

*Missouri Public Service Commission*

STATE OF MISSOURI  
PUBLIC SERVICE COMMISSION

At a Hearing of the Public Service  
Commission, held at Jefferson City,  
Missouri, on the 2nd day of  
April, . . . . . 1985.

CASE NO. TR-85-23

In the matter of the application of  
NORTHEAST MISSOURI RURAL TELEPHONE  
COMPANY of Green City, Missouri, for  
authority to make permanent its  
existing interim local exchange  
service rates.

BEFORE:

PAUL S. DeFORD, Presiding,  
HEARING EXAMINER.

REPORTED BY:

CHARLA M. MILNE  
DEBBIE J. TWEEDY, RPR

1 record.

2 Mr. England, I believe you indicated you  
3 have no further witnesses testifying on the depreciation  
4 reserve issue.

5 MR. ENGLAND: That is correct.

6 EXAMINER DeFORD: Ms. Ott.

7 RUSSELL W. TRIPPENSEE testified as follows:

8 DIRECT EXAMINATION BY MS. OTT:

9 Q. Could you please state your name and  
10 business address for the record?

11 A. Yes, I can. My name is  
12 Russell W. Trippensee, I'm chief accountant for the Public  
13 Counsel. My mailing address is P. O. Box 7800, Jefferson  
14 City, Missouri, 65102.

15 Q. Mr. Trippensee, have you caused to be  
16 prepared rebuttal testimony and supplemental rebuttal  
17 testimony which were filed in this case?

18 A. Yes, I have.

19 MS. OTT: May I approach the witness?

20 EXAMINER DeFORD: Yes.

21 BY MS. OTT:

22 Q. I show you now what has been previously  
23 marked as Exhibit No. 22, the Rebuttal Testimony of  
24 Russell W. Trippensee, and Exhibit 23, Supplemental Rebuttal  
25 Testimony of Russell W. Trippensee.

1 A. Yes, ma'am.

2 Q. Are these the same testimony that you caused  
3 to be filed in this case?

4 A. Yes, ma'am, they are.

5 Q. Do you have-if I asked you the same  
6 questions contained in this testimony would your answers be  
7 the same today as they were when you wrote this testimony?

8 A. Yes, they would, taking into effect the  
9 changes, numeric changes, that are contained in the  
10 supplemental rebuttal testimony, and there would be one  
11 additional addition to the supplemental rebuttal, which is  
12 on Page 6, the third full answer contained on that page.  
13 The last line in that answer has a blank for Mr. Gillum's  
14 exhibit and those were marked, previously marked today,  
15 Exhibit No. 5, Special Report Prepared by John W. Gillum,  
16 and can also be seen in Exhibit No. 8, Minimum Filing  
17 Requirements. With that addition everything would be the  
18 same.

19 MS. OTT: Okay. Thank you, Mr. Trippensee.

20 I would now like to offer Exhibits 22 and 23  
21 into evidence and tender Mr. Trippensee for cross-  
22 examination.

23 EXAMINER DeFORD: Mr. Walther.

24 MR. WALTHER: Staff has no questions.

25 EXAMINER DeFORD: Mr. England.

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MR. ENGLAND: Thank you, Mr. Examiner.

I don't believe I have any questions.

EXAMINER DeFORD: Thank you, Mr. Trippensee.

You're excused.

(Witness excused.)

EXAMINER DeFORD: Is there any objection to Exhibits 22 and 23?

MR. ENGLAND: Off the record?

(Discussion off the record.)

EXAMINER DeFORD: Back on the record.

Exhibits 22 and 23 will be received.

(EXHIBIT NOS. 22 AND 23 WERE RECEIVED IN EVIDENCE AND MADE A PART OF THIS RECORD.)

MR. ENGLAND: Excuse me. I missed your statement but they also have testimony with respect to the other issue which I have not cross-examined on. That's the capital structure, rate of return. Could you withhold ruling until I finish my cross-examination on that?

EXAMINER DeFORD: Yes.

MR. ENGLAND: Thank you.

EXAMINER DeFORD: Mr. England.

MR. ENGLAND: Yeah. I believe Ms. Ott indicated she had some questions of Mr. Ford relative to the issue of capital structure, rate of return. Therefore, I

MR. ENGLAND: Thank you, sir. No other

questions.

EXAMINER DeFORD: Is there anything further of Mr. Schmidt?

(No response.)

(Witness excused.)

EXAMINER DeFORD: Is there any objections to Exhibit 16 and 17?

(No response.)

EXAMINER DeFORD: Exhibits 16 and 17 are received.

(EXHIBIT NOS. 16 TO 17 WERE RECEIVED IN EVIDENCE AND MADE A PART OF THIS RECORD.)

EXAMINER DeFORD: Mr. England, did you intend to offer Exhibit 24?

MR. ENGLAND: Yes, I did.

EXAMINER DeFORD: Any objection?

(No response.)

EXAMINER DeFORD: Exhibit 24 is received.

(EXHIBIT NO. 24 WAS RECEIVED IN EVIDENCE AND MADE A PART OF THIS RECORD.)

EXAMINER DeFORD: Ms. Ott.

MS. OTT: Yes. I'd like to call Mr. Trippensee to the stand again.

1                    Could we go off the record again?

2                    EXAMINER DeFORD: Off the record.

3                    (Discussion off the record.)

4                    EXAMINER DeFORD: Let's go back on the  
5 record.

6                    Mr. Trippensee, I remind you that you are  
7 still under oath.

8                    THE WITNESS: Yes, sir.

9                    EXAMINER DeFORD: Ms. Ott.

10                   MS. OTT: I would like to tender  
11 Mr. Trippensee for cross-examination.

12                   EXAMINER DeFORD: Mr. England.

13                   MR. ENGLAND: Thank you.

14                   RUSSELL W. TRIPPENSEE testified as follows:

15                   CROSS-EXAMINATION BY MR. ENGLAND:

16                   Q.     Mr. Trippensee, with reference to  
17 Exhibit 23, as I understand that just revises some numbers  
18 that have previously been contained in your original  
19 rebuttal testimony Exhibit 22?

20                   A.     Yes, sir, I believe that is correct; and I  
21 made the addition of putting in the proper exhibit number in  
22 the blank since they had not been marked until today.

23                   Q.     But for purposes of talking or cross-  
24 examining you on the conceptual underpinnings of your  
25 adjustment, I'm safe to stay with Exhibit 22 unless I want

1 to get into the actual numbers, then I need to look at 23 to  
2 get a more correct idea of the numbers, correct?

3 A. That is correct.

4 Q. And it is in Exhibit 22 where you set forth  
5 your credentials or educational work background, right, at  
6 Page 1?

7 A. Yes, it is.

8 Q. You state there that you received a BSBA--do  
9 you not have that in front of you?

10 A. Oh, I've got it here, excuse me. Yes.

11 Q. You state in Page 1 that you received a BSBA  
12 degree from the University of Missouri in approximately  
13 1977. My question is: What does BSBA stand for?

14 A. Bachelor of Science, Business  
15 Administration, standard business degree out of the  
16 University of Missouri at that time.

17 Q. And as I understand your major field of  
18 study in obtaining that degree was accounting?

19 A. That's one of two major fields I had.

20 Q. Well, you indicate in your testimony a major  
21 in accounting. What other major do you have that's not  
22 indicated in your--

23 A. Finance.

24 Q. What courses, rather, graduate courses have  
25 you completed since your graduation from the University of

1 Missouri in 1977?

2 A. None.

3 Q. What finance courses did you complete at the  
4 University of Missouri in obtaining your BSBA degree?

5 A. Specific course name?

6 Q. Descriptions. I don't necessarily need the  
7 exact names; but description, the nature of the subject  
8 matter?

9 A. I completed the 30 hours required by the  
10 University at that time. The courses in general dealt with  
11 analyzing the financial statements of companies, how to  
12 develop rates of return, how to compute capital structures,  
13 cost of debt, cost of issuing debt, analyzing security,  
14 security offerings.

15 Q. Were those courses a part of the BSBA  
16 degree, did you say, they were acquired--required, rather,  
17 as part of obtaining that BSBA degree?

18 A. The BS--well, let me clarify something. The  
19 BSBA degree is the degree you receive from the business  
20 school, and then after that they indicate whether you had a  
21 major in finance, accounting, marketing, management,  
22 whatever. It's just kind of a general--it's what they call  
23 their degree. So from the standpoint, do the courses I took  
24 in finance come under that degree, yes, they would under a  
25 finance major. Some of them were also required for an



1 accounting major because you are required 60 hours to  
2 graduate.

3 Q. Well, you indicate that you have a major in  
4 accounting; and I think you indicated that the school  
5 indicates you have a major in accounting. Does the school  
6 also indicate you have a major in finance?

7 A. Yes, sir, it does.

8 Q. Why have you not included that in your  
9 testimony?

10 A. Because I have always just indicated only my  
11 accounting degree because I am an accountant by trade and  
12 hiring.

13 Q. Let me go then to your work experience  
14 because I believe that's maybe what you're getting to?

15 A. Yes.

16 Q. As I understand since graduation from the  
17 University of Missouri in 1977, your work experience has  
18 been either with the Missouri Public Service Commission or  
19 now with the Office of Public Counsel as an accountant; is  
20 that correct?

21 A. Yes, sir.

22 Q. And your work on behalf of the Commission  
23 Staff and Public Counsel up until this time has been related  
24 to accounting matters, would you agree with that?

25 A. Yes, sir.

1 Q. You have offered in the past expert  
2 testimony on what I would call, and perhaps you would agree  
3 with me, traditional accounting issues such as revenues,  
4 expenses, rate-based items?

5 A. Calculation of total cost of service, yes.

6 Q. But specifically when I think of accounting  
7 testimony I'm looking at adjustments to the income and  
8 balance sheets for developing either revenues and expenses  
9 for ratemaking or plant accounts for rate base?

10 A. And also how to take the capital structure  
11 and apply it to the rate base and develop the total revenue  
12 requirements.

13 Q. Will you give me or cite to me those cases  
14 in which you've testified to appropriate capital structure?

15  
16 A. I'm not saying appropriate capital  
17 structure. I'm saying how the capital structure is applied  
18 against the rate base to develop the gross revenue  
19 requirement.

20 Q. Okay.

21 A. That is the traditional accounting issue in  
22 Missouri.

23 Q. Similar to what Mr. Myers did for purposes  
24 of this case?

25 A. Yes, exactly.

1 Q. I'm more familiar with your experience as it  
2 relates to the Public Service Commission, and I think what  
3 you are telling me is that you take rates of return  
4 developed by people like Mr. Schmidt or Mr. Shackelford from  
5 the Office of Financial Analysis and put that into your  
6 revenue requirement calculation to come up--plus  
7 adjusting for taxes if that's appropriate, whatever other  
8 adjustments--come up with the overall revenue requirement?

9 A. Yes, sir.

10 Q. So it would be a fair statement or a correct  
11 statement to say you have not previously submitted testimony  
12 on the issues of the appropriate capital structure or rate  
13 of return for a utility regulated by this Commission?

14 A. Not entirely.

15 Q. Okay. Tell me in what instances have you  
16 other than this case?

17 A. Anytime. Things such as customer deposits,  
18 which can be included in capital structure; cash working  
19 capital, which can be handled several ways; deferred taxes  
20 can be handled through a capital structure. All those  
21 traditionally are handled in the accounting area.

22 Q. When you say traditionally handled--

23 A. Those could be components of the capital  
24 structure, or all components of the capital structure can be  
25 included on the income statement. It's simply a matter of

1 presentation.

2 Q. Well, if for purposes of example, you  
3 determine that customer deposits ought to be included in  
4 capital structure and based upon your experience at least  
5 with the Staff, you did not--or I mean, you did, rather,  
6 didn't you, then convey that to people such as Bruce Schmidt  
7 who worked it up in their overall capital structure and  
8 overall rates of return?

9 A. They would utilize it in their calculation  
10 of the total capital structure, yes. As far as--along with  
11 utilizing often numbers provided as far as the proper--the  
12 proper amount to be included, and also the rate is normally  
13 set by the Commission.

14 Q. Limiting then my question to just capital  
15 structures where we're talking about long-term debt and  
16 equity, am I correct in stating that you have not prepared  
17 and submitted testimony to this Commission on appropriate  
18 capital structures and rates of return?

19 A. No, sir--yes, sir. Excuse me.

20 Q. Okay. So this would be the first case in  
21 which you have offered testimony as to an appropriate  
22 capital structure and rate of return where that capital  
23 structure is solely made up of either debt or equity. Is  
24 that a fair statement?

25 A. Strictly with regard to the proper level of

1 debt and equity that should be included in the rate case,  
2 yes, sir.

3 Q. And you--well, maybe you are. Are you  
4 holding yourself out to this Commission as an expert in  
5 areas of capital structure and rates of return,  
6 Mr. Trippensee?

7 A. Definitely not in regard to the area of  
8 rates and return. With regard to the components of the  
9 capital structure that support the rate base, yes, I am.

10 Q. With regard to the components of debt and  
11 equity, are you holding yourself out as an expert?

12 A. Yes, sir.

13 Q. Upon what basis do you claim that expertise,  
14 sir, when, in fact, as I understand your previous testimony,  
15 you have not submitted testimony on capital structures  
16 composed strictly of debt and equity?

17 A. As I stated earlier, capital structure  
18 composed strictly of debt and equity is simply for a  
19 presentation format. The components are very easily  
20 determinable by any accountant, financial analyst or any  
21 traditional business fields.

22 Q. Are you saying then that you claim no more  
23 expertise than, say, Mr. Meyer in that regard?

24 A. Not knowing Mr. Meyer's full educational  
25 history, I can't say that I have more or less expertise.

1 Q. Well, I'm just talking about the work that  
2 he has done, the work that he has traditionally done in  
3 presentations before this Commission. In comparing that  
4 with what you have done, wouldn't they be very similar?

5 A. They're similar work.

6 Q. So he, by your definition, would also be an  
7 expert in these areas, would he not?

8 A. He could be, yes.

9 Q. Did you hear his testimony where he claimed  
10 not to be an expert in these areas?

11 A. Yes, sir.

12 Q. At Page 4 of your testimony Exhibit 22 you  
13 discuss the company's REA loan and make several statements  
14 with respect thereto. Based upon those statements, tell me,  
15 Mr. Trippensee, what documents or files or other material  
16 have you examined relative to this company's REA loan in  
17 preparation of your testimony?

18 A. You mean--if you're asking have I reviewed  
19 the specific REA loan document, no, I have not.

20 Q. Okay. Have you reviewed REA loan guidelines  
21 generally applied to all REA borrowers?

22 A. I have in the past. Not currently.

23 Q. Not for purposes of this case?

24 A. Not for purposes of this case.

25 Q. Have you reviewed the Commission's files

1 with respect to applications made by this company for  
2 approval to borrow money from the REA?

3 A. No, sir, I have not. I discussed it to some  
4 length with Mr. Meyer.

5 Q. You do not know, sir, do you for what  
6 purposes REA loan proceeds may be applied?

7 A. Based on discussion with both the company  
8 and more so with Mr. Meyer, the loan proceeds appear, or I  
9 was told can be applied to either new plant investment or to  
10 cover the operations of the company. I think that also has  
11 been discussed today in the hearing room.

12 Q. Okay. So you're aware of that from other  
13 people's either testimony or statements made to you or  
14 within your hearing?

15 A. Yes. I relied on their statements.

16 Q. And let me ask you this: If, in fact, those  
17 loan funds are permitted to be used for, say, ordinary  
18 operating expenses and they are so used, then to that extent  
19 they have not been used to support or finance rate base,  
20 have they?

21 A. That is true.

22 Q. Are you aware of the fact that REA requires  
23 its borrowers to maintain certain minimum interest coverage  
24 ratios in order to qualify for REA loans?

25 A. Yes, sir. That's standard in most loan

1 contracts.

2 Q. Okay. And you also heard Mr. Schmidt's  
3 testimony earlier, I think, with respect to that fact. You  
4 were in the hearing room?

5 A. Yes, I did.

6 Q. What tests have you performed,  
7 Mr. Trippensee, to determine whether the revenue requirement  
8 which you recommend in this case will produce, either meet  
9 or exceed, those minimum interest coverage ratios?

10 A. Performed personally by myself, I have not  
11 performed any. Again in discussion with the Staff indicated  
12 that the coverages would be basically as Mr. Schmidt  
13 indicated this morning.

14 Q. They would be inadequate?

15 A. To obtain new loans, yes.

16 Q. At Page 5 of your testimony you note that  
17 the company's capital structure of total capitalization  
18 exceeds its rate base by approximately \$2 million and go  
19 on further to note that a large portion of these funds are  
20 invested in interest-bearing accounts with the interest  
21 being reflected "below the line." Do you see that?

22 A. Yes, sir.

23 Q. You then suggest that if the Commission were  
24 to accept Company and Staff's position in this case, this  
25 Commission should also recognize the income from these



1 investments above the line. Is that a fair characterization  
2 of your testimony?

3 A. Yes, it's a fair characterization of this  
4 recommendation--not a recommendation so much as an analogy.

5 Q. Would it also be part of your analogy that  
6 the temporary investments would then be included in rate  
7 base if you were going to reflect the income from them above  
8 the line?

9 A. No.

10 Q. Okay. Getting on or going on to the latter  
11 part of that question which continues on the top of Page 6,  
12 you say "To not recognize income"--and I assume you mean the  
13 income derived from the temporary investments, right?

14 A. Yes.

15 Q. --"for ratemaking purposes that would be in  
16 effect produced by the plant in service would be a definite  
17 change in ratemaking principles." Is that correct?

18 A. That is the correct reading of that  
19 sentence, yes.

20 Q. Okay. Are you saying that your position or,  
21 rather, contention with respect to capital structure and  
22 rate of return is consistent with ratemaking principles as  
23 this Commission has enunciated them in the past?

24 A. I believe it is consistent with the  
25 principle that revenues--in the context of this answer,

1 revenues derived from utility operations should be included  
2 in the cost of service.

3 Q. Well, that's not my question. My question  
4 is: Is your position in this case, in your opinion,  
5 consistent with ratemaking principles previously enunciated  
6 by this Commission in other rate cases?

7 A. I believe the Commission has followed the  
8 practice that all utility--everything that pertains to  
9 utility operations is included in the cost of service. So I  
10 would say yes.

11 Q. Will you give for me and for the purposes of  
12 record citation or case name where the type of capital  
13 structure and rate of return as proposed by you has ever  
14 been proposed by a witness before this Commission?

15 A. To my knowledge this specific view of the  
16 capital structure has not been proposed to this Commission;  
17 and, therefore, the Commission has never had a chance to  
18 rule on it.

19 Q. That would be my next question. Then you're  
20 not aware of any time in the past when the Commission might  
21 have adopted this type of approach?

22 A. I don't think it's ever been proposed. I  
23 don't believe they've ever had a chance to adopt or reject  
24 it.

25 Q. Okay. But yet you say that position is

1 consistent with traditional ratemaking principles as  
2 previously enunciated by this Commission?

3 A. I say--I said that, yes, I believe it is.  
4 Simply because it has not been pointed out to the Commission  
5 before does not necessarily make it wrong.

6 Q. Well, let me ask you this: Upon what basis  
7 do you claim the consistency if the Commission has never  
8 been presented with this position before and has therefore  
9 never had the opportunity to rule on it?

10 A. I think that--I am--when I say it's  
11 consistent with the concept or the purpose of the Commission  
12 to--or the intent of the Commission to recognize all  
13 associated items with utility operations and the cost of  
14 service, I believe it is consistent with that intent.  
15 Whether the Commission has or not in the past, is a differnt  
16 question; and I will readily admit that they have not done  
17 this type of adjustment.

18 Q. Let's take, for example, the situation where  
19 a company--a utility company's total capitalization exceeds  
20 its net rate base; and as I understand, that is not an  
21 uncommon occurrence?

22 A. Total capitalization exceeds--

23 Q. Net rate base, just as it does in this case?

24 A. Yes, sir.

25 Q. Is it your understanding then that the

1 Commission--well, first of all that--well, I guess--no, I  
2 better go straight with--that the Commission has reflected  
3 in the overall cost of service income generated by the  
4 excess of capitalization over rate base even though those  
5 amounts are not included in rate base?

6 A. Could you either restate or rephrase--

7 Q. To the extent that capitalization exceeds  
8 rate base, is it your testimony that this Commission in the  
9 past has reflected the earnings or the earning power, if you  
10 will, of that excess in the utility's cost of service  
11 without reflecting the excess in rate base?

12 A. (No response.)

13 Q. That in effect is what you're proposing  
14 here, isn't it. For at least \$1,200,000 of temporary  
15 investments you were proposing that the Commission recognize  
16 the interest earned by those investments but yet not include  
17 those investments in rate base?

18 A. Well, first off, my recommendation is not  
19 the answer we're talking about. My recommendation is that  
20 the original Staff position which puts--assigns all of debt  
21 to rate base, all of long-term REA debt to rate base, that  
22 is the position. This section was simply an analogy of an  
23 alternative method similar to how you can shift any of the  
24 capital structure components between the income statement  
25 and gross revenue requirement calculation.

1 Q. Okay. With that qualification in mind that  
2 it is not your original or your primary position, that it is  
3 an alternative position, let me reask the question. To the  
4 extent that rate base, rather, capitalization exceeds rate  
5 base, is it your testimony that this Commission  
6 traditionally included in cost of service or above the line  
7 interest earned by that excess while disallowing that excess  
8 from rate base?

9 A. The Commission has not made that type of  
10 adjustment in the past. The reason being I believe is that  
11 when capitalization exceeds rate base, both of these items  
12 are a point in time, and that phenomenon of capitalization  
13 exceeding rate base happens because of the fact that you're  
14 just taking a snapshot picture. Therefore, since the  
15 Commission has set the proper amount of rate base and  
16 applied the proper components of capitalization, they have  
17 in effect taken into effect all income earning--the income  
18 earning availability of all the utility-related operations.

19 Q. Explain that to me again. How has the  
20 Commission taken into effect the income earning power, if  
21 you will, of excess capitalization rate base?

22 A. I'm not speaking specifically, Mr. England,  
23 of excess capitalization. I'm speaking of the earning power  
24 of utility-related capitalization. And in this adjustment,  
25 the position of the Public Counsel is that REA funds are

1 specifically attributable to utility operations. Not to do  
2 so in the manner that we have will allow the REA money to  
3 support other asset accounts in the same percentage that the  
4 REA money is in the total capital structure if this sort of  
5 adjustment is not made. I'm not speaking of specifically  
6 "excess capitalization," strictly the capitalization that is  
7 attributable to the utility operations. And our--my  
8 position is that all REA money should go with utility  
9 operations.

10 Q. Hold that thought for a minute, but let me  
11 get back to my original question. Am I correct in  
12 understanding then that you were not aware of any  
13 circumstance where the Commission has taken in the situation  
14 where capitalization exceeds rate base, the income generated  
15 by the excess capitalization included at above the line but  
16 disallowed excess capitalization for purposes of rate base?

17 A. The excess capitalization in the definition  
18 I believe you are using, I'm not aware of any Commission  
19 decision like that because it would not be proper.

20 Q. Okay. Now, getting back to the rest of your  
21 answer. Am I correct in understanding that the Staff and  
22 Company approach takes into effect, or rather, its capital  
23 structure takes into effect, the fact that 1 million--  
24 approximately \$1,200,000 of temporary cash investments  
25 that's included in the capital structure?

1           A.     I would not--temporary investments are not  
2 in the capital structure in any way, shape, or form. Equity  
3 and long-term debt is in the capital structure which is on  
4 the equity and liability side of the balance sheet.  
5 Temporary investments are on the asset side and do not  
6 support rate base.

7           Q.     The dollars that support the temporary  
8 investments are contained in the capital structure, are they  
9 not?

10          A.     There are other items on the liability side  
11 of the balance sheet that could support these items.

12          Q.     I'm only talking about capital structure,  
13 and perhaps I need to limit the discussion to ratemaking  
14 capital structure. And for purposes of ratemaking for  
15 purposes of this case, the capital structure utilized by the  
16 Company and Staff exceeds rate base by approximately  
17 \$1,200,000?

18          A.     That is true.

19          Q.     And that really represents what we've been  
20 referring to as temporary investments, does it not?

21          A.     That--I will not say that it represents.  
22 What I will say it appears in analysis of the company  
23 balance sheet--appears that most of the money that is  
24 contained on the liability side of the balance sheet in  
25 long-term debt and equity. The difference appears to be in

1 temporary investments. But to say that specific dollars  
2 have gone there, I don't believe that statement can be made.

3 Q. It is not uncommon, is it, sir, for rate  
4 base not to equal total capitalization for purposes of  
5 regulated utility?

6 A. Usually it doesn't because it's simply a  
7 picture at a point in time.

8 Q. In some instances rate base can be in excess  
9 of and in other instances it can be less than total  
10 capitalization, can it not?

11 A. Exactly.

12 Q. Now, with respect to conventionally placed  
13 long-term debt, is it your understanding or would you agree  
14 with me that the proceeds of that debt, at least to the  
15 extent this Commission has jurisdiction over, is to be used  
16 specifically for utility construction purposes?

17 A. Long-term debt is to be utilized for plant  
18 and service, yes. That is how this Commission assigns it.

19 Q. So the analogy that you draw with respect to  
20 REA money would be no different than someone could draw with  
21 respect to a long-term debt conventionally placed by any  
22 utility company that it supports, utility plant, right?

23 A. Not to the--yes, it could. But there's a  
24 factor here that long-term debt in conventional utilities is  
25 a first mortgage assigned specifically to that plant. REA



1 money is derived--is able to be obtained because the company  
2 is a telephone, and as you, yourself, indicated there is not  
3 total restrictions on the use of this money as far as the  
4 Company is concerned.

5 Q. Well, if anything, would you agree with me  
6 that REA is perhaps more lenient in the application of the  
7 proceeds of their loan than, say, a bank would be in the  
8 application of proceeds they loan to a utility?

9 A. Yes, I would believe the REA is more  
10 lenient.

11 Q. So, if anything, your analogy would be more  
12 appropriate in conventionally placed debt issues by other  
13 utilities rather than money financed by REA, would it not?

14 A. No, sir. I do not believe so because they  
15 could not obtain the REA money without being a Rural  
16 Telephone Company. That is the first criteria. There are  
17 others.

18 Q. What difference does it make whether it's--  
19 the only difference about REA money, the one difference that  
20 we've talked about, is that they may be more lenient with  
21 the way or the manner in which you may use their proceeds.  
22 The other difference is it's basically a government  
23 subsidized loan at less interest rate than you could get or  
24 this company could get if it had to go out and  
25 conventionally borrow that money.

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1 A. Exactly.

2 Q. Okay. What other differences exist between  
3 REA money and conventional debt?

4 A. Without going over the specifics of  
5 contract, I don't know of any others.

6 Q. A review of your testimony in principally  
7 Appendix A reveals that there is only one other case in  
8 which you have presented testimony involving a telephone  
9 company that is REA financed, that being Doniphan Telephone  
10 Company, am I correct?

11 A. In which I filed testimony, yes, sir, that  
12 is correct. I did work on one other case, but I did not  
13 file any testimony.

14 Q. And with respect to the Doniphan Telephone  
15 Company Case No. TR-80-15, as I understand it, you were  
16 the--you were with the Staff at that time?

17 A. I was with the Staff up until about nine  
18 months ago.

19 Q. Okay. And presented what I would call  
20 traditional accounting testimony as we've discussed in at  
21 that case?

22 A. Yes, sir.

23 Q. Okay. If I might have leave to have  
24 marked as an exhibit a multi-page document, as soon as I  
25 can find it.

1 EXAMINER DeFORD: We'll go off the record  
2 and mark the exhibit.

3 (Discussion off the record.)

4 (EXHIBIT NO. 25 WAS MARKED BY THE REPORTER  
5 FOR IDENTIFICATION.)

6 EXAMINER DeFORD: Back on the record.  
7 BY MR. ENGLAND:

8 Q. Mr. Trippensee, you now have before you what  
9 has been marked for purposes of identification as  
10 Exhibit 25, do you not?

11 A. Yes, I do.

12 Q. And that, if I may, is selected excerpts from  
13 your testimony as well as the testimony of Staff witness  
14 Fes Shaughnessy of the Office of Financial Analysis in the  
15 Doniphan Telephone Company Rate Case TR-80-15. Do you have  
16 that in front of you?

17 A. Yes, I do.

18 Q. They should all be stapled together. And  
19 for purposes of my questioning I would like to note and get  
20 your concurrence in several facts. One of which is that in  
21 the Doniphan Telephone Company case you indicate at Page 2  
22 middle of the page that you were responsible for the revenue  
23 requirement calculation of that company--

24 A. Yes, I am.

25 Q. --on behalf of the Staff? And attached then

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1 the next page would be Schedule 1 which would actually  
2 depict that revenue requirement calculation, would it not?

3 A. Yes, sir, it does.

4 Q. Okay. Then next is the affidavit of  
5 Mr. Fes Shaughnessy followed by Page 11 from his testimony  
6 which is the capital structure for the Doniphan Telephone  
7 Company. Do you see that?

8 A. Yes, sir.

9 Q. And then finally, or rather not finally, but  
10 second to last, Schedule 2 which is the formula for revenue  
11 requirements which Mr. Schmidt identified earlier, and I  
12 believe you would agree is a rather routine exhibit filed  
13 with this type of testimony, is it not?

14 A. With the financial testimony, yes.

15 Q. And then finally Schedule 6 which indicates  
16 the imbedded cost of debt of Doniphan Telephone Company  
17 indicating that it is principally financed or at least debt  
18 financed by either REA or F.F.B., F.F.B. being an extension  
19 of the REA?

20 A. Yes, sir.

21 Q. Correct. Now, would you agree with me, sir,  
22 that for purposes of your revenue requirement calculation,  
23 Schedule 1 of that Exhibit 25, you have used a rate base or  
24 a net rate base, net original cost rate base of  
25 approximately \$6,400,000?

1 A. Yes, sir.

2 MS. OTT: What page are you on?

3 MR. ENGLAND: I'm on the Schedule 1 which is  
4 about the third page in.

5 BY MR. ENGLAND:

6 Q. And that for purposes of capitalization as  
7 indicated by Mr. Shaughnessy's testimony, Doniphan Telephone  
8 Company had approximately \$9 million in total  
9 capitalization, did it not?

10 A. Yes, sir.

11 Q. He develops based upon that capitalization  
12 returns ranging from 7.2 to 7.47--

13 MS. OTT: Your Honor, I have to object to  
14 this line of testimony on cross examination because frankly  
15 I don't see the relevancy in any of this. This is a  
16 different case, a different company. The witness used to  
17 work for a different party to this, you know, these kind of  
18 proceedings than he works for now. I really don't see the  
19 relevancy in this line of questioning

20 MR. ENGLAND: The relevancy is to show what  
21 I believe an inconsistency in Mr. Trippensee's approach for  
22 purposes of the Doniphan Telephone Company case and this  
23 case. I would agree with Ms. Ott that they're two different  
24 companies, but the similarities are strikingly similar, and  
25 the approaches are distinctly different.

1 EXAMINER DeFORD: I'll overrule the  
2 objection.

3 BY MR. ENGLAND:

4 Q. You used the returns developed by  
5 Mr. Shaughnessy based on total capitalization of 9 million  
6 times your net original cost rate base, do you not, on  
7 Schedule 1?

8 A. Yes, sir.

9 Q. And that calculation is similar to what  
10 Staff and Company have done for purposes of this case, is it  
11 not, utilized the returns developed by Mr. Schmidt and  
12 applied it to the net original cost rate base?

13 A. It is similar except in the current position  
14 by the Staff and the Company, there is a direct assignment  
15 of certain portions of equity or of certain asset accounts  
16 to the equity thereby adjusting the capital structure.

17 Q. Those are investments in the cable system,  
18 is that what you're talking about?

19 A. Yes, sir.

20 Q. Okay. In the Doniphan case it appears that  
21 capitalization exceeds net rate base by almost \$2.6 million;  
22 is that correct?

23 A. That is correct.

24 Q. Do you know if any similar adjustment was  
25 made in that case?

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1 A. I know there was none made in that case.

2 Q. Do you know if the Doniphan Telephone  
3 Company had any investments in cable TV, do you recall from  
4 your--

5 A. I have no remembrance of their side  
6 investments.

7 Q. Okay. So you don't know what that excess  
8 capitalization may have gone to support?

9 A. No, sir, I do not.

10 Q. Or you cannot remember at least at this  
11 point in time?

12 A. That's almost six years ago.

13 Q. Okay. Had you used the approach in the  
14 Doniphan case that you now use in this case, your revenue  
15 requirement would have been substantially less, would it  
16 not?

17 A. Yes, sir.

18 Q. As a matter of fact, your revenue  
19 requirement--your rate of return for purposes of your  
20 revenue requirement would be the overall cost of debt in as  
21 much as total debt is approximately six million nine which  
22 already exceeds rate base, right?

23 A. I was flipping from one page to another.  
24 Could you excuse me--or rephrase it, please?

25 Q. What I'm saying is had you used your

1 approach in Doniphan that you now take for purposes in  
2 Northeast Missouri Rural Telephone Company, your rate of  
3 return would have been something around 5.1 percent which is  
4 the embedded cost of debt for Doniphan as shown in  
5 Mr. Shaughnessy's Schedules. In as much as total debt of  
6 the Doniphan company equals or, in fact, exceeds the net  
7 original cost rate base, there would be no equity--excess  
8 funded by equity in this case, right?

9 A. That's true.

10 Q. And all other things being equal,  
11 5.1 percent times net original cost rate base as opposed to  
12 7.2 ranging to 7.47 would produce substantially less revenue  
13 requirement in the Doniphan case?

14 A. Just eyeballing it, yes, that's true.

15 Q. Now, at least judging from these exhibits--  
16 and I'll be happy to amend and include any other exhibits  
17 you might think are appropriate from your testimony in the  
18 Doniphan case--but you did not make that specific assignment  
19 in that case that you do in this case?

20 A. No, sir, I did not.

21 Q. Nor do I understand was any of the income  
22 possibly generated by the 2.6 million excess capitalization  
23 over rate base included above the line, was it, sir?

24 A. As I've stated earlier, I don't believe this  
25 specific adjustment that we are proposing here has ever been



1 presented to this Commission. So that would include the  
2 Doniphan case as well as all other REA funded telephone  
3 cases.

4 Q. Now, let me ask you this, sir: With respect  
5 to what you did for purposes of Doniphan and what you're  
6 doing for purpose of Northeast Missouri, which of the two in  
7 your opinion represents a definite change in rate making  
8 principles as previously enunciated by this Commission?

9 A. I believe the position that my office is  
10 taking in this proceeding is not in conflict with the intent  
11 the Commission has tried to accomplish in the past in  
12 setting rates.

13 Q. But the result is distinctly different, is  
14 it not?

15 A. The result is distinctly different, yes,  
16 sir, it is.

17 Q. As a matter of fact, the results for  
18 purposes of your presentation in this case would put the  
19 company in jeopardy of ever obtaining future loans from the  
20 REA because interest coverage would not meet their minimum  
21 requirements?

22 A. It would put the company in jeopardy, or  
23 they would be unable to obtain loans immediately from the  
24 REA. What would happen in the future is dependent totally  
25 upon a number of things such as revenue growth, plant need,

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1 replacements, other items which I have not done a study on  
2 to see--forecasting what the company position will be two  
3 years down the road.

4 Q. You would agree with me, would you not, sir,  
5 that 2 percent REA money is definitely a benefit not only to  
6 the company but its customers as compared to what it might  
7 have to pay for conventional loans?

8 A. A benefit to the company and its specific  
9 customers, yes, it is a benefit, or it's definitely a cost  
10 advantage.

11 Q. Now, just comparing the revenue requirement  
12 calculations that you've done for purposes of Doniphan and  
13 now for purposes of Northeast Missouri, which, sir, in your  
14 opinion represents a change from traditional ratemaking  
15 principles as enunciated by this Commission--

16 MS. OTT: Objection, your Honor, the witness  
17 has already answered this question.

18 MR. ENGLAND: I'll let the record stand for  
19 itself, but he has not answered it. He gave me an answer,  
20 but it was not responsive.

21 MS. OTT: The witness stated that he didn't  
22 think that--

23 EXAMINER DeFORD: Overruled. Address the  
24 Bench.

25 THE WITNESS: I believe, as far as with the

1 Doniphan and other telephone companies up until this point,  
2 the parties who made this presentation were attempting to  
3 address the intent of the Commission. I do not believe they  
4 accomplished that. And therefore we are proposing this--  
5 presenting this current position before the Commission. So  
6 in that context, I would--I believe that you're asking do I  
7 believe the Doniphan presentation is proper or the current  
8 presentation, and I believe the current presentation  
9 addresses the intent of the Commission.

10 BY MR. ENGLAND:

11 Q. That's not my question. My question is:  
12 Just from a purely mechanical approach, is it not true that  
13 the Doniphan case, if anything, represents traditional  
14 application of revenue or calculation, rather, of revenue  
15 requirements as performed by this Commission in the past and  
16 that the revenue requirement calculation performed by you  
17 for purposes of this case is, in fact, a departure from  
18 those traditional calculations and traditional principles?

19 A. From the calculation, yes. From the  
20 principles, no.

21 Q. You've mentioned with respect to--or in  
22 regard to recent answers, you've answered that "this office"  
23 and "we". I assume you're now talking on behalf of the  
24 Office of Public Counsel; is that correct?

25 A. Yes, sir, that's right.

1 Q. And is it also my understanding that the  
2 position you take here reflects the position of the--I mean,  
3 is it reflective of the position of the office? Does that  
4 have a bearing on the position that you take?

5 A. I work for and represent the Office of  
6 Public Counsel and speak on behalf of the whole office, yes,  
7 sir.

8 Q. Okay. And Ms. Ott in one of her objections  
9 indicated that when you did this testimony, you worked for  
10 the Staff; and when you're doing today's testimony, you work  
11 for the Office of Public Counsel. Does that have a bearing  
12 on approaches that you take as well?

13 A. No, sir. I don't believe it does. I think  
14 experience has a lot to do with difference in the  
15 approaches. I'd only been out of school and working for the  
16 Staff for approximately 18 months when I did this audit.  
17 I've now had over seven years of experience plus attended  
18 seminars.

19 Q. And for purposes of this audit, let me  
20 understand this correctly. You have not examined any REA  
21 documents; is that correct?

22 A. That is specifically with regard to  
23 Northeast, no, sir, I have not.

24 Q. That's my question. You have not examined  
25 any financing cases issued--or rather, Orders issued by this

1 Commission with respect to this company?

2 A. Not personally. Just in discussions with  
3 other people who have, who I've relied upon.

4 Q. You have not performed any interest  
5 coverage calculations to determine whether or not you put  
6 the company in jeopardy of obtaining future loans as a  
7 result of your requirements; is that correct?

8 A. Personally, no. I saw no reason to redo  
9 what had been done by competent Staff personnel.

10 Q. And you are proposing a calculation, if you  
11 will, that is different than what has been approved by this  
12 Commission in the past and which produces substantially less  
13 revenue requirements than the traditional calculation,  
14 right?

15 A. That is true.

16 Q. And all of this you attribute to your  
17 experience in the field; is that correct?

18 A. All of that or just the concept of  
19 assignment of REA money is what I would attribute to  
20 experience.

21 Q. Well, I guess my question perhaps could  
22 have been more artfully stated; and I'll try to do that.  
23 But based upon this lack of investigation into specific REA  
24 documents, financing cases, times interest earned, coverage  
25 ratios, and departure at least in calculation from

1 traditional Commission standards, you nevertheless think  
2 that that is appropriate compared with what has been done in  
3 the legion of cases that preceded this and in the methods  
4 that have preceded this to which Company and Staff have  
5 agreed?

6 A. I believe the adjustment we are proposing is  
7 appropriate.

8 MR. ENGLAND: No other questions.

9 MR. WALTHER: I have just a couple of  
10 questions.

11 CROSS-EXAMINATION BY MR. WALTHER:

12 Q. Are you suggesting that the method you're  
13 proposing in this case be perspectivevely applied to all  
14 future cases?

15 A. Yes.

16 Q. Then are you suggesting that the Commission  
17 should ignore a legitimate part of the capital structure  
18 when arriving at a cost of capital?

19 A. I would--I guess I would kind of relate to  
20 the previous answer, I think. In looking at this and making  
21 this adjustment, you are determining what is a legitimate  
22 part of the capital structure supporting the utility  
23 operations of the company. And I would not--I don't believe  
24 that we have ignored a legitimate part of the capital  
25 structure that supports the utility's plant in service and

1 day-to-day operations.

2 MR. WALTHER: I have no further questions.

3 EXAMINER DeFORD: Ms. Ott.

4 MS. OTT: Thank you, your Honor.

5 REDIRECT EXAMINATION BY MS. OTT:

6 Q. Mr. Trippensee, Mr. England asked you a  
7 serious of questions about REA requirements?

8 A. Yes, ma'am.

9 Q. And to what use the Company could make of  
10 those funds. And he also asked you a series of questions  
11 about excess capitalization and the effects of that excess  
12 capitalization?

13 A. Yes, ma'am.

14 Q. Now, do you think that it is good business  
15 practice to use long-term debt to finance daily operations  
16 of the company?

17 MR. ENGLAND: Objection. One, there's been  
18 no foundation for Mr. Trippensee to answer this question.  
19 And two, I don't believe my line of questioning dealt with  
20 that at all.

21 MS. OTT: If you recall, Mr. England, you  
22 specifically refer to excess capitalization and whether or  
23 not the loan contract permitted the company to use that to  
24 finance its daily operations.

25 MR. ENGLAND: Sure, but I never went to the

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1 qualitative or judgmental question of whether I thought it  
2 was prudent.

3 EXAMINER DeFORD: I'll overrule the  
4 objection.

5 BY MS. OTT:

6 Q. Did you want me to repeat the question,  
7 Mr. Trippensee, or do you remember?

8 A. Could you please repeat it?

9 Q. Do you think that it is good business  
10 practice for the company to use long-term debt to finance  
11 its daily operations?

12 A. To use long-term debt?

13 Q. To finance its daily operations?

14 A. No, I do not.

15 Q. Okay. And why not?

16 A. Utilization of long-term debt to finance  
17 day-to-day operations implies that the company is not taking  
18 in enough revenue to cover its marginal operating, which  
19 day-to-day operations are. Continued use of that can only  
20 lead to one thing, and that's the company going out of  
21 business.

22 Short-term debt can be utilized to finance  
23 cash flow problems with day-to-day operations, but I might  
24 add that the Commission does not take into effect short-term  
25 debt in calculating rates.



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1 Q. Okay. You mentioned something about revenue  
2 requirement and the revenue deficiencies. Why do you think  
3 that your analysis should apply to this particular company,  
4 Northeast Rural?

5 MR. ENGLAND: Excuse me. I'm going to  
6 object to that question because I believe that is additional  
7 testimony which has no bearing upon cross-examination and  
8 merely offers the witness up for restatement of his  
9 prepared--or I guess rebuttal testimony.

10 MS. OTT: Well, actually what I was getting  
11 at is the reason why Mr. Trippensee does not think that it's  
12 a good business practice for the company to use long-term  
13 debt to finance its daily operation, with specifically this  
14 company now.

15 MR. ENGLAND: I thought he'd answered that  
16 in the prior question and answer.

17 MS. OTT: Perhaps I missed it. I'm not  
18 sure.

19 EXAMINER DeFORD: Well, I'll tell you what.  
20 I'll sustain the objection. You can ask the other question.  
21 I think there's a different question there. You can ask  
22 something else if you like.

23 MS. OTT: Okay. Thank you, your Honor.

24 BY MS. OTT:

25 Q. If you recall Mr. England asked you

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1 questions about the excess capitalization and whether or not  
2 you were familiar with the fact that the company could  
3 obtain, you know, additional REA funds if the capital  
4 structure which Public Counsel proposes is adopted by the  
5 Commission?

6 A. Yes.

7 Q. Okay. Why is it in your understanding that  
8 the company cannot obtain additional REA funds immediately  
9 if our position is adopted?

10 A. If our position is adopted and assuming that  
11 Mr. Schmidt's analysis of coverage ratio is correct, which I  
12 have no reason to doubt, the company would not be able to  
13 obtain additional REA loans at the current time because they  
14 would not have adequate revenue to cover the debt service on  
15 those items, on those additional loans.

16 Q. So when Mr. England was referring to the  
17 1,200,000 in temporary investments, are you saying that the  
18 company would have to invest that money into plant before it  
19 could borrow additional REA funds?

20 A. They would have to invest either that money  
21 into the plant that generated revenue or somehow receive  
22 additional revenue showing proper need to this Commission to  
23 generate additional revenue to cover their interest  
24 coverages--interest expense, excuse me.

25 Q. In your opinion, is there any reason why the

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1 company would need to obtain additional REA funds at this  
2 point in time?

3 MR. ENGLAND: Objection. No foundation upon  
4 which to make that statement or further answer that  
5 question.

6 EXAMINER DeFORD: Sustained.

7 BY MS. OTT:

8 Q. Okay. Would you describe the situation of  
9 the excess capitalization and the low interest REA money  
10 specific to Northeast Rural? Would you describe the  
11 situation as unique?

12 A. I think--I would not describe it as unique  
13 in the sense that Mr. England pointed out of Doniphan  
14 Telephone case where a similar situation happened. He also  
15 discussed an earlier case, I cannot remember the name, where  
16 there is only less than \$100,000 of difference between  
17 capital structure and the rate base. That is why an audit  
18 is performed on each individual company and recommendations  
19 are made on each individual company. You attempt to try to  
20 keep those recommendation consistent with the intent of  
21 setting just and reasonable rates.

22 Q. Okay. Mr. Trippensee, do you recall a  
23 question by Mr. Walther when he asked you whether you would  
24 advocate this type of capital structure in cases in the  
25 future, in all cases in the future?

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1 A. Yes, I recall.

2 Q. Okay. When you answered yes to that  
3 question, were you referring to literally all cases or cases  
4 like Northeast Rural?

5 A. I would be referring to cases where the  
6 analysis shows that the point in time picture of capital  
7 structure being significantly different from rate base is  
8 not just a phenomenon of that point in time. That, you  
9 know, say, such as the case of Northeast, they've had these  
10 investments on their books for a period of time that's not  
11 indicative of just a short-run situation.

12 MS. OTT: Okay. Thank you. I have no  
13 further questions.

14 EXAMINER DeFORD: Mr. England.

15 MR. ENGLAND: Yes.

16 RECROSS-EXAMINATION BY MR. ENGLAND:

17 Q. Mr. Trippensee, Ms. Ott explored with you  
18 the possibilities or eventualities that might result were  
19 the company not able to go back to PEA for additional  
20 funding. One of the options was to invest or, I guess, cash  
21 in the temporary investments and use them. Another was to  
22 obtain money conventionally through conventional loan  
23 perhaps raising of equity?

24 A. That would be one I would assume.

25 Q. Okay. My question just has to do with any

1 other source of financing that this company would have to  
2 turn to if REA loan funds were not available would be in  
3 substantial--would be substantially more expensive than the  
4 2 percent REA money, would it not?

5 A. In today's economy there's no question about  
6 that.

7 Q. Okay. You testified that you did not think  
8 it was good business practice to finance day-to-day  
9 operations of the company with long-term debt. My first  
10 question, sir, is what business endeavors or operations have  
11 you run? Let me just stop at that.

12 A. What business endeavors have I run?

13 Q. Run, operated, managed?

14 A. I've never been a sole proprietor of a  
15 business. My professional background simply is looking at  
16 companies that operate in the state of Missouri. And I  
17 might--would indicate that my audits of those companies show  
18 that none of the ones that are showing financial health  
19 operate in this manner. I would further go on to say that  
20 Northeast, in this case, the Staff and the Company have  
21 agreed to a rate reduction which indicates that the current  
22 revenues exceeds day-to-day operations expenses; and,  
23 therefore, there would be no need to finance day-to-day  
24 operations with long-term debt.

25 MR. ENGLAND: Mr. Examiner, I'm going to ask

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1 that that answer be stricken as unresponsive. My question  
2 was what experience this witness had in running a business,  
3 managing a business, operating a business. Truly gratuitous  
4 response which was not prompted by the question or required  
5 by the question.

6 EXAMINER DeFORD: I'm inclined to agree.

7 BY MR. ENGLAND:

8 Q. I take it, sir, that you have not had any  
9 experience in running a business, meeting a payroll, meeting  
10 certain cash requirements; is that correct, in the running  
11 of that business?

12 A. No, sir, I have not.

13 Q. Okay. Do you understand how loan funds are  
14 requested from and then subsequently--or requested from and  
15 subsequently obtained from the REA by companies such as  
16 Northeast Missouri Rural Telephone Company.

17 A. In general, but--yes. Specifics--

18 Q. Tell me how that happens, sir. Give me the  
19 chronology.

20 A. Well, that's what I'm just going to say.  
21 The specifics of the timing, the filings that are required,  
22 I'm not familiar with those specifics down to the detail.

23 Q. Do you know if the funds are received in  
24 advance of construction or after construction?

25 A. I'm not for sure.

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1 Q. If the funds are received after construction  
2 and used to reimburse the general treasury of the company,  
3 those funds could possibly be used also to reimburse certain  
4 operating expenses, could they not?

5 A. If they are received after construction or if  
6 they were received before construction, if there is no  
7 guidelines by the REA, they could be used to finance operating  
8 expenses, yes, they could.

9 Q. Okay. But yet you say it is not good business  
10 practice to finance day-to-day operations. Have you any  
11 indication that this company is not engaging in good business  
12 practice or that it is financially unhealthy or anything of  
13 that nature?

14 A. I have no indication other than the company's  
15 continued reference to utilizing long-term debt to finance  
16 day-to-day operations which even thinking about that, I don't  
17 believe is good business practice.

18 Q. And that opinion is based upon your experience  
19 as a PSC auditor not as someone who has run business; is that  
20 right?

21 A. No. That experience is based on several  
22 things. PSC auditor, my education--which it's a fundamental  
23 economic principal that your revenue should cover your short  
24 term or your marginal cost which day-to-day operations  
25 normally, or can be considered. If you're not covering your

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1 day-to-day costs--if you're not covering your day-to-day  
2 costs, then you either have to generate more revenue or  
3 reduce those day-to-day costs. I'm not even speaking here  
4 of your fixed cost. Revenue should also cover those.

5 Q. Maybe I need to limit my question then with  
6 respect to the financing of day-to-day operations by a long-  
7 term debt to the short run. On the short run and spot basis,  
8 not only is it good business practice but, in fact, it does  
9 happen, does it not? I mean, when you're talking about  
10 economic principles, it's only in the long run where you begin  
11 actually using in the long run long-term debt to finance day-  
12 to-day operations that you run into trouble?

13 A. That is true.

14 Q. But as a practical matter aren't the funds  
15 generated--I think we talked about this a few minutes ago--  
16 funds generated by long-term debt once received by the company  
17 may, in fact, be used to pay off current obligations which  
18 may be of a day-to-day expense type nature?

19 A. If the funds from long-term debt can be used  
20 to pay day-to-day operations, I will not disagree with that  
21 point. I believe that is not a good business practice. As  
22 far as in the short run, short-run debt is often used to  
23 provide cash flow to cover day-to-day operation expenses, not  
24 the expense--or they should not be--debt should not be used to  
25 cover expenses. The cash flow possibly is necessary because



1 of the way the revenue comes in and the revenue goes out.  
2 That is what cash working capital is utilized, utilized by the  
3 Staff and by other parties in inclusion in rate base to help  
4 reimburse the company for the cash flow problem.

5 Q. But as a practical matter, that cash working  
6 capital allowance is not always there when you need it to  
7 meet a bill. And as a practical matter, money, whenever  
8 they come from, if it's cash if it's available to the  
9 company, is used to meet those bills, is it not?

10 A. I think we're talking two different contexts  
11 here. You're saying "meet the bill," and I believe you're  
12 trying to indicate pay--to actually be utilized to pay for  
13 the expense as far as what I would call cover the expense.  
14 I am saying debt is only--should be used to cover the cash  
15 flow, but there should be anticipated revenues that will  
16 cover the expense.

17 Q. That's what I'm--that's the distinction I  
18 make between the short run and the long run, but--

19 A. Well, I'd like the distinctions between any  
20 debt. Debt should not be used to cover expenses; only to  
21 cover the cash flow problem with expenses. And along that  
22 line, Staff has concluded a level, average level of cash  
23 working capital to take care of that problem.

24 Q. Let me take your attention then to the  
25 history of this company which is contained in the Staff's

1 testimony where they have expensed certain maintenance  
2 items, customer drops, for instance, that could have perhaps  
3 been capitalized. They represent an extraordinary level of  
4 maintenance expenses which has been disallowed for purposes  
5 of this case, but nevertheless had to be funded at that  
6 time. That was an expense item. Are you saying that was  
7 inappropriate for purposes of use of the loan proceeds?

8 A. Well, if I could say this company is having  
9 a rate reduction which indicates they had sufficient  
10 revenues to cover the expenses.

11 Q. That's not my point. I'm saying to the  
12 extent they funded the expense associated with these  
13 customer drops, extraordinary expense, are you saying that's  
14 inappropriate for purposes of utilizing--an expense that  
15 could arguably be capitalized for expense?

16 A. Without getting--I was not--I'm not familiar  
17 with the specific Staff adjustment on that issue. And  
18 getting--you've put in a new word here: funded. And I  
19 guess I've said it several times here, and I'll say it one  
20 more, that when we're talking about expenses and paying for  
21 them or covering the expenses, I make a distinction between  
22 ultimately how are those expenses covered, that is, who  
23 provides the money to pay for them. In the long run it  
24 should be revenue. In the short run, the cash flow of  
25 covering that expense might have to be from debt, short-term

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1 debt, which can be retired as soon as the revenue comes in.  
2 Therefore, the revenue is what is covering that expense.  
3 The short-term debt would only cover the cash flow problem  
4 caused by that expense.

5 Q. Why would this company want to place any  
6 short-term debt when they can get REA money at 2 percent to  
7 meet that current obligation. There would be no reason,  
8 would there? And for that matter, where REA allows you to  
9 use the proceeds for that particular application?

10 A. If you're saying that the company is  
11 utilizing REA as a source of cash to cover day-to-day  
12 operations--

13 Q. In the short term?

14 A. --in the short term because it's such a  
15 cheap long-term fund, source of funds, I believe that is a  
16 very good business practice by this company because, let's  
17 face it, 2 percent money is very cheap.

18 Q. It's almost like being given away in today's  
19 economy, isn't it?

20 A. I would like to have some of it myself, but  
21 unfortunately my credit rating doesn't allow it.

22 But I guess what I am saying, I think we're  
23 still talking in two different terms. The REA money, if it  
24 is being utilized to cover the cash flow problem  
25 attributable to expenses, that is fine. But to say

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1 utilizing REA money to ultimately pay for an expense, I  
2 believe you're going to run--the company would run into a  
3 serious problem down the road. And again the Staff has put  
4 in an average amount of this cash that is necessary to meet  
5 day-to-day financing obligations.

6 MR. ENGLAND: I have no other questions.

7 EXAMINER DeFORD: Mr. Walther.

8 MR. WALTHER: No questions.

9 MS. OTT: No questions.

10 EXAMINER DeFORD: Is there any objection to  
11 Exhibits 22 and 23?

12 (No response.)

13 EXAMINER DeFORD: Exhibits 22 and 23 are  
14 received.

15 Thank you, Mr. Trippensee. You're excused.  
16 (Witness excused.)

17  
18 (EXHIBIT NOS. 22 AND 23 WERE RECEIVED IN  
19 EVIDENCE AND MADE A PART OF THIS RECORD.)

20 MR. ENGLAND: May I also offer Exhibit 25?

21 EXAMINER DeFORD: Any objection?

22 (No response.)

23 EXAMINER DeFORD: Exhibit 25 is also  
24 received.

25 (EXHIBIT NO. 25 WAS RECEIVED IN EVIDENCE AND