

MEMORANDUM

TO: Missouri Public Service Commission Official Case File
File No. SA-2020-0132, Missouri-American Water Company

FROM: Jarrod J. Robertson – Water and Sewer Department
Keith D. Foster – Auditing Department
Courtney Barron – Auditing Department
Ben Rankin – Customer Experience Department
Gary Bangert – Customer Experience Department
Andrew Harris – Water and Sewer Department
Daronn A. Williams – Water and Sewer Department

<u>/s/ Jarrod J. Robertson</u>	<u>01/10/20</u>	<u>/s/ Karen Bretz</u>	<u>01/10/20</u>
Case Manager	Date	Staff Counsel	Date

SUBJECT: Staff’s Recommendation to Approve Certificate of Convenience and Necessity

DATE: January 10, 2020

CASE BACKGROUND

On November 8, 2019, Missouri-American Water Company (MAWC) filed an *Application and Motion for Waiver* (Application) with the Missouri Public Service Commission (Commission). MAWC seeks a Certificate of Convenience and Necessity (CCN) to provide sewer service in an area that includes the Clinton Estates subdivision in Clinton County near the town of Trimble, Missouri. In the Application, MAWC states that it intends to acquire sewer utility assets that are presently owned and operated by a non-regulated homeowners association.

On November 12, 2019, the Commission issued its *Order Directing Notice and Setting Intervention Deadline*, in which it directed interested parties to intervene in this case by November 27, 2019, and also directed Staff to file a recommendation no later than January 10, 2020. No parties sought to intervene in this case.

BACKGROUND OF MAWC AND THE SEWER SYSTEM

MAWC is an existing regulated water and sewer utility currently providing water service to more than 465,000 customers and sewer service to more than 13,000 customers in service areas throughout Missouri. In recent years, MAWC has acquired many existing small water and sewer systems. MAWC is a subsidiary of American Water Works Company, Inc., and is affiliated with other American Water companies that undertake tasks associated with utility service, such as customer billing and technical resources.

According to the Application, Clinton Estates Homeowners Association (Association) owns and operates a sewage collection system and recirculating sand filter system, referred to as the Clinton Estates wastewater treatment facility (WWTF), with a design flow of 74,000 gallons per day (gpd) and an actual flow of 15,300 gpd. The plant consists of approximately 8,000 linear feet of gravity collection sewers, two septic tanks (30,000 and 25,000 gallon capacities), a 30,000 gallon recirculation tank, and two filter beds. This system provides sewer service to approximately

61 residential customers in the subdivision. The Association contracts with a third party, Residential Sewage Treatment Company, to perform maintenance and repairs. The receiving stream for this facility is the tributary to Dick's Creek in the Platte River watershed.

The Clinton Estates WWTF is currently non-compliant with the Department of Natural Resources for several issues based on a Letter of Warning dated July 16, 2019. Some of these issues have already been remedied by the Association and the remaining issues will be remedied by MAWC through capital improvements. These improvements are necessary for compliance and also would promote ongoing safe and adequate service. In its response to Staff Data Request No. 0022, MAWC discusses a systematic, planned approach to resolve known compliance issues.

STAFF'S INVESTIGATION

Rate Base

Normally, the Auditing Department would review plant-in-service records and expense records maintained by the Association for the Clinton Estates sewer system. However, the Association received the sewer system from the developer as contributed plant, as noted in the Assets section of MAWC's confidential Feasibility Study, included as Appendix D-C to its Application. The Auditing Department also understands the developer did not provide the Association with any documentation to support the developer's original cost to install the Clinton Estates sewer system.

MAWC, in preparing its confidential Feasibility Study for this case, estimated the value of the sewer system plant at today's cost and then converted that to an estimated 2004 cost. MAWC then calculated the depreciation reserve from 2004 to 2019, resulting in a net plant valuation. Staff performed the same calculation using MAWC's estimated plant values, from 2004 to the end of 2019. Using MAWC's estimated plant value as the contributed asset value, Staff also calculated Contributions in Aid of Construction (CIAC) Amortization over the same time period as the depreciation reserve. Since there are no known additions or retirements to the plant-in-service over this time period, Staff's calculation of net plant and net CIAC show the same values, resulting in a zero rate base. Confidential Attachment C shows Staff's estimated plant-in-service, depreciation reserve, CIAC, and CIAC Amortization balances for the Clinton Estates sewer system as of December 31, 2019, with an estimated rate base as of that date of \$0.00.

Pursuant to Commission regulations, MAWC should keep its financial records for all utility capital related costs accounts and operating expenses in accordance with the National Association of Regulatory Utility Commission (NARUC) Uniform System of Accounts. Staff recommends the Commission specifically require such recordkeeping apply to the Clinton Estates sewer system.

Plant Capacity Adjustment

Since the Clinton Estates WWTF appears to have been designed and constructed to serve a significantly greater number of residential customers than presently served, Staff may consider proposing, in future rate proceedings, a capacity adjustment to certain wastewater system components. Such a capacity adjustment, if applied, would reduce the plant balance level and depreciation expense to be included in rate calculations.

Service Area

In its Application, MAWC requests only the Clinton Estates subdivision boundary, an area containing 79.5 acres, as an approved service area. The subdivision is substantially developed and additional connections are not significantly anticipated.

An adequate map and legal description for the requested service area were included in the application package and are shown in Attachments A and B, respectively.

Staff recommends that this proposed service area be approved, and that this service area be depicted in MAWC's tariff, as further discussed herein.

Tariff and Rate Matters

A map and a description of the proposed Clinton Estates service area, similar to that shown on the attachments to this memorandum, will need to be included as new tariff sheets in MAWC's sewer tariff MO PSC No. 26.

MAWC has proposed that its approved rates on MO PSC No. 26 Sheet No. 3.1, applicable to certain named service areas, be applied to Clinton Estates. The monthly flat rate is \$38.75 for a single family residence. Staff recommends that MAWC submit a revised tariff Sheet No. 3.1 that is identical to the existing Sheet No. 3.1 except adding Clinton Estates as a named applicable service area.

Currently, customers of the Association receive quarterly flat rate bills of \$120.00 (\$40 per month) for sewer service. The rate being proposed by MAWC of \$38.75 per month (as outlined in MO PSC No.26 Sheet No. 3.1), would result in a reduction of \$1.25 per month per customer.

The table of contents in MAWC's tariff will also need to be updated to reflect the addition of the new sheets containing the map, description, and revision of the rate sheet.

The specific revised tariff sheets, all to reflect the addition of Clinton Estates as a named service area, will be as follows:

- Index - Sheet Nos. IN 1.3, IN 1.4, IN 1.5
- Rates - Sheet No. RT 3.1
- Rules - Sheet No. 13.4

The specific new original tariff sheets, reflecting the map and description, will be:

- Sheet No. MP 19.1
- Sheet No. CA 18.1

Staff recommends that after approval but before MAWC closes on the utility assets, MAWC submit the new or revised sewer tariff sheets so they may become effective on or before the date MAWC closes on the Clinton Estates assets.

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

Staff utilizes the concepts of Technical, Managerial, and Financial criteria (TMF) in studying applications involving existing water and/or sewer systems. MAWC has demonstrated over many years that it has adequate resources to operate utility systems that it owns, to acquire new systems, to undertake construction of new systems and expansions of existing systems, to plan and undertake scheduled capital improvements, and timely respond and resolve emergency issues when such situations arise. After completing its review in this matter, Staff continues to find that MAWC holds the requisite TMF criteria.

It is also customary with most cases involving a new CCN for Staff to use criteria similar to that studied by the Commission in a case filed by the Tartan Energy Company requesting a new CCN. The Tartan criteria contemplate: 1) need for service; 2) the utility's qualifications; 3) the utility's financial ability; 4) the feasibility of the proposal; and 5) promotion of the public interest. Staff also considers whether other entities are available to provide similar service. For this specific request, Staff takes the position that it is feasible and in the public interest for MAWC to own, operate, and manage the existing sewer operation. The Association no longer wants to operate the system, and Staff is unaware of other entities available to provide service.

Staff's conclusion is that the points regarding TMF criteria and the Tartan Energy criteria are all met, for this case.

Depreciation

In Case No. WR-2017-0285, the Commission ordered water and sewer depreciation rates applicable to all divisions of MAWC. Staff recommends the use of these sewer depreciation rates for all accounts associated with the Clinton Estates WWTF.

Publicity and Customer Notice

The Association communicates with its members primarily through a private Facebook page. Staff was provided with a copy of a Facebook post from October 30, 2019, in which the Association announced to its members that it had entered into a contract to sell the sewer system to MAWC. The Association additionally communicated information regarding the negotiation for the sale of the sewer system via bill messages on quarterly statements. The Association will continue to be responsible for communicating information provided by MAWC to its members.

As of the date of this report, no public comments have been filed in the Commission's Electronic Filing Information System (EFIS).

Customer Service and Billing

The Association currently does not have an office or telephone lines available for customer service. Customers currently contact the Association by Facebook, email, or by contacting an Association board member directly. If MAWC acquires the sewer system, customer service will be provided by the same team responsible for the rest of MAWC's customers. Customer Service

Representatives will be available 7:00 am-7:00 pm, Monday through Friday, and will be available 24/7 for emergencies.

Customers currently receive quarterly flat rate bills of \$120.00 for sewer service. Customers are required to pay by check, and no electronic payments are accepted. If MAWC acquires the sewer system, customers will be integrated into SAP, its billing and customer information system. MAWC has proposed a slightly lower flat rate of \$38.75 per month, and customers would begin receiving monthly bills for sewer service. Customers would have the options to pay online, by mail, or by phone with checks, credit/debit cards (with a \$1.95 processing fee), or electronic funds transfers.

The proposed acquisition appears to offer the opportunity for an improved customer experience. MAWC will have more readily available representatives to respond to customer inquiries and will offer customers more options to receive their bills and remit payments. The biggest change for the experience of customers will be the switch from quarterly to monthly billing, which does not appear to be detrimental to the public interest. MAWC intends to send an informational brochure to customers summarizing the rights and responsibilities of the Company and its customers on the day that the sale of the sewer system closes.

OTHER ISSUES

The Association, as an unregulated sewer operation, has no obligations to the Commission, and has no pending actions before the Commission.

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

MAWC is current with annual report filings with the Commission through calendar year 2018, as documented on the Commission’s Electronic Filing and Information System (EFIS).

MAWC is current on its annual assessment quarterly payments through the third quarter of fiscal year 2019.

MAWC has other pending cases before the Commission, as follows:

WA-2019-0364	CCN
WO-2019-0389	ISRS
WW-2019-0242	Lead Service Line Replacement Program
WC-2020-0145	Formal Complaint
WC-2020-0048	Formal Complaint
SA-2019-0365	CCN
SA-2019-0367	CCN
SA-2020-0067	CCN

These above-noted pending cases will have no impact upon this proposed case requesting a new CCN for sewer service in this requested area, nor will approval of the CCN impact the above-noted pending cases before the Commission.

STAFF'S RECOMMENDATIONS AND CONCLUSIONS

Staff's position, based on its review as described herein, is that the proposal for a new CCN to provide sewer service and apply existing MAWC rates is in the public interest. Staff therefore recommends approval with the conditions and actions as outlined herein.

STAFF'S RECOMMENDATIONS

Based upon the above, Staff recommends that the Commission:

1. Grant MAWC a CCN to provide sewer service in the proposed Clinton Estates service area, as outlined herein;
2. Approve MAWC's monthly residential flat rate of \$38.75 to apply to Clinton Estates;
3. Require MAWC to submit new and revised tariff sheets, to become effective before closing on the assets, that include:
 - a. service area map (Sheet No. MP 19.1);
 - b. service area written description (Sheet No. CA 18.1);
 - c. sewer rates (Sheet No. RT 3.1);
 - d. pump unit rules (Sheet No. 13.4);
 - e. appropriate index modifications (Sheet Nos. IN 1.3, IN 1.4, IN 1.5).

as applicable to sewer service in its Clinton Estates service area, to be included in its EFIS sewer tariff P.S.C. MO No. 26;

4. Require MAWC to notify the Commission of closing on the assets within five (5) days after such closing;
5. If closing on the sewer system assets does not take place within thirty (30) days following the effective date of the Commission's order approving such, require MAWC to submit a status report within five (5) days after this thirty (30) day period regarding the status of closing, and additional status reports within five (5) days after each additional thirty (30) day period, until closing takes place, or until MAWC determines that the transfer of the assets will not occur;
6. If MAWC determines that a transfer of the assets will not occur, require MAWC to notify the Commission of such no later than the date of the next status report, as addressed above, after such determination is made, and require MAWC to submit tariff sheets as appropriate and necessary that would cancel service area maps, descriptions, rates and rules applicable to the Clinton Estates service area in its sewer tariff;

7. Require MAWC to keep its financial books and records for all utility capital related costs accounts and operating expenses in accordance with the NARUC Uniform System of Accounts;
8. Adopt for the Clinton Estates sewer assets the depreciation rates ordered for MAWC in Case No. WR-2017-0285;
9. Make no finding that would preclude the Commission from considering the ratemaking treatment to be afforded any matters pertaining to the granting of the CCN to MAWC, including expenditures related to the certificated service area, in any later proceeding;
10. Require MAWC to provide training to its call center personnel regarding rates and rules applicable to the Clinton Estates customers;
11. Require MAWC to include the Clinton Estates 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. Require MAWC to distribute to the Clinton Estates customers an informational brochure detailing the rights and responsibilities of the utility and its customers regarding its sewer service, consistent with the requirements of Commission Rule 20 CSR 4240-13, within thirty (30) days of closing on the assets;
13. Require MAWC to provide to the CXD Staff an example of its actual communication with the Clinton Estates customers regarding its acquisition and operations of the sewer system assets, and how customers may reach MAWC, within ten (10) days after closing on the assets;
14. Require MAWC to provide to the CXD Staff a sample of ten (10) billing statements from the first month's billing within thirty (30) days after closing on the assets; and
15. Require MAWC to file notice in this case outlining completion of the above-recommended training, customer communications, and notifications within ten (10) days after such communications and notifications.

Staff will submit a further recommendation regarding tariff sheets after filing by MAWC in this matter.

Attachments:

- A: Proposed Sewer Service Area Map
- B: Proposed Sewer Service Area Description
- C: Confidential - Staff's Determination of Plant-in-Service, Depreciation Reserve, CIAC, and Rate Base

T54NR33WS15

T54NR33WS14

APPENDIX A

T54NR33WS13

Dicks Creek

Mo-F

T54NR33WS23

T54NR33WS24

T54NR33WS22

169

SW Karen Rd

SW Crystal Ln

Main

Port Arthur St

E Maple St

E Walnut St

Trimble

1st St

N Main St

2nd Ave

3rd Ave

SW Michelle Rd

Main St

E Oak St

Oak St

Dicks Creek

T54NR33WS25

1 inch = 1,000 feet

T54NR33WS26

Legend

-  Clinton Estates Certificate Area
-  Public Land Survey



**File No. SA-2020-0132
Attachment A**

Content may not reflect National Geographic's current map policy. Sources: National Geographic, Esri, Garmin, HERE, UNEP-WCMC, USGS, NASA, ESA, METI, NRCAN, GEBCO, NOAA, increment P Corp.

APPENDIX B

Legal Description

A tract of land known as Clinton Estates Subdivision, according to the plat thereof recorded in the Records of Clinton County, Missouri, located in portions of the East half of the Southwest Quarter and the Southwest quarter of the Southeast Quarter of Section 23, Township 54 North, Range 33 West, of the Fifth Principal Meridian, in the county of Clinton in the State of Missouri and being more particularly described as follows:

Overall Service Area

Beginning at the Southwest corner of the Southeast Quarter of said Section 23; thence North $89^{\circ}59'47''$ West, 817.59' along the South line of said East half of the Southwest Quarter of Section 23; thence North $00^{\circ}04'47''$ East, 2645.87' to the North line of said East Half of the Southwest Quarter of Section 23; thence South $89^{\circ}32'21''$ East, 809.95' along said North line to the Center of said Section 23; thence South $00^{\circ}05'13''$ West, 1319.70' along the East line of said East Half of the Southwest Quarter of Section 23 to the Northwest corner of said Southwest Quarter of the Southeast Quarter of Section 23; thence South $89^{\circ}46'23''$ East, 999.74' along the North line of said Southwest Quarter of Southeast Quarter of Section 23; thence South $00^{\circ}06'22''$ East, 971.61'; thence North $56^{\circ}37'39''$ West, 12.96'; thence South $00^{\circ}00'34''$ East, 351.00' to the South line of said Southwest Quarter of the Southeast Quarter of Section 23; thence South $89^{\circ}59'06''$ West, 988.78' along said South line to the point of beginning, containing 79.5 acres.

ATTACHMENT C

HAS BEEN DEEMED

CONFIDENTIAL

IN ITS ENTIRETY

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

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Company for a Certificate of Convenience)
and Necessity Authorizing it to Install, Own,)
Acquire, Construct, Operate, Control, Manage)
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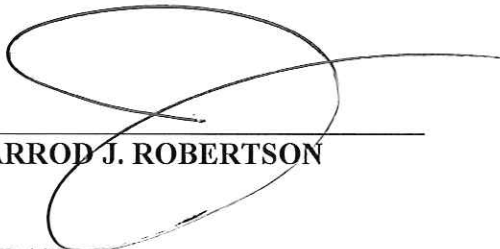
File No. SA-2020-0132

AFFIDAVIT OF JARROD J. ROBERTSON

STATE OF MISSOURI)
)
COUNTY OF COLE) ss.

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 10th day of January 2020.

D. SUZIE MANKIN
Notary Public - Notary Seal
State of Missouri
Commissioned for Cole County
My Commission Expires: December 12, 2020
Commission Number: 12412070



Notary Public

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of Missouri-American Water)
Company for a Certificate of Convenience) File No. SA-2020-0132
and Necessity Authorizing it to Install, Own,)
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and Maintain a Sewer System in an area of)
Clinton County, Missouri (Clinton Estates))

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.

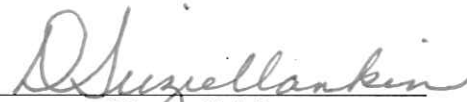


KEITH D. FOSTER

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 10th day of January 2020.

D. SUZIE MANKIN
Notary Public - Notary Seal
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AFFIDAVIT OF BEN RANKIN

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

COMES NOW BEN RANKIN 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.


_____ **BEN RANKIN**

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 10th day of January 2020.

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AFFIDAVIT OF GARY BANGERT

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

COMES NOW GARY BANGERT 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.




GARY BANGERT

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 10th day of January 2020.

D. SUZIE MANKIN
Notary Public - Notary Seal
State of Missouri
Commissioned for Cole County
My Commission Expires: December 12, 2020
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Clinton County, Missouri (Clinton Estates))

AFFIDAVIT OF ANDREW HARRIS

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

COMES NOW ANDREW HARRIS 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.

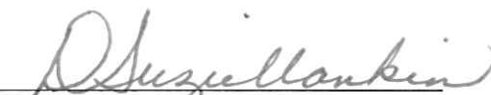


ANDREW HARRIS

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 10th day of January 2020.

D. SUZIE MANKIN
Notary Public - Notary Seal
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Clinton County, Missouri (Clinton Estates))

AFFIDAVIT OF DARONN A. WILLIAMS

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

COMES NOW DARONN A. WILLIAMS 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.


DARONN A. WILLIAMS

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 10th day of January 2020.

D. SUZIE MANKIN
Notary Public - Notary Seal
State of Missouri
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My Commission Expires: December 12, 2020
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Notary Public