

**STATE OF MISSOURI
PUBLIC SERVICE COMMISSION**

At a session of the Public Service Commission held at its office in Jefferson City on the 7th day of June, 2023.

In the Matter of Missouri-American Water Company for a Certificate of Convenience and Necessity Authorizing It to Install, Own, Acquire, Construct, Operate, Control, Manage and Maintain a Water System and Sewer System In and Around the City of Wood Heights, Missouri)
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File No. WA-2023-0345

**ORDER APPROVING TRANSFER OF ASSETS AND
GRANTING CERTIFICATE OF CONVENIENCE AND NECESSITY**

Issue Date: June 7, 2023

Effective Date: July 7, 2023

Procedural History

On April 5, 2023, Missouri-American Water Company (MAWC) filed the above-referenced application.¹ The application seeks, among other things, authority for MAWC to acquire and operate the assets of a municipal water and sewer system in Wood Heights, Missouri. The residents of Wood Heights overwhelmingly approved selling those assets to MAWC in an April 5, 2022, election.

MAWC also asks for a Certificate of Convenience and Necessity (“CCN”) to install, own, acquire, construct, operate, control, manage, and maintain those water and sewer systems. MAWC is a “water corporation,” a “sewer corporation,” and “public utility” as

¹ At MAWC’s request, the Commission consolidated File Nos. WA-2023-0345 and SA-2023-0346.

those terms are defined in Section 386.020, RSMo (Supp. 2022), and is subject to the jurisdiction of the Commission. If the Commission approves MAWC's application, MAWC would provide water service for Wood Heights' 260 water customers, and sewer service for Wood Heights' 190 sewer customers.²

In addition, MAWC requests the Commission permit it to use Section 393.320 2016 RSMo to establish the rate base of the Wood Heights water and sewer systems.³ Finally, MAWC asks the Commission to waive the 60-day notice requirement MAWC would otherwise have to give before filing this case.

The Commission issued notice and set a deadline for intervention requests, but received no requests. On May 24, 2023, the Staff of the Commission (Staff) filed its recommendation to approve the transfer of assets and grant a CCN, with certain conditions. On May 31, 2023, MAWC stated that it accepted Staff's recommended conditions.

Commission Rule 20 CSR 4240-2.080(13) allows parties ten days to respond to pleadings unless otherwise ordered by the Commission. The Commission issued no order to the contrary of that rule and no party objected to MAWC's application or Staff's recommendation.

Discussion

Certificate of convenience and necessity

The Commission may grant a water and sewer corporation a CCN to operate after determining that the construction and operation are "necessary or convenient for the

² The customer counts are approximate.

³ Statutory references are to the 2016 publication unless otherwise stated.

public service.”⁴ The Commission articulated criteria to be used when evaluating applications for utility certificates of convenience and necessity that are known as the *Tartan* factors.

The *Tartan* case combined the standards used in several similar certificate cases, and set forth the following criteria: (1) there must be a need for the service; (2) the applicant must be qualified to provide the proposed service; (3) the applicant must have the financial ability to provide the service; (4) the applicant's proposal must be economically feasible; and (5) the service must promote the public interest.⁵

There is a need for the service, as the residents of Wood Heights currently make use of the existing water and sewer system. MAWC is qualified to provide the service, as it already provides water service to over 480,000 Missouri customers, and sewer service to over 22,000 Missouri customers. MAWC has the financial ability to provide the service because no external financing is anticipated. The proposal is economically feasible according to MAWC’s feasibility study, which is realistic given its prior experience and past performance. The proposal promotes the public interest as demonstrated by Wood Heights’ citizens voting to proceed with MAWC’s Asset Purchase Agreement.

Based on the application and Staff’s recommendations, the Commission concludes that the factors for granting a certificate of convenience and necessity to MAWC have been satisfied and that it is in the public’s interest for MAWC to provide water and sewer service to the customers currently served by Wood Heights. Further, the Commission finds that MAWC possesses adequate technical, managerial, and financial

⁴ Section 393.170.3, RSMo. (Supp. 2022).

⁵ See Report and Order, *In re Application of Tartan Energy Company, L.C., d/b/a Southern Missouri Gas Company, for a Certificate of Convenience and Necessity*, Case No. GA-94-127, 3 Mo. P.S.C. 3d 173 (September 16, 1994).

capacity to operate the water and sewer system it wishes to purchase from Wood Heights. Thus, the Commission will authorize the transfer of assets and grant MAWC the certificate of convenience and necessity to provide water and sewer service within the proposed service area, subject to the conditions described by Staff.

Rate base

MAWC seeks to establish the ratemaking rate base associated with the Wood Heights water and sewer assets in this matter pursuant to Section 393.320, RSMo. That statute states, in pertinent part:

The procedures contained in this section may be chosen by a large water public utility, and if so chosen shall be used by the public service commission to establish the ratemaking rate base of a small water utility during an acquisition.

MAWC is a “large water public utility” as it is a “public utility that regularly provides water service or sewer service to more than eight thousand customer connections and that provides safe and adequate service.”⁶ Wood Heights is a “small water utility” as it is a “water system or sewer system owned by a municipality that regularly provides water service or sewer service to eight thousand or fewer customer connections.”⁷

Section 393.320.3(1), RSMo requires an appraisal to be performed by three appraisers. Such an appraisal has been performed on the Wood Heights water and sewer system and is attached to MAWC’s application. The appraisal contains a joint assessment of the fair market value of the water system and sewer system.

Section 393.320.5(1), RSMo states, in part, that the “lesser of the purchase price or the appraised value, together with the reasonable and prudent transaction, closing,

⁶ Section 393.320.1(1) RSMo.

⁷ Section 393.320.1(2) RSMo.

and transition costs incurred by the large water public utility, shall constitute the ratemaking rate base for the small water utility as acquired by the acquiring large water public utility. . . .” In this case, the \$1,000,000 purchase price is less than the value produced under the appraisal method. Thus, Staff recommends a rate base value of \$1,000,000 for the combined assets of Wood Heights’ water and sewer systems. Staff does not object to MAWC’s allocation of \$800,000 for the water system assets and \$200,000 for the sewer system assets.

Waiver of 60-day notice rule

MAWC’s application also asks the Commission to waive the 60-day notice requirement in 20 CSR 4240-4.017(1). MAWC asserts there is good cause for granting such waiver because it did not engage in conduct that would constitute a violation of the Commission’s ex parte rule, and no asset purchase agreement existed within 60 days prior to filing its application. The Commission finds good cause exists to waive the notice requirement, and a waiver of 20 CSR 4240-4.017(1) will be granted.

THE COMMISSION ORDERS THAT:

1. MAWC is granted permission to acquire the water and sewer system assets of the City of Wood Heights, Missouri.
2. MAWC is granted a certificate of convenience and necessity to provide water and sewer service in the City of Wood Heights area described in the map and legal description Missouri-American Water Company provided to Staff, subject to the conditions and requirements contained in Staff’s Recommendation, including the filing of tariffs, as set out below:
 - a. The Commission approves existing MAWC water rates applicable to customers outside the St. Louis region for water and sewer rates.

- b. MAWC shall submit tariff sheets, to become effective before closing on the assets, to include adequately identified service area maps, service area written descriptions, rates and charges to be included in its EFIS tariffs P.S.C. MO No. 13 and 26, applicable to water and sewer service, respectively;
- c. MAWC shall notify the Commission of closing on the assets within 5 days after such closing;
- d. If closing on the water and sewer system assets does not take place within 30 days following the effective date of the Commission's order approving such, MAWC shall submit a status report within 5 days after this 30-day period regarding the status of closing and additional status reports within 5 days after each additional 30-day period until closing takes place, or until MAWC determines that the transfer of the assets will not occur;
- e. If MAWC determines that a transfer of the assets will not occur, MAWC shall notify the Commission of such no later than the date of the next status report, as addressed above, after such determination is made, and require MAWC to submit tariff sheets as appropriate that would cancel service area maps and descriptions applicable to the City service area in its water and sewer tariffs, and rate and charges sheets applicable to customers in the City service area in both the water and sewer tariffs;
- f. MAWC shall develop a plan to book all of the City plant assets, with the concurrence of Staff and/or with the assistance of Staff, for original cost, depreciation reserve, and contributions-in-aid-of-construction (CIAC) for appropriate plant accounts, such that current rate base is broken down as \$800,000 for the water system, and \$200,000 for the sewer system, along with reasonable and prudent transaction, closing, and transition costs. This plan must be submitted to Staff for review within 60 days after closing on the assets;
- g. MAWC shall keep its financial books and records for plant-in-service and operating expenses in accordance with the National Association of Regulatory Utility Commissioners (NARUC) Uniform System of Accounts;
- h. MAWC shall adopt the depreciation rates ordered for MAWC in Case No. WR-2020-0344;

- i. MAWC shall provide to the Customer Experience Department (CXD) Staff an example of its actual communication with the Wood Heights customers regarding its acquisition and operations of the water system assets, and how may customers reach MAWC, within ten days after closing on the assets.
- j. MAWC shall obtain from the City, as best as possible prior to or at closing, all records and documents, including but not limited to all plant-in-service original cost documentation, along with depreciation reserve balances, documentation of contribution-in-aid-of construction transactions, and any capital recovery transactions.
- k. Except as required by §393.320, RSMo, the Commission makes 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;
- l. MAWC shall distribute to the City 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 4240-13.040(3), within thirty (30) days of closing on the assets;
- m. MAWC shall provide to the CXD Staff a sample of ten (10) billing statements from the first month's billing within thirty (30) days of closing on the assets;
- n. MAWC shall provide training to its call center personnel regarding rates and rules applicable to the Wood Heights water and sewer system customers;
- o. MAWC shall include the Wood Heights water and sewer system customers in its established monthly reporting to the CXD Staff on customer service and billing issues, on an ongoing basis, after closing on the assets;
- p. MAWC shall 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 are complete.

3. MAWC is authorized to take other actions as may be deemed necessary and appropriate to consummate the transactions proposed in the application.

4. The 60 day notice requirement of Commission Rule 20 CSR 4240-4.017(1) is waived.

5. This order shall become effective on July 7, 2023.



BY THE COMMISSION

Nancy Dippell

Nancy Dippell
Secretary

Rupp, Chm., Coleman, Holsman and Kolkmeier CC., concur.
Hahn, C., abstains.

Pridgin, Deputy Chief Regulatory Law Judge

STATE OF MISSOURI

OFFICE OF THE PUBLIC SERVICE COMMISSION

I have compared the preceding copy with the original on file in this office and I do hereby certify the same to be a true copy therefrom and the whole thereof.

WITNESS my hand and seal of the Public Service Commission, at Jefferson City, Missouri, this 7th day of June, 2023.



Nancy Dippell

Nancy Dippell
Secretary

MISSOURI PUBLIC SERVICE COMMISSION

June 7, 2023

File/Case No. WA-2023-0345

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Enclosed find a certified copy of an Order or Notice issued in the above-referenced matter(s).

Sincerely,



**Nancy Dippell
Secretary**

Recipients listed above with a valid e-mail address will receive electronic service. Recipients without a valid e-mail address will receive paper service.