippi, Arizona, North Carolina, Florida,  
13 South Carolina, and Arkansas collectively provided wastewater service to approximately  
14 255,000 persons and drinking water systems services to approximately 187,000 persons.  
15 These services are provided through approximately 175,000 water and wastewater  
16 connections. Because of the acquisitions CSWR can have ongoing at any time, these  
17 numbers are always subject to change.

18 **Q. Speaking of changes, Dr. Marke indicates that as of a 2022 report, CSWR employed**  
19 **"only 66 full-time employees." (Marke RT, p. 3). Is that employee count still**  
20 **accurate?**

21 A. No. Since the 2022 report, CSWR's subsidiaries serve approximately 43,000 additional  
22 connections nationwide. Not surprisingly, CSWR now employs a greater number of full-  
23 time employees (100 full-time employees as of May 14, 2025).

1 **Q. OPC witness Marke suggests that Confluence Rivers is “handing off the operation**  
2 **and maintenance tasks associated with [its] systems to local contracted services.”**  
3 **(Marke RT, pp. 3-4). Do you agree with that characterization?**

4 A. No. While it is true that Confluence Rivers finds it more cost effective and efficient to use  
5 independent contractors to perform many of the operation and maintenance tasks,  
6 Confluence Rivers maintains primary responsibility for those tasks through full-time  
7 employees.

8 **Q. What Company employee has responsibility for these tasks in Missouri?**

9 A. Justin Lundgren is the Regional Manager for wastewater and water services provided by  
10 Confluence Rivers in Missouri. He has occupied this position since November 1, 2023.

11 **Q. What are his duties?**

12 A. As Regional Manager, Mr. Lundgren is responsible for the oversight and performance of  
13 all of Confluence Rivers’ water and wastewater operations within the state. This includes  
14 managing relationships with O&M Partners, subcontractors, consultants, and vendors to  
15 ensure systems are operated safely, efficiently, and in full compliance with regulatory and  
16 contractual obligations. He also supports customer service functions, attends public  
17 meetings, and serves as a key representative in community and regulatory engagements.  
18 Additionally, Mr. Lundgren’s responsibilities include indirect supervision of cross-  
19 functional support teams and coordination of capital and operating budgets. Finally, the  
20 Regional Manager is responsible for integrating new or modified facilities into operations  
21 and ensuring clear, timely communication with internal teams, external stakeholders, and  
22 regulatory bodies. While this list is not fully exhaustive, I believe it substantially describes  
23 Mr. Lundgren’s duties.

1 **Q. Has Confluence Rivers further examined the use of full-time employees for all of the**  
2 **operations and maintenance tasks associated with its systems?**

3 A. Yes. Confluence Rivers performed a cost-benefit analysis comparing the use of third-party  
4 operators v. operators directly employed by Confluence. The analysis included the location  
5 of Confluence's systems and the distance between systems; the age and condition of its  
6 systems; the type of technology employed at these systems; the services needed at these  
7 systems including the need for meter reading; the number of necessary operators given  
8 OSHA regulations; and the availability and necessary compensation for operators. This  
9 analysis was provided to Staff and OPC on August 5, 2024. A copy of the analysis is  
10 attached hereto as **Schedule AJS-3**. Schedule AJS-3 has been identified as Confidential  
11 pursuant to Commission Rule 20 CSR 4240-2.135(2)(A).3, as it contains marketing  
12 analysis or other market-specific information for competitive services.

13 **Q. What was the conclusion of the analysis?**

14 A. The analysis estimated the cost of internalized operations for the systems owned as of  
15 September 30, 2023, would be much greater than the run rate of third-party operations costs  
16 for Q4 2023. While there are benefits outlined in Section 6, the potential benefits outlined  
17 do not justify the additional expense and risk that would be assumed by Confluence Rivers  
18 by internalizing operations. Ultimately, it is the conclusion of Confluence Rivers that it is  
19 not currently pursuing internal operations due to the analysis. As always, Confluence is  
20 constantly reviewing all financial and operational metrics and remains open to the idea of  
21 internalizing operations once it is sure there will be undeniable customer benefits.

22 **Q. In terms of a service comparison, OPC witness Marke indicates that "J.D. Power's**  
23 **2024 residential water customer satisfaction listed Missouri American Water as the**

1 **fourth highest scoring large Midwest water utility. . . .” (Marke RT, p. 5). Does**  
2 **Confluence Rivers subscribe to J.D. Power?**

3 A. No.

4 **Q. Why not?**

5 A. We believe the methodology used by J.D. Power is somewhat less effective for small  
6 utilities and, when combined with the cost, does not make it a useful tool for Confluence  
7 Rivers.

8 **Q. Does Confluence Rivers still survey its customers to assess satisfaction with customer**  
9 **service?**

10 A. Yes.

11 **Q. How does Confluence Rivers do that?**

12 A. We survey our customers by offering a brief, three-question phone survey at the conclusion  
13 of every customer service call that involves an agent interaction. The purpose of the survey  
14 is to gauge the customer’s experience specifically during situations that require live  
15 assistance. The questions ask whether the customer was satisfied with their interaction,  
16 whether they received the help they needed, and whether they found the agent to be  
17 knowledgeable. A “perfect” survey result is defined as a “Yes” response to all three  
18 questions.

19 **Q. What have been the results of such surveys?**

20 A. In Q1 2025, Confluence Rivers handled 2,082 agent calls. Out of 2,082 survey  
21 opportunities, 441 responses were received, resulting in a 21.18% survey response rate. Of  
22 those responses, 81.86% were “perfect surveys,” meaning customers answered “Yes” to  
23 all three survey questions.

- Q1 (Agent Satisfaction): 87.98%
- Q2 (Issue Resolution): 91.16%
- Q3 (Agent Knowledge): 89.46%

We believe these results reflect strong customer service performance and overall satisfaction across the region.

**Q. Have these survey results been shared with the Staff and the OPC periodically?**

A. Yes. These results are shared on a monthly basis with the Staff and reviewed on a quarterly basis with both Staff and the OPC.

**Q. On page 7 of his Rebuttal Testimony, OPC witness Murray indicates that Confluence Rivers has yet to finalize an operations and maintenance contract for the operation of the nineteen systems being purchased. Is this a common practice for Confluence Rivers?**

A. Yes.

**Q. What has been Confluence Rivers' experience in the past with such a process?**

A. While the Request for Qualification (RFQ) and Request for Proposal (RFP) processes may be started during the acquisition process, it is common for an operations and maintenance contract to not be finalized and executed until such time that Confluence Rivers has received approval from the Public Service Commission. Because the timing of Commission action and, if approved, closing is never known with certainty, Confluence Rivers believes finalization of any such contract prior to having regulatory authority to close is premature.

### **III. RATES**

**Q. OPC witness Murray indicates that the customers of the subject systems are currently**

1        **paying \$67.55, when WSIRA rates are included. (Murray RT, p. 3, FN 1). Is that**  
2        **consistent with your understanding?**

3        A.     No. It is my belief that MAWC's current rate for these customers is \$68.56, when WSIRA  
4        is included. However, Mr. Kadyk would be a better witness to address this issue.

5        **Q.     Is it possible that these customers' MAWC rates will increase prior to the conclusion**  
6        **of this case?**

7        A.     Yes. On May 7, 2025, the Commission issued a Report and Order in MAWC's pending  
8        general rate case (Case No. WR-2024-0320). On May 12, 2025, MAWC filed proposed  
9        sewer tariff sheets that included a monthly rate of \$74.11, for the subject customers.<sup>1</sup>  
10       MAWC has also filed a Motion for Expedited treatment that asks that these tariff sheets be  
11       effective on May 28, 2025, the "operation of law" date for its rate case. That Motion was  
12       granted by the Commission in an Order Approving Tariffs issued on May 16, 2025.

13       **Q.     What does Confluence Rivers propose in regard to rates for these customers?**

14       A.     As stated in my Direct Testimony (p. 7), Confluence Rivers has proposed to utilize the  
15       existing customer base rate for the nineteen (19) wastewater systems, which has been, and  
16       is currently, \$65.36/month. However, as mentioned above, since this application was filed  
17       in August of 2024, MAWC has been processing a general rate case. It has been the  
18       Company's intention to adopt the MAWC base rate that is being charged to customers of  
19       the subject systems at the time the application is approved by the Commission. Doing so  
20       will ensure those customers have no initial increase in rates as a result of the purchase of  
21       the systems.

22       **Q.     On page 4 of his Rebuttal Testimony, OPC witness Murray points out that the pro**

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<sup>1</sup> Confluence Rivers' current District 1 rate is \$60.21/month, and its District 2 rate is \$70.83/month, as were established in Commission Case No. WR-2023-0006.

1       **forma financial statements that Confluence Rivers provided in response to discovery**  
2       **utilized a monthly charge of \*\* \_\_\_\_\_ \*\*. Is that an amount Confluence Rivers**  
3       **proposes to charge the subject customers upon closing?**

4    A.    No. As stated above and in my Direct Testimony, it is not.

5    **Q.    What is the basis for that pro-forma rate?**

6    A.    The basis for the pro-forma rate comes from various high-level assumptions conducted by  
7       CSWR's finance department. This pro-forma rate is hypothetical based on preliminary  
8       estimated expenses and estimated capital investments, both near and far term are all in  
9       service, prior to closing and is subject to change in future rate proceedings once Confluence  
10      Rivers has acquired and run these systems for a period of time. It further ignores timing  
11      of future rate cases and test years and their impact on future rates.

12   **Q.    Would you say this will be the Confluence Rivers rate for the customers of the subject**  
13   **systems after the next Confluence Rivers rate case?**

14   A.    No. As stated above, the rate used in the pro forma makes no attempt to estimate of the  
15      result of Confluence Rivers' next rate case proceeding yet to be filed. This rate will  
16      ultimately be whatever rate is set by the Commission in that future rate filing based on  
17      circumstances and investments as of that point in time.

18   **Q.    When does Confluence Rivers plan to file its next general rate case?**

19   A.    The Company currently intends to file a general rate case in the third or fourth quarter of  
20      this calendar year. However, as always, the filing date could be later as more information  
21      is known.

22   **Q.    Assuming that timeline, when would new rates be effective for Confluence Rivers'**  
23   **customers?**

1 A. The operation of law date for a general rate case is approximately eleven (11) months after  
2 the filing of the case. Thus, new rates for Confluence Rivers would not be expected until  
3 late 2026, at the earliest.

#### 4 IV. OPC “ANALYSIS”

5 **Q. Did you review those portions of OPC witness Murray’s Rebuttal Testimony where**  
6 **he attempts to estimate and compare future rates for the nineteen systems at issue in**  
7 **this case?**

8 A. Yes, I did. As I understand his testimony, Mr. Murray attempted to estimate future rates for  
9 the systems at issue in this case and compare estimated rates under two scenarios: one if  
10 they are owned by Confluence Rivers and another if the systems continue to be owned by  
11 MAWC.

12 **Q. Do you consider Mr. Murray’s approach and the estimates he developed to be valid?**

13 A. No, I do not, and I say that for at least three reasons. First and foremost, the future values  
14 of elements critical to the calculation of Confluence Rivers’ future revenue requirements –  
15 e.g., operating costs, capital structure, and return on equity – are both unknown and  
16 unknowable at the present time. And because rates are determined based on a utility’s  
17 revenue requirement, future rates are unknown and unknowable at the present time as well.  
18 That’s true not only for Confluence Rivers but for MAWC as well. For that reason, I believe  
19 it would be inappropriate – if not impossible – for the Commission to attempt to consider  
20 future rates in determining whether the proposed sale of the systems at issue in this case is  
21 detrimental to the public interest. Because no one can predict the future, such an exercise  
22 would be based entirely on speculation instead of facts and therefore would be useless.

1           Second, the methodology Mr. Murray uses to calculate the rates he uses for his  
2 comparison bears no relation to the realities of regulation. For example, in estimating  
3 overall future revenue requirements for both Confluence Rivers and MAWC Mr. Murray  
4 starts with the common equity returns each utility requested in its most recent general rate  
5 case. As the Commission is well aware, the return on equity approved for ratemaking  
6 purposes is almost always less than the return the utility requests in its rate case filing.  
7 Using the requested rate of return to calculate future rates would tend to distort rates  
8 upward – that is, calculate a future rate that is higher than the rate the Commission is likely  
9 to approve.

10           Finally, Mr. Murray's future rate estimates are further distorted because, for  
11 example, when he estimates future rates under Confluence Rivers' ownership, he appears  
12 to include capital investment for sixteen of the nineteen systems at issue in this case while  
13 excluding such investment when calculating rates under MAWC's continued ownership.  
14 This produces a skewed result – higher rates under Confluence Rivers' ownership – which  
15 renders his analysis an "apples to oranges" type comparison.

16 **Q. Why should future rates not be considered in this case?**

17 A. In his Rebuttal Testimony (p. 4), Mr. Murray notes that Confluence Rivers plans to file a  
18 general rate case sometime late this year. As CSWR's Assistant Vice President in charge of  
19 Regulatory Operations, I will be responsible for leading the team that will make that filing.  
20 However, at this time I don't know what level of expenses the Company will ask the  
21 Commission to approve, what capital structure it will propose, or what return on equity our  
22 outside expert will recommend. I also have no way of knowing what values for each of  
23 those items the Commission will ultimately approve. Accordingly, I can't predict what rates

1 would be in effect for Confluence Rivers at the conclusion of that rate case. I also can't say  
2 whether those rates would apply to the systems at issue in this case. If I can't predict what  
3 rates will be at the conclusion of a 2025 rate case filing, I certainly can't predict rates that  
4 would result from cases filed even further into the future.

5 **Q. What differences does OPC witness Murray claim to have “analyzed”?**

6 A. He states that he has analyzed: “(1) Confluence’s higher initial plant balances; (2) each  
7 Company’s capital budget for the nineteen systems; and (3) their costs of capital.” (Murray  
8 RT, p. 8).

9 **A. Initial Plant Balances**

10 **Q. What does Mr. Murray refer to in regard to “Confluence’s higher initial plant**  
11 **balances”?**

12 A. He identifies a higher initial plant balance used in Confluence Rivers feasibility study than  
13 what was included in the Staff Recommendation. He also points out that Confluence  
14 Rivers identifies “preliminary survey” costs as a potential rate base amount in the same  
15 feasibility study. (Murray RT, pp. 10-11).

16 **Q. How do you respond to these two items?**

17 A. In regard to the initial plant balance, as addressed below in response to OPC witness  
18 Marke’s Rebuttal Testimony, Confluence Rivers would expect that an updated rate base  
19 level representing net original cost will be established when it files its next rate case for  
20 these systems.

21 When the feasibility study is created, Confluence Rivers attempts to identify those costs  
22 that will be incurred. The “preliminary survey” costs are something that Confluence Rivers  
23 commonly incurs in regard to acquisitions, so an estimate based on past experience is

utilized in the feasibility study. This is not an assertion that those costs will necessarily be incurred or included in future rates. Thus, it is wrong to assume that there will be any difference between Confluence Rivers and MAWC as to initial plant balances.

**Q. Will new rates ever be set based on the initial plant balances?**

A. No. The next rates for both Confluence Rivers and MAWC will be set upon the plant balances used in those future rate cases. Any “rate” difference calculated based on the initial plant balance has no import.

**B. Capital Budgets**

**Q. OPC witness Murray states that Confluence Rivers plans to make capital improvements to the subject systems in the amount of \*\* \_\_\_\_\_ \*\*, \*\* \_\_\_\_\_ \*\* of which would be made within the next three years. (Murray RT, p. 9, 13).**

**Where do those numbers come from?**

A. As I described in my Direct Testimony (p. 7-8), As a routine part of its pre-closing due diligence, Confluence Rivers (like all other CSWR-affiliated utilities) commissions a third-party engineering firm to do an assessment of each water or wastewater system it proposes to acquire. As part of that assessment, the engineers review the condition of a system’s existing facilities and prepare a preliminary estimate of capital expenditures that likely will be required during the initial years of Confluence Rivers’ ownership. Those engineering assessments and their respective investment estimates were included as part of Confluence Rivers’ and MAWC’s joint application in this case.

**Q. Do you know that all of these projects will be undertaken, or what the ultimate timing of such projects may be?**

A. No. Confluence Rivers generally works to complete all necessary improvements and

1 rehabilitation projects necessary for any given system within the first two years of  
2 ownership. However, I would note these recommendations are preliminary. A final  
3 determination of what changes, improvements, or renovations may be necessary can only  
4 be made after the Company has owned and operated the systems.

5 **Q. In the absence of Confluence Rivers' proposed purchase of the subject systems, do**  
6 **you believe some level of investment in these systems will still be necessary?**

7 A. Yes. Regardless of the ownership, the systems have needs and investment will be  
8 necessary.

9 For sixteen of the subject systems, Mr. Murray included zero future investment in his rate  
10 base calculation. Confluence Rivers' engineering assessments estimated additional capital  
11 investments would be required for these systems. And while Confluence Rivers concedes  
12 these estimates are preliminary – the Company cannot definitively determine required  
13 investment until it owns and operates a system for some period – it is clear Mr. Murray's  
14 failure to include any additional future investment in his rate base calculation for these  
15 systems under MAWC's ownership means his future rate estimates are considerably off  
16 the mark and unreliable.

17 **C. Cost of Capital**

18 **Q. What does Mr. Murray allege to be a detriment associated with this transaction?**

19 A. He argues that the fact that in general rate cases Confluence Rivers has previously  
20 requested a higher return on equity ("ROE") and a capital structure with a higher equity  
21 percentage than that requested by MAWC in its last general rate cases creates a detriment.  
22 (Murray RT, pp. 9-10, 11-13).

23 **Q. Does a "request," by itself, have a direct impact on customer rates?**

A. No. It is what a company suggests is appropriate in testimony. However, ultimately, the Commission must decide what will be utilized for calculating customer rates.

**Q. What guides the Commission's decision in regard to the cost of capital?**

A. In Confluence Rivers' last general rate case (Case No. WR-2023-0006), the Commission described its duty as follows in regard to the setting of a ROE:

The Commission must ensure the utility has sufficient opportunity to earn enough revenue to pay its debts and should be sufficient to assure confidence in the financial integrity of the utility, so as to maintain its credit and to attract capital.<sup>2</sup>

**D. OPC Calculations**

**Q. What does Mr. Murray do with the identified "requested" ROEs and capital structures?**

A. He uses them to calculate a "requested" rate of return and then attempts to calculate a revenue requirement difference based on projected Confluence Rivers and MAWC investments for three years and five years. (Murray RT, pp. 9-13).

**Q. Does he also try to compare previously "authorized" rates of return?**

A. Yes.

**Q. Is there a fundamental disconnect with this effort?**

A. Yes. A requested ROE and capital structure is never used to set rates. It is the authorized/ordered ROE and capital structure that is used to set rates. In Confluence Rivers' last general rate case (Case No. WR-2023-0006), neither the ROE nor the hypothetical capital structure adopted by the Commission were equal to Confluence Rivers' requests.

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<sup>2</sup> *In the Matter of Confluence Rivers Utility Operating Company, Inc.'s Request*, Case No. WR-2023-0006, p. 58 (Issued October 25, 2023).

1 Further, comparing previously authorized rates of return is of little use as in each rate case  
2 the Commission must examine the specific costs and market at that point in time.

3 **Q. Is there an even bigger problem with focusing exclusively on the requested ROE and**  
4 **capital structure?**

5 A. Yes. As stated previously, the future values of elements critical to the calculation of  
6 Confluence Rivers' future revenue requirements – e.g., operating costs, capital structure,  
7 and return on equity – are both unknown and unknowable at the present time. And because  
8 rates are determined based on a utility's revenue requirement, future rates are unknown  
9 and unknowable at the present time as well.

10 **Q. Do you have any other criticisms of OPC witness Murray's attempt to compare future**  
11 **rates for these nineteen systems under Confluence Rivers' ownership versus**  
12 **MAWC's ownership?**

13 A. Yes, I do. Mr. Muray's rate comparison assumes future rates for these nineteen systems  
14 would be calculated on a stand-alone basis – that is, they would not be part of any  
15 consolidated rate design. That assumption is unreasonable because Confluence Rivers  
16 currently has its rates consolidated into two districts and the Company has been clear it  
17 intends to continue to pursue statewide rate consolidation in the future. In its previous  
18 statewide general rate case (Case No. WR-2023-0006), Confluence Rivers presented  
19 testimony demonstrating the benefits of consolidated rates. In his rebuttal testimony in that  
20 case, Confluence Rivers' rate design witness Timothy S. Lyons showed consolidated rates  
21 can in some instances be more than thirty percent less than stand-alone rates for a particular  
22 system. Therefore, any estimate of future rates for these systems under Confluence Rivers  
23 without any adjustment for the effects of consolidation almost certainly presents a result

1 that bears little resemblance to rates the company almost certainly would ask the  
2 Commission to approve.

3 **Q. Was there a more specific error in OPC witness Murray's calculation itself?**

4 A. Yes. He had assumed, based on engineering reports prepared for Confluence Rivers and  
5 his interpretation of a data request response provided by MAWC (OPC 31), that  
6 Confluence Rivers' projected capital spend on those systems was greater than MAWC's  
7 projected spend. However, as explained in the Surrebuttal Testimony of MAWC witness  
8 Kadyk, the total projected capital spend for MAWC includes both tables provided in  
9 response to OPC DR 31. This leads to a higher projected capital spend for MAWC over  
10 both three and five years (\*\* \_\_\_\_\_ \*\* and \*\* \_\_\_\_\_ \*\*, respectively), than that  
11 derived from Confluence Rivers' engineering reports.

12 **Q. Are there other conceptual issues you would have with these calculations?**

13 A. Yes. They consider only projected plant investments after three years and after five years.  
14 Further, because there is no consideration of timing of investment in relation to timing of  
15 rate cases, they have even less connection to what a customer might experience.

16 **Q. Mr. Murray also performs a calculation of hypothetical rate impacts based on his**  
17 **view of the last authorized returns on equity and capital structures. (Murray RT, p.**  
18 **10-15). What is the import of those?**

19 A. They are also of no import to this case for the reasons already explained. Even if they were  
20 known for purposes of future rate cases, they are, at best, a single variable in an overall  
21 determination of a future rate that may never be paid by a customer.

22 **Q. If you did look at this comparison with the corrections you have identified what would**  
23 **be the result?**

A. When the modified MAWC projected capital expenditure numbers are used, along with updated customer numbers (both as identified in the Surrebuttal Testimony of Mr. Kadyk) and utilizing a consistent initial rate base for the systems, both of Mr. Murray's work papers (3 year and 5 year expenditure comparisons), using MAWC'S WSIRA ROR and Confluence Rivers' authorized ROR in their most recent rate cases, show a very small impact under Confluence Rivers' ownership. Of course, this would still ignore the timing and other issues I have identified previously.

**Q. What is that impact using updated MAWC projections, current customer numbers and a consistent initial rate base for the systems utilizing MAWC'S WSIRA ROR and Confluence Rivers' authorized ROR in their most recent rate cases?**

A. See the below:

**DIFFERENCES BASED ON MAWC'S WSIRA ROR AND CONFLUENCE'S  
AUTHORIZED ROR IN MOST RECENT RATE CASE AND RATE BASE  
DIFFERENCES**

Scenario	MAWC Annual Capital Cost Per Connection	Confluence Annual Capital Cost Per Connection	Increase in Annual Capital Cost Per Connection
Three Years of Planned Capital Investment	\$990	\$994	\$4
Five Years of Planned Capital Investment	\$1,269	\$1,332	\$63

(3% depreciation rate assumed for both Companies)

**E. Conclusion**

**Q. OPC witness Murray suggests that he has "identified specific items which would cause . . ." Confluence Rivers' cost of service to be higher than that of MAWC. (Murray RT, p. 16 (emphasis added)) Do you agree?**

1 A. No. He has provided speculation as to what he thinks might happen in the future. However,  
2 as explained above, even those calculations are not correct as they use the wrong MAWC  
3 projected investments.

4 **Q. Does Confluence Rivers believe these calculations are determinative?**

5 A. No. Confluence Rivers still believes these calculations are not an appropriate consideration  
6 within the context of an acquisition case.

7 **Q. Is there something known that you would point to for the Commissions reference?**

8 A. Yes. Looking at the actual rates charged by MAWC and Confluence Rivers today, and, as  
9 will be updated soon, shows that there is no significant rate differential between the  
10 companies for the customers associated with this acquisition.

11 **V. CONSOLIDATED PRICING**

12 **Q. OPC witness Marke described the concept of consolidated pricing and further**  
13 **indicated that both Confluence Rivers and MAWC have “zonal” tariff pricing in**  
14 **place. (Marke RT, pp. 9-10). Do you agree with that latter statement?**

15 A. Generally, yes. While Confluence Rivers’ and MAWC’s rate groupings are somewhat  
16 different in nature, current rates for both companies are based on a level of consolidation  
17 of systems for ratemaking purposes.

18 **Q. How are Confluence Rivers wastewater systems grouped for purposes of rates?**

19 A. Confluence Rivers has two wastewater rates. Sewer District 1) consists of limited  
20 treatment technology, including but not limited to lagoons and land application systems.  
21 Sewer District 2 consists of those with more advanced (and costly) treatment technologies,  
22 such as extended aeration, oxidation ditches, tertiary filtration, membrane bioreactors,  
23 biological or chemical nutrient removal, etc.

1 **Q. If those wastewater rate groupings were maintained as a result of Confluence Rivers’**  
2 **next general rate case, and the technology of the existing systems did not change,**  
3 **where would the nineteen wastewater systems that are the focus of this application**  
4 **likely be assigned?**

5 A. The Company believes that in that scenario, four of the systems to be acquired would  
6 qualify for District 1 and the remaining fifteen systems would qualify for District 2.

7 **Q. Dr. Marke describes a hypothetical “worse off” scenario that he believes the**  
8 **customers of the acquired systems will find themselves in if the Commission approves**  
9 **the application. (Marke RT, pp. 9-10). Do agree with Dr. Marke’s belief?**

10 A. No. Regardless of whether Confluence Rivers or MAWC owns these systems going  
11 forward, some level of investment will be necessary to provide safe and adequate service.  
12 How that relates to investments in other systems owned by the companies or to current or  
13 future rate groupings for these specific customers is impossible to determine.

#### 14 **VI. ACQUISITION PREMIUM**

15 **Q. OPC witness Marke suggests that an acquisition premium will exist at closing in**  
16 **regard to the systems subject to this application. Will this necessarily be the case?**

17 A. No. Since the filing of this case, approximately nine months have passed. At a minimum,  
18 some amount of investment will have been made, and depreciation reserve will necessarily  
19 have increased through the passage of time. As a closing date, if any, is still unknown, it  
20 is not possible to establish a precise calculation of an acquisition adjustment at this time.

21 **Q. Is there an aspect of Dr. Marke’s acquisition premium testimony with which you**  
22 **agree?**

23 A. Yes. Dr. Marke quotes the following portion of the Staff’s Memorandum (Robertson RT,

1 Sched. JJR – r2, p. 9 of 17):

2 If the Commission approves Confluence’s request in this case, Staff would expect that  
3 an updated rate base level will be established when Confluence files its next rate case  
4 for these systems. It has been Staff’s position in prior cases that rates should be based  
5 upon the remaining net book value of the original cost of the utility plant at the time it  
6 was placed in service, and that no acquisition adjustment, above or below net book  
7 value, should be reflected in rates.  
8

9 Confluence Rivers agrees with Staff’s statement.

10 **Q. If an acquisition premium would ultimately be recorded for the subject systems and**  
11 **Confluence Rivers did not receive recovery of that acquisition premium, would the**  
12 **Company still be economically viable and have the ability to provide safe and**  
13 **adequate service?**

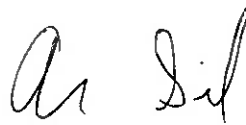
14 A. Yes.

15 **Q. Does this conclude your Surrebuttal Testimony?**

16 A. Yes.

## AFFIDAVIT

I, Aaron Silas, under penalty of perjury, and pursuant to Section 509.030, RSMo, state that I am the Assistant Vice President overseeing Customer Experience and Regulatory Operations for CSWR, LLC and am appearing on behalf of Confluence Rivers Utility Operating Company, Inc., that the accompanying testimony has been prepared by me or under my direction and supervision; that if inquiries were made as to the facts in said testimony, I would respond as therein set forth; and that the aforesaid testimony is true and correct to the best of my knowledge and belief.



Aaron Silas

5-21-2025

Dated

AJS-1

**Legend**

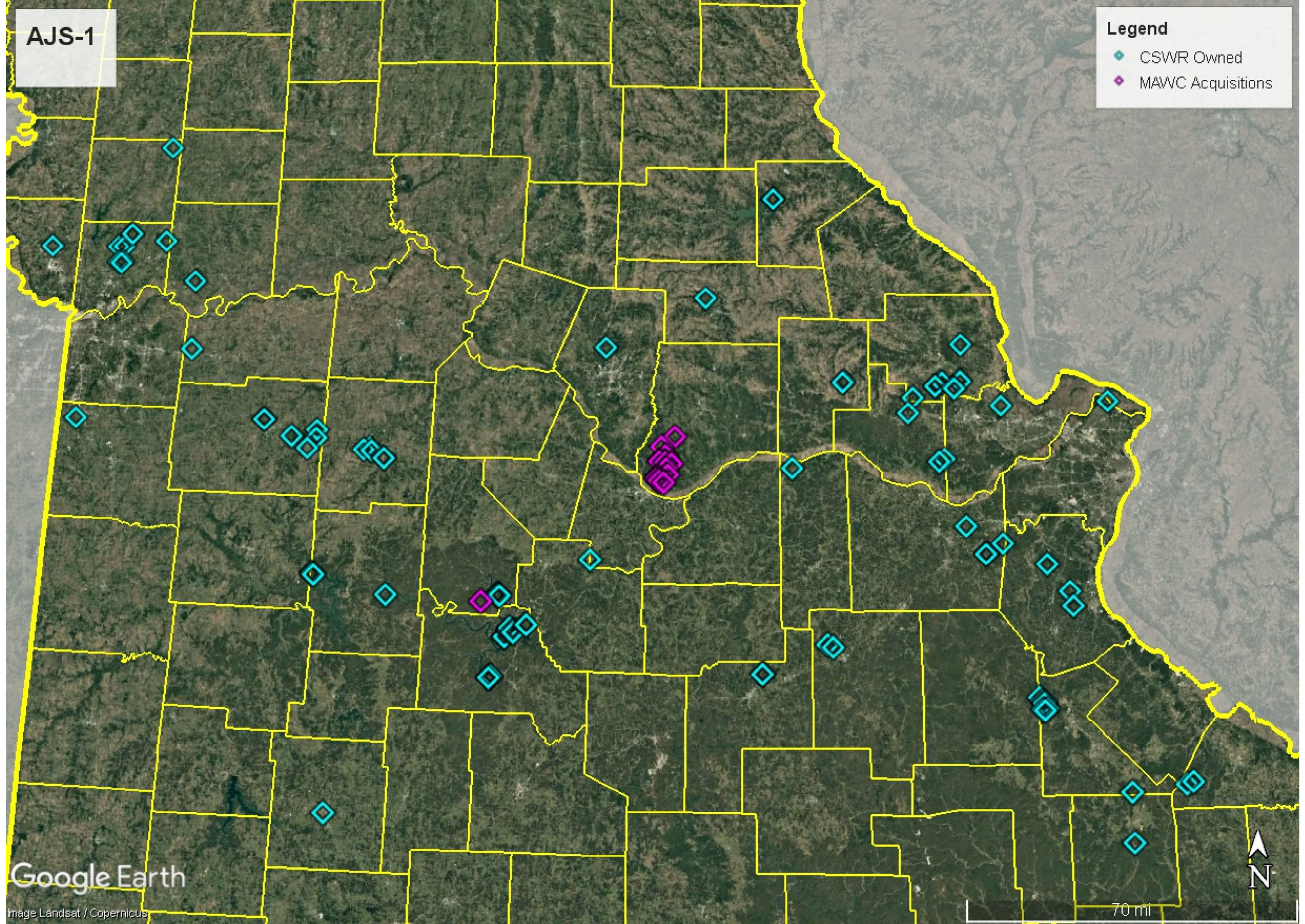
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- ◆ MAWC Acquisitions

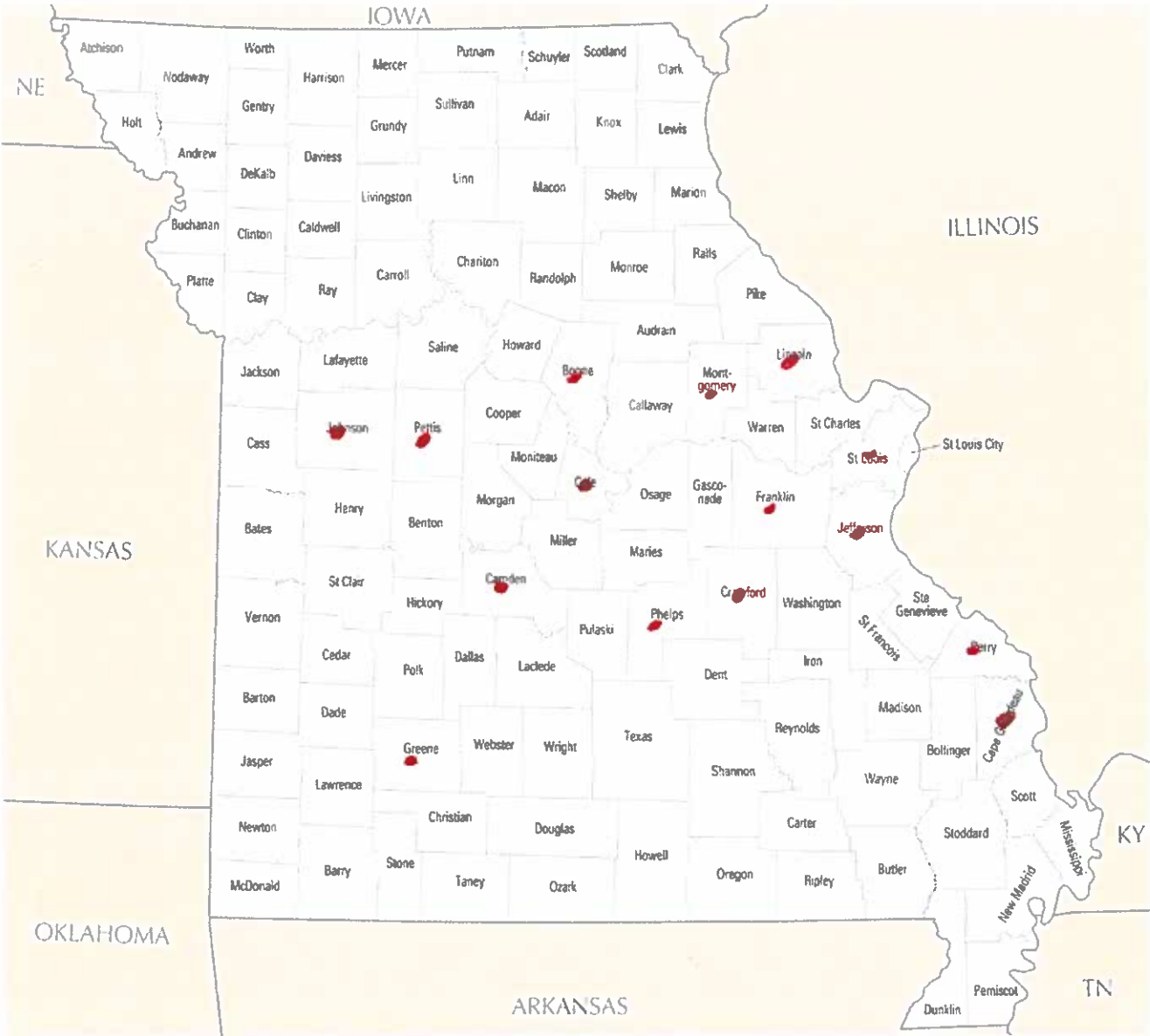
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**SCHEDULE AJS-3**

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