

Exhibit No.: \_\_\_\_\_  
Issue: Transaction  
Witness: Edward J. Grubb  
Type of Exhibit: Direct  
Sponsoring Party: Missouri-American  
Water Company  
Case No.: SM-2004-0275  
Date Testimony Prepared: August 10, 2004

MISSOURI PUBLIC SERVICE COMMISSION

MISSOURI-AMERICAN WATER COMPANY

CASE NO. SM-2004-0275

DIRECT TESTIMONY OF

EDWARD J. GRUBB

Jefferson City, Missouri

August 10, 2004

**NP**

## TABLE OF CONTENTS

<u>SUBJECT</u>	<u>PAGE</u>
WITNESS INTRODUCTION	1
APPLICANTS	1
THE TRANSACTION	2
REQUEST	5
CONDITIONS	6

**DIRECT TESTIMONY OF EDWARD J. GRUBB**

**CASE NO. SM-2004-0275**

**WITNESS INTRODUCTION**

1

2 **Q. WOULD YOU PLEASE STATE YOUR NAME AND BUSINESS**  
3 **ADDRESS?**

4 A. My name is Edward J. Grubb and my business address is 535 N. New Ballas  
5 Road, St. Louis, Missouri 63141.

6 **Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

7 A. I am employed by American Water Works Service Company, Inc. as Rates and  
8 Regulation Manager. I am also the Assistant Treasurer of Missouri-American  
9 Water Company ("MAWC").

10 **Q. PLEASE DESCRIBE YOUR PROFESSIONAL EXPERIENCE AND THE**  
11 **NATURE OF YOUR DUTIES.**

12 A. Marked as Schedule EJG-1 and attached hereto is a description of my education,  
13 professional experience and training.

14 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS**  
15 **PROCEEDING?**

16 A. The purpose of my testimony is to support the Joint Application in this matter.

17 **APPLICANTS**

18 **Q. PLEASE DESCRIBE MAWC.**

19 A. MAWC is a Missouri corporation with its principal office and place of business at  
20 535 N. New Ballas Road, St. Louis, Missouri 63141. MAWC currently provides  
21 water service to the public in and around the cities of St. Joseph, Joplin,  
22 Brunswick, Mexico, Warrensburg, Parkville, Riverside, Jefferson City, and parts

1 of St. Charles County and Platte County and most of St. Louis County. MAWC  
2 provides water service to approximately 453,000 customers. MAWC also  
3 provides sewer service to approximately 100 customers near Parkville, Missouri.  
4 MAWC is a “water corporation,” “sewer corporation” and a “public utility” as  
5 those terms are defined in Section 386.020, RSMo., and is subject to the  
6 jurisdiction and supervision of the Commission as provided by law.

7 **Q. PLEASE DESCRIBE CEDAR HILL UTILITY COMPANY, INC.**

8 A. Cedar Hill is a Missouri corporation with its principal office and place of business  
9 at P.O. Box 200, 8115 S. Industrial Drive, Cedar Hill, Missouri 63016. Cedar Hill  
10 is the holder of a certificate of convenience and necessity from the Commission to  
11 provide sanitary sewer service in a specified area of Jefferson County, Missouri.  
12 Cedar Hill currently provides sewer service to approximately 700 customers.

13 **THE TRANSACTION**

14 **Q. PLEASE DESCRIBE THE NATURE OF THE TRANSACTION THAT IS**  
15 **THE SUBJECT OF THIS CASE.**

16 A. MAWC and Cedar Hill have entered into a Contract For Sale of Sanitary Sewer  
17 System Assets of the Cedar Hill Utilities Company, Inc. to Missouri-American  
18 Water Company dated December 18, 2003 (“Agreement”). A copy of the  
19 Agreement is marked Schedule EJG-2 and attached hereto. This Agreement has  
20 been identified as Highly Confidential in accordance with the terms of the  
21 Protective Order issued by the Commission in this case. Pursuant to this  
22 Agreement, MAWC proposes to obtain and acquire certain assets of Cedar Hill as  
23 specifically described in the Agreement under the terms and provisions further

1 described therein. These assets include the Cedar Hill certificate of convenience  
2 and necessity granted by the Commission in Case No. 17,862 (October 24, 1973).

3 **Q. DID MAWC AND CEDAR HILL LATER AMEND THIS AGREEMENT?**

4 A. Yes. Based upon conversations with the Commission Staff, MAWC and Cedar  
5 Hill subsequently entered into a First Amendment to Contract For Sale of Sanitary  
6 Sewer System Assets dated May 3, 2004. A copy of the Amendment is marked  
7 Schedule EJG-3 and attached hereto. This Agreement has been identified as  
8 Highly Confidential in accordance with the terms of the Protective Order issued  
9 by the Commission in this case. This Amendment amended the Agreement to  
10 include as an asset cash deposited with Cedar Hill by Northwest R-1 School  
11 District.

12 **Q. WHAT IS AN ACQUISITION ADJUSTMENT?**

13 A. An acquisition adjustment is the difference between the cost of acquiring an  
14 operating unit or system and the depreciated original cost of the acquired property.

15 **Q. WHAT IS THE PURCHASE PRICE TO BE PAID BY MAWC?**

16 A. Three Hundred Twenty Thousand Dollars (\$320,000.00).

17 **Q. WHAT IS THE BOOK VALUE OF THE ASSETS TO BE ACQUIRED BY  
18 MAWC?**

19 A. The book value of assets for utility plant in service is \$437,716. Net rate base as  
20 measured by the Commission Staff in their recommendation is \$13,308.

21 **Q. WILL AN ACQUISITION ADJUSTMENT RESULT FROM THE  
22 PROPOSED TRANSACTION?**

1 A. Yes, it is anticipated that the acquisition adjustment will be approximately  
2 \$306,692.

3 **Q. IS MAWC SEEKING AN ORDER IN THIS CASE CONCERNING ANY**  
4 **ACQUISITION ADJUSTMENT THAT MAY RESULT?**

5 A. No. MAWC is not asking the Commission to address acquisition adjustment in  
6 this case. MAWC is proposing to leave this as a possible issue for a future rate  
7 case.

8 **Q. THE COMMISSION HAS IN CERTAIN ORDERS IN THIS CASE**  
9 **INDICATED THAT IT BELIEVES IT MUST ADDRESS ANY**  
10 **ACQUISITION ADJUSTMENT THAT MAY RESULT, EVEN THOUGH**  
11 **THE COMPANY IS NOT REQUESTING ANY SUCH ORDER FROM**  
12 **THE COMMISSION. DO YOU BELIEVE THAT THE COMMISSION**  
13 **CAN MAKE A FINDING AS TO ACQUISITION ADJUSTMENT IN THIS**  
14 **CASE?**

15 A. It is my understanding from counsel that the Missouri Supreme Court in *State ex*  
16 *rel. Ag Processing, Inc. v. Public Service Commission*, 120 S.W.3d 732 (Mo.  
17 2003) stated that “[w]hile [the Commission] may be unable to speculate about  
18 future merger-related rate increases, it can determine whether the acquisition  
19 premium was reasonable, and it should have considered it as part of the cost  
20 analysis when evaluating whether the proposed merger would be detrimental to  
21 the public.” *Ag Processing* at p. 736. It is my further understanding that in a  
22 footnote to this sentence, the Supreme Court defined this “cost analysis” by citing  
23 *State ex rel. Martigney Creek Sewer Co. v. Public Service Commission*, 537

1 S.W.2d 388, 399 (Mo. banc 1976), for the purpose “that, for ratemaking purposes,  
2 recovery of the cost of an asset acquired from another utility depends on the  
3 reasonableness of the acquisition, considering the factors of whether the  
4 transaction was at arm’s length, if it resulted in operating efficiencies, and if it  
5 made possible a desirable integration of facilities.”

6 **Q. USING THE STANDARD DESCRIBED IN THE *AG PROCESSING* CASE,  
7 IS ANY ACQUISITION ADJUSTMENT THAT RESULTS FROM THIS  
8 TRANSACTION LIKELY TO BE “REASONABLE?”**

9 A. Yes. Using the described standard, the acquisition premium is “reasonable,”  
10 based upon the following factors:

- 11 - The transaction between MAWC and Cedar Hill is at arm’s length. The  
12 companies are not affiliates and independent company representatives and  
13 attorneys negotiated the transaction;
- 14 - The resulting transaction will result in operating efficiencies because  
15 responsibility for the billing, management, purchasing and other activities  
16 will be absorbed by MAWC’s existing operations; and,
- 17 - While the transaction will not result in the physical integration of facilities,  
18 as stated above, many other aspects of the operation will be integrated.

19 **REQUEST**

20 **Q. WHAT ORDER DOES MAWC SEEK FROM THE COMMISSION?**

21 A. MAWC seeks the Commission’s order:

- 22 - authorizing MAWC to acquire the identified assets of Cedar Hill Utility  
23 Company, Inc.; and,

- 1 - authorizing MAWC to enter into, execute and perform in accordance with  
2 the terms described in The Contract For Sale of Sanitary Sewer System  
3 Assets and its First Amendment and to take any and all other actions  
4 which may be reasonably necessary and incidental to the performance of  
5 the acquisition.

6 **CONDITIONS**

7 **Q. WHAT CONDITIONS, IF ANY, DOES MAWC SUGGEST THAT THE**  
8 **COMMISSION INCLUDE IN THE REQUESTED ORDER?**

- 9 A. In order to protect the interests of both MAWC and the customers of Cedar Hill,  
10 MAWC proposes that the rates existing at the time MAWC acquires the assets  
11 continue in effect until the operation of law date associated with MAWC's next  
12 general rate filing.

13 **Q. ARE THERE ANY ADDITIONAL CONDITIONS WITH WHICH MAWC**  
14 **WILL AGREE TO COMPLY?**

- 15 A. Yes. The Commission Staff proposed several conditions in its Recommendation  
16 filed in this Case on May 5, 2004. MAWC will agree to comply with the  
17 following conditions proposed by the Staff:

- 18 - MAWC will record on its books and records an amount of approximately  
19 \$160,000 ("CIAC") equal to the balance in Cedar Hill's escrow account  
20 related to Northwest's contribution for the expansion of the Sand Creek  
21 wastewater treatment plant, when MAWC completes the plant expansion;  
22 and,



1 - Cedar Hill's customers will not experience a change in their current billing  
2 arrangement other than the fact that the name appearing on the bill will  
3 change to MAWC. Additionally, MAWC will continue billing Cedar  
4 Hill's customers under the provisions of Cedar Hill's current Commission  
5 approved tariff until MAWC's next general rate case is resolved.

6 **Q. ARE THERE ANY STAFF PROPOSED CONDITIONS WITH WHICH**  
7 **MAWC WILL AGREE IN MODIFIED FORM?**

8 A. Yes. MAWC will agree to Staff's condition concerning rate base calculation in  
9 the following form:

10 - MAWC will record the rate base value calculated by the Staff on its books  
11 and records and use this rate base amount as the starting point for all future  
12 capital additions. However, MAWC may present evidence in its next rate  
13 case as to the value of these assets for ratemaking treatment should the  
14 Company find evidence of unrecorded assets or assets not properly valued  
15 on the books of Cedar Hill.

16 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**


17 A. Yes.

BEFORE THE PUBLIC SERVICE COMMISSION  
OF THE STATE OF MISSOURI


IN THE MATTER OF THE JOINT APPLICATION OF )  
MISSOURI-AMERICAN WATER COMPANY AND )  
CEDAR HILL UTILITY COMPANY, INC., FOR )  
AUTHORITY FOR MISSOURI-AMERICAN WATER )  
COMPANY TO ACQUIRE CERTAIN ASSETS OF ) CASE NO. SM-2004-0275  
CEDAR HILL UTILITY COMPANY, INC., AND, IN )  
CONNECTION THEREWITH, CERTAIN OTHER )  
RELATED TRANSACTIONS. )

AFFIDAVIT OF EDWARD J. GRUBB

Edward J. Grubb, being first duly sworn, deposes and says that he is the witness who sponsors the accompanying testimony entitled "Direct Testimony of Edward J. Grubb"; that said testimony and schedules were prepared by him and/or under his direction and supervision; that if inquires were made as to the facts in said testimony and schedules, he would respond as therein set forth; and that the aforesaid testimony and schedules are true and correct to the best of his knowledge.

  
Edward J. Grubb

State of Missouri  
County of St. Louis  
SUBSCRIBED and sworn to  
Before me this 10<sup>th</sup> day of July 2004.

  
Notary Public

My commission expires:

STACI A. OLSEN  
Notary Public - Notary Seal  
STATE OF MISSOURI  
St. Charles County  
My Commission Expires: Mar. 20, 2005

## **EDWARD J. GRUBB**

### Schedule EJG-1

Edward J. Grubb is the Rates and Regulation Manager for the Central Region of American Water. Mr. Grubb is also the Assistant Treasurer for Missouri-American Water Company.

As Rates and Regulation Manager, his main responsibilities are to:

- 1) Plan and oversee the preparation and presentation of all rate increase applications and supporting documents and exhibits as prescribed by management policies, guidelines and regulatory commission requirements;
- 2) Oversee rate analyses and studies to evaluate the effect of proposed rates on the revenues, rate of return and tariff structure of the company;
- 3) Oversee the implementation of rate orders, including development of the revised tariff pricing necessary to produce the proposed revenue level;
- 4) Oversee the preparation of Company budgets and analyses;
- 5) Oversee the review of Company financial statements;
- 6) Oversee employee relations in the Rates and Planning Department, including the recommendation regarding personnel changes and the training and evaluation of assigned personnel;
- 7) Provide support for financial analysis of proposed acquisitions and expansion of service territory, including preparation of applicable Commission filings;
- 8) Assure that policies, procedures, programs, standards of performance, and approved objectives are adhered to and/or achieved including those involving safety, affirmative action, community relations, and labor relations.

Mr. Grubb has prepared rate cases and presented testimony before the Maryland Public Service Commission, West Virginia Public Service Commission, Tennessee Public Service Commission, Illinois Commerce Commission, Kentucky Public Service Commission, Iowa Utilities Board and the Missouri Public Service Commission.

In June 1978, Mr. Grubb was awarded a Bachelor of Science Degree in Business Administration from Drexel University with a major in accounting. In May 1989, he was awarded a Masters of Business Administration from the University of West Virginia College of Graduate Studies. In September 1993, Mr. Grubb successfully completed the Certified Management Accounting program and received his certificate as a Certified Management Accountant (CMA). And, in January 1998, he successfully completed the Certified in Financial Management (CFM) program and received his certificate as a CFM from the Institute of Management Accountants.

Mr. Grubb began his career in 1978 with American Water Works Service Co., Inc. as an Internal Auditor. As an Internal Auditor, he conducted financial and procedural audits of American System operating companies. In 1983, Mr. Grubb was promoted to Rate Analyst. In 1984, he was promoted to Revenue Requirement Specialist and in 1988, Mr. Grubb was promoted to Assistant Director - Rates and Revenue. In these three positions, he has assisted, prepared and presented testimony and accounting exhibits before regulatory bodies concerning rate increase applications and other matters.

In January 1998, Mr. Grubb was promoted to the position of Comptroller of Kentucky-American Water Company. In his capacity as Comptroller, Mr. Grubb was responsible for all aspects of the accounting for the Company, including the preparation of financial statements and tax returns. In October 2000, Mr. Grubb was promoted to the Director, Rates and Revenue with Missouri-American Water. In August, 2004, Mr. Grubb was appointed to his current position.

**SCHEDULE EJG-2**

HAS BEEN IDENTIFIED AS  
HIGHLY CONFIDENTIAL  
IN ACCORDANCE WITH THE TERMS  
OF THE PROTECTIVE ORDER  
ISSUED IN THIS CASE

**SCHEDULE EJG-3**

HAS BEEN IDENTIFIED AS  
HIGHLY CONFIDENTIAL  
IN ACCORDANCE WITH THE TERMS  
OF THE PROTECTIVE ORDER  
ISSUED IN THIS CASE