

Exhibit No.:  
Issues: Rate of Return  
Witness: Ronald L. Bible  
Sponsoring Party: MoPSC Staff  
Type of Exhibit: Direct Testimony  
Case No.: SR-2000-556

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**MISSOURI PUBLIC SERVICE COMMISSION**

**UTILITY SERVICES DIVISION**

**DIRECT TESTIMONY**

**OF**

**RONALD L. BIBLE**

**OSAGE WATER COMPANY**

**CASE NO. SR-2000-556**

*Jefferson City, Missouri  
February, 2001*

**DIRECT TESTIMONY OF**  
**RONALD L. BIBLE**  
**OSAGE WATER COMPANY**  
**CASE NO. SR-2000-556**

Q. Please state your name, occupation and business address.

A. My name is Ronald L. Bible. I am employed by the Missouri Public Service Commission (MoPSC) as the Manager of the Financial Analysis Department. My business address is 200 Madison, Jefferson City, Missouri 65102.

Q. Please describe your educational and professional background.

A. In 1981, I earned a Master of Business Administration degree with an emphasis in Finance and Investments from the Southern Illinois University at Edwardsville, Illinois. In 1976, I earned a Bachelor of Arts degree in Social Science from Colorado State University, Ft. Collins, Colorado.

Q. Would you please review your work experience.

A. Yes. I was employed by Credit Union National Association from 1995 to 1997 and by American Express from 1991 to 1995 as a Financial and Investment Analyst/Planner. Prior to that, I was with Voluntary Hospitals of America and Hospital Corporation of America where I performed statistical and financial analysis. Previous to these positions, I was an officer in the United States Air Force and was responsible for a unit that provided statistical analysis.

Q. Have you previously filed testimony before this Commission?

25           A.     Yes. I have testified before the MoPSC a number of times. My testimony at  
26 the MoPSC has addressed issues including rate of return, proposed financings, and merger  
27 and acquisition issues.

28           Q.     What issues are you addressing in your testimony?

29           A.     My testimony is presented to provide a recommendation to the Commission as  
30 to a fair and reasonable rate of return or cost of capital for Osage Water Company's rate base.

31           Q.     Have you prepared any schedules to support your analysis of the cost of capital  
32 for Osage Water Company?

33           A.     Yes. I have prepared two schedules to support my analysis, and they are  
34 attached to this testimony.

35           Q.     What do you conclude is the cost of capital for Osage Water Company?

36           A.     My analysis leads me to conclude that the cost of capital for Osage Water  
37 Company is in the range of 10.41 to 10.77 percent, with a midpoint of 10.60 percent.

38           Q.     What capital structure did you use?

39           A.     I have employed a capital structure as of December 31, 1998 for Osage Water  
40 Company. This is based on Osage Water Company's annual report filed September 3, 1999.  
41 The capital structure consists of 36.49 percent common stock equity, 1.49 percent preferred  
42 stock, 62.03 percent long-term debt and 0.00 percent short-term debt (see Schedule 1).

43           Q.     What did you determine to be the embedded cost of long-term debt for Osage  
44 Water Company?

45           A.     I determined the embedded cost of long-term debt on December 31, 1998, of  
46 Osage Water Company to be 9.45 percent. This is based on the loans and notes Osage Water  
47 Company has outstanding from previous finance case filings. Osage Water Company has

48 three notes and a debenture on which they pay an interest rate of 9.25 percent for the three  
49 notes and 0 percent interest on the debenture. There exists a Hancock debenture for \$237,000.  
50 It carries no interest payment, so it does not represent an imbedded cost of debt or cost of  
51 capital for Osage Water Company. Therefore it was not included in my calculation for  
52 weighted average cost of capital. Osage Water Company also has a loan with Central Bank of  
53 Lake of The Ozarks on which they pay an interest rate of prime plus two percent. At the time  
54 of my analysis they were paying 10.50 percent for this loan (see Schedule 2).

55 Q. What did you determine to be the embedded cost of preferred stock for Osage  
56 Water Company?

57 A. I determined the embedded cost of preferred stock on December 31, 1998, for  
58 Osage Water Company to be 11.25 percent (see Schedule 2).

59 Q. What did you determine to be the cost of common stock equity for Osage  
60 Water Company?

61 A. I determined the cost of common stock equity for Osage Water Company to be  
62 12.54 percent, with a range of 12 to 13 percent (see Schedule 2). This is based on a range of  
63 returns on equity from previous formal rate cases using the discounted cash flow model as the  
64 primary model to determine return on equity. The range of returns on equity was established  
65 at 11 to 13 percent, with a company at 100 percent equity in its capital structure allowed 11  
66 percent return on equity and a company with 100 percent debt allowed 13 percent return on  
67 equity. Osage Water Company, with 36.49 percent common stock equity in its capital  
68 structure, falls within the range at 12.54 percent return on equity.

69 Q. Does this conclude your testimony?

70 A. Yes.



**Osage Water Case Nos. WR-2000-557 and SR-2000-556**

Capital Component	Capital Amount	Percentage of Capital	Embedded Cost	Weighted Cost of Capital Using Common Equity Return of:		
				12.00%	12.54%	13.00%
Common Stock Equity	\$152,000	36.49%	—	4.38%	4.58%	4.74%
Preferred Stock	\$6,200	1.49%	11.25%	0.17%	0.17%	0.17%
Long-Term Debt	\$258,391	62.03%	9.45%	5.86%	5.86%	5.86%
Short-Term Debt	\$0	0.00%	0.00%	0.00%	0.00%	0.00%
Total	<u>\$416,591</u>	<u>100.00%</u>		<u>10.41%</u>	<u>10.60%</u>	<u>10.77%</u>

Note: There exists a Hancock debenture for \$237,000. Since it does not carry an interest cost, it was not included in the calculation for weighted average cost of capital.

**Osage Water Case Nos. WR-2000-557 and SR-2000-556**

	<u>Amount</u>	<u>%</u>	<u>Rate (*)</u>	<u>Weighted Cost</u>
Central Bank of Lake of The Ozarks	\$41,622	16%	10.50%	1.69%
Gregory D. Williams Note	\$105,478	41%	9.25%	3.78%
William P. Mitchell Note	\$99,854	39%	9.25%	3.57%
Note Payable	\$11,437	4%	9.25%	0.41%
Total	<u>\$258,391</u>	<u>100%</u>		<u>9.45%</u>

\* The Central Bank of The Lake of The Ozarks loan rate is the prime rate plus 2%. The prime as of 1/7/2000 was 8.5% as published in the Wall Street Journal, this rate was established on 11/17/99.

Note: There exists a Hancock debenture for \$237,000. However, it does not pay interest. Therefore, it was not included in the calculation of embedded cost of debt, since it does not represent a cost.