

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

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

Exhibit No. _____
Date 3-05-01 Case No. _____
Reporter XE

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

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

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

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

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

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

Q. Does this conclude your testimony?

A. Yes.


OF THE STATE OF MISSOURI

AFFIDAVIT OF RONALD L. BIBLE

Ronald L. Bible, of lawful age, on his oath states: that he has participated in the preparation of the foregoing Direct Testimony in question and answer form, consisting of 3 pages and 2 schedules to be presented in the above case; that the answers in the foregoing Direct Testimony were given by him; that he has knowledge of the matters set forth in such answers; and that such matters are true and correct to the best of his knowledge and belief.

Ronald L. Bible
Ronald L. Bible

Subscribed and sworn to before me this 9th day of February, 2001


 Joyce C. Neuner
 Notary Public
 Notary Public, State of Missouri
 County of Osage
 My Commission Exp. 08/18/2001

My Commission Expires: 08/18/2001

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.