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STATE OF MISSOURI  
PUBLIC SERVICE COMMISSION  
  
TRANSCRIPT OF PROCEEDINGS  
Evidentiary Hearing  
November 5, 2013  
Jefferson City, Missouri  
Volume 3

In the Matter of the )  
Application of Lincoln County )  
Sewer and Water, LLC for ) File No.  
Approval of a Rate Increase ) SR-2013-0321

In the Matter of the )  
Application of Lincoln County )  
Sewer and Water, LLC for ) File No.  
Approval of a Rate Increase ) WR-2013-0322

KENNARD L. JONES, Presiding,  
SENIOR REGULATORY LAW JUDGE.

STEPHEN M. STOLL,  
WILLIAM KENNEY,  
DANIEL Y. HALL,  
COMMISSIONERS.

REPORTED BY:  
KELLENE K. FEDDERSEN, CSR, RPR, CCR NO. 838  
MIDWEST LITIGATION SERVICES

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1 P R O C E E D I N G S

2 (LCSW EXHIBIT NOS. 1 THROUGH 4, OPC  
3 EXHIBIT NOS. 1 THROUGH 3 AND STAFF EXHIBIT NOS. 1  
4 THROUGH 10 WERE MARKED FOR IDENTIFICATION BY THE  
5 REPORTER.)

6 (WHEREUPON, the evidentiary hearing  
7 began at 9:07 a.m.)

8 JUDGE JONES: This is Hearing  
9 No. SR-2013-0321, the evidentiary hearing of small  
10 company rate increase for Lincoln County Water and  
11 Sewer Company.

12 My name is Kennard Jones. I'm the  
13 Regulatory Law Judge presiding over this matter.  
14 Also in attendance with me are Commissioners Bill  
15 Kenney, Commissioner --

16 COMMISSIONER HALL: Daniel Hall.

17 JUDGE JONES: -- Daniel Hall.

18 COMMISSIONER HALL: I'm new.

19 JUDGE JONES: Daniel Hall. As I turn  
20 down my phone volume, I'll remind you all to do the  
21 same. Do either of the Commissioners want to make  
22 a statement?

23 Okay. At this time let's take  
24 entries of appearance, beginning with the company.

25 MR. COOPER: Yes, your Honor. Dean

1 Cooper from the law firm of Brydon, Swearingen &  
2 England, P.C. and Jim Burlison from the law firm of  
3 McIlroy and Millan appearing on behalf of Lincoln  
4 County Sewer and Water, LLC. The court reporter  
5 has the addresses.

6 JUDGE JONES: And Staff of the  
7 Commission.

8 MS. MOORE: Amy Moore and Kevin  
9 Thompson appearing on behalf of the Staff of the  
10 Public Service Commission, P.O. Box 360,  
11 Jefferson City, Missouri 65102.

12 JUDGE JONES: From the Office of the  
13 Public Counsel.

14 MS. BAKER: Thank you, your Honor.  
15 Christina Baker for the Office of the Public  
16 Counsel and the ratepayers, P.O. Box 2230,  
17 Jefferson City, Missouri 65102.

18 JUDGE JONES: I don't believe we have  
19 any prehearing matters, so let's just -- we do?

20 MS. BAKER: Actually, we do.

21 JUDGE JONES: Ms. Baker.

22 MS. BAKER: There were -- as far was  
23 the issues list are concerned, there were some  
24 issues, I believe, that have been removed.

25 MR. COOPER: Ms. Baker, you're

1 referring to the issues that I notified you about?

2 MS. BAKER: Yes.

3 MR. COOPER: Yes. Judge, I think  
4 I -- I sent you an e-mail this morning about those  
5 two issues. That would be Issue No. 3, land  
6 ownership and valuation, and Issue No. 11,  
7 property/liability and insurance.

8 MS. BAKER: And while we're removing  
9 issues, I do want to point out that the last issue,  
10 No. 21 for the EMSU staff recommendations, it seems  
11 like all of the parties are in agreement on that  
12 one.

13 JUDGE JONES: It doesn't seem like an  
14 issue to me.

15 MS. BAKER: So it doesn't seem like  
16 an issue to me.

17 JUDGE JONES: Does everyone agree  
18 with that?

19 MS. MOORE: Staff agrees.

20 JUDGE JONES: Everybody agrees.

21 MR. COOPER: I know of no dispute on  
22 that issue at this point, your Honor. And while  
23 we're kind of doing the same housekeeping, I think  
24 that there's a conversation that will take place  
25 sometime this morning that may allow us to take

1 Issue 20, electricity expense, off the list as  
2 well.

3 JUDGE JONES: We'll wait 'til we get  
4 to that point. Is that it?

5 MS. MOORE: One other thing. Just to  
6 let the Court now and counsel, we have a possible  
7 Staff witness conflict this afternoon. Witness Jim  
8 Merciel has to be out of the office for personal  
9 reasons from between about 1 to 3:30. He is the  
10 witness for capacity adjustments, which I think is  
11 still Issue No. 5. I'm not confident of that.

12 But we will, of course, try to  
13 continue down the list as is ordered right now, but  
14 we wanted to give you a heads up that he may not be  
15 available for a short period of time this  
16 afternoon.

17 JUDGE JONES: Okay. Do you-all  
18 anticipate this going until tomorrow?

19 MS. BAKER: For expediency's sake and  
20 for rate case expense sake, I certainly hope not.

21 MR. THOMPSON: Don't know, Judge, at  
22 this point.

23 MR. COOPER: I'm like Mr. Thompson.  
24 I don't know. I hope not, but I don't know.

25 JUDGE JONES: Does anyone object to

1 taking capacity adjustment out of order if it  
2 appears as though it's going to end up in the  
3 afternoon portion of the hearing?

4 MR. COOPER: No.

5 MS. BAKER: No objection.

6 MR. THOMPSON: No objection.

7 JUDGE JONES: All right. We'll play  
8 that by ear, try to accommodate Mr. Merciel.

9 MS. BAKER: I do have another issue.  
10 See if you want it take it up right now, again for  
11 expediency's sake. Public Counsel does have a  
12 couple of objections to some of the witnesses for  
13 Lincoln County, mainly for the issue -- or for the  
14 witness Mr. Kallash for the meters issue, No. 1,  
15 for the rate base issue, Issue No. 4, and for the  
16 mileage issue, No. 14.

17 And I did want to be on the record  
18 for that objection because we do not believe there  
19 is prefiled testimony that is responsive to those  
20 issue questions.

21 JUDGE JONES: On what authority are  
22 you basing your objection?

23 MS. BAKER: My objection is based on  
24 the fact that he has no prefiled testimony on that  
25 issue. If we want to just add issue -- or add

1 witnesses at random, that's not just and reasonable  
2 and that's not expedient for this particular case.  
3 Just because he may have stated the word meter in  
4 his testimony doesn't mean that he has responsive  
5 testimony to that issue question. And I just  
6 wanted to be on the record for that objection.

7 JUDGE JONES: Well, with regard to  
8 the meter issue, in his rebuttal testimony he says  
9 the reason he filed this rate case is because --  
10 largely because of the meter issue.

11 MS. BAKER: And I agree to that, but  
12 that is not responsive to the questions that are in  
13 front of the Commission, which is how much are the  
14 meters and how much of the meters should go in.

15 JUDGE JONES: Okay. Mr. Cooper, I  
16 anticipate your response.

17 MR. COOPER: Yes. We -- and I guess  
18 in our statement of position we identified the  
19 places on each of those issues where we certainly  
20 believe that Mr. Kallash testifies to those issues.

21 I guess my suggestion for you would  
22 be almost to take this issue backwards, and by that  
23 I mean, when the issue comes up, inquire to see  
24 whether there are any questions of Mr. Kallash. If  
25 there are not, then I think Ms. Baker's objection's



1 probably moot and it probably doesn't matter.

2 JUDGE JONES: That's a good point.

3 Do you agree with that, Ms. Baker?

4 MS. BAKER: I do agree with that  
5 because, again, we're trying to be expedient in  
6 this case.

7 JUDGE JONES: I do want to remind  
8 you, I understand there are evidentiary rules that  
9 have to guide us through this process, but the  
10 Commission is charged with setting just and  
11 reasonable rates, and if the absence of someone's  
12 testimony will hamper that ability, then the larger  
13 goal has to prevail.

14 MS. BAKER: And that's fine. That's  
15 why I just wanted the objection to be put onto the  
16 record in case I need it somewhere down the road.

17 JUDGE JONES: All right. With that,  
18 then, let's start with opening statements,  
19 beginning with the company.

20 MR. COOPER: Good morning.

21 JUDGE JONES: Good morning.

22 MR. COOPER: Owning and operating a  
23 small regulated sewer and water utility is not for  
24 the faint of heart. In addition to the ups and  
25 downs prevalent in all small businesses, you're

1 largely subject to an analysis and regulatory  
2 process that has developed to address the  
3 circumstances surrounding the operations of  
4 utilities such as Laclede Gas Company and its  
5 1.1 million customers, Ameren Missouri and its  
6 1.2 million customers, or even Missouri American  
7 Water Company which has about 500,000 customers.

8                   Lincoln County Sewer and Water, LLC  
9 was granted certificates of convenience and  
10 necessity to provide water and sewer service on  
11 June 27th of 2012. Its tariff sheets became  
12 effective for service for regulated service on  
13 July 20 of 2012.

14                   Lincoln County has two members or  
15 owners, Denise Kallash and his spouse Toni Kallash.  
16 Other than the tasks that must be performed by  
17 their licensed operator, Dennis and Toni perform  
18 all the functions required to make this small  
19 business run.

20                   Lincoln County operates water and  
21 sewer systems in two subdivisions in Lincoln  
22 County, in unincorporated Lincoln County,  
23 Bennington and Rockport. It serves approximately  
24 50 water customers and 51 sewer customers in  
25 Bennington and approximately 72 water and sewer

1 customers in Rockport. These four systems all have  
2 separate rates.

3 At the time Lincoln County received  
4 its certificates, there were no water meters in  
5 place at either Bennington or Rockport. Lincoln  
6 County's customers initially received all the water  
7 they could use for a set price. The installation  
8 of meters was a subject of the Stipulation &  
9 Agreement in the certificate cases.

10 The stipulation set a minimum number  
11 of meters to be installed on an annual basis going  
12 forward. Lincoln County decided to go ahead and  
13 install meters for all customers in a single  
14 project.

15 Doing so allowed the company to bill  
16 all customers for their actual usage and has had  
17 positive effects from a conservation standpoint.  
18 Installing meters for all customers also eliminated  
19 any issues that might have resulted from why  
20 certain customers were or were not selected for  
21 certain phases of the meter installation along the  
22 way.

23 The meter installations took place  
24 over a year ago between July and September of 2012.  
25 The company installed remote read or automated

1 meter reading meters. This is an established  
2 technology that's used in a number of water systems  
3 in Missouri. The meters and meter installations  
4 together cost approximately \$65,565, about half of  
5 which was meters and about half of which was the  
6 parts and installation.

7                   Lincoln County also purchased a meter  
8 reading device at a cost of \$9,438 and paid \$1,500  
9 for the training associated with this device.  
10 These purchases eliminated time and cost that would  
11 have been associated with having someone manually  
12 read 122 meters spread between two systems located  
13 about seven miles apart.

14                   The meters also provide the ability  
15 to determine continuous or intermittent unusual  
16 customer usage such as might be caused by a leak on  
17 the customer's facilities. They can identify  
18 backflow through the meter, produce a 96-day record  
19 of customer usage, among other things, all features  
20 that can and have been advantageous to customers.

21                   Additionally, in order to upgrade and  
22 improve its billing process, the company purchased  
23 a billing program at a cost \$3,745. The billing  
24 program is used to create the company's monthly  
25 bills, track customer payments, track the status of

1 customer accounts, create late notices, calculate  
2 late fees, create disconnect and reconnect orders  
3 and create disconnect letters. Additionally, the  
4 billing program is used as a database for customer  
5 contact info, account history, water usage history,  
6 service locations and meter information, such as  
7 the install date, size, serial number, that sort of  
8 information.

9           The described items represented a  
10 significant investment in the water systems by  
11 Lincoln County and its members. Thus, after the  
12 completion of the purchases and installations,  
13 Lincoln on its own consulted with the Staff's water  
14 and sewer company and then sent a letter to the  
15 Commission initiating small water and sewer rate  
16 cases on December 4th of 2012 in an attempt to  
17 recognize its investment in rate base and rates.

18           In Staff's initial audit as well as  
19 in its direct testimony, Staff took a position that  
20 the full amount of the purchased and installed  
21 items should not be included in the company's rate  
22 base. It was around that time that Lincoln  
23 County -- the time that Lincoln County received the  
24 initial Staff audit that Lincoln County decided to  
25 hire counsel and later a consultant, Mr. Johansen,

1 to assist it in working through this process.

2 We were happy to find in its rebuttal  
3 testimony and in its surrebuttal testimony Staff  
4 testified in support of including the meters, meter  
5 installations and meter reading device in rate  
6 base. In its surrebuttal testimony, Staff also  
7 took the position that the billing program should  
8 be included in rate base.

9 In spite of these Staff positions,  
10 these issues will still be tried today as the  
11 Public Counsel continues to oppose their inclusion  
12 in rate base.

13 A variety of other issues are found  
14 on the list of issues. These issues have varying  
15 impacts on the company's revenue requirement.  
16 However, a general theme that will wind through  
17 these issues is that the company believes the Staff  
18 and/or Public Counsel are taking positions that  
19 ignore the costs Lincoln County incurs and the time  
20 it takes to perform as a regulated water and sewer  
21 utility.

22 One of the more significant issues to  
23 be tried is what compensation to provide related to  
24 the services performed by one of the members,  
25 Dennis Kallash. All of the day-to-day operations

1 and maintenance for the company, from checking the  
2 wells and pumps, performing maintenance on the  
3 sewage treatment plants, inspecting new  
4 connections, responding to service-related customer  
5 calls, being the point of contact for the  
6 Commission and DNR, and many more tasks are  
7 performed by Dennis.

8 He testifies that at a very minimum  
9 he spends 57 hours a month or 684 hours a year on  
10 required operation and maintenance functions.

11 Staff suggests that a flat fee in the amount of  
12 \$7,500 should be added to the revenue requirement  
13 as compensation for these services.

14 The company suggests, on the other  
15 hand, that these hours should be multiplied by an  
16 appropriate hourly rate from the wage data produced  
17 by the Department of Economic Development based on  
18 the tasks performed and Mr. Kallash's experience to  
19 arrive at the appropriate figure to include in the  
20 revenue requirement related to these services.

21 Another major issue in this case  
22 concerns what Staff calls a capacity adjustment.  
23 Staff has reduced Lincoln County's rate base  
24 related to its Rockport well pump, storage tank and  
25 sewer treatment facility based upon the current

1 usage of the system. This is plant that was sized  
2 to meet DNR requirements at the time it was  
3 constructed and is currently providing service to  
4 Lincoln County's customers.

5           If an adjustment is to be made,  
6 Lincoln County witness Johansen proposes an  
7 adjustment based on Lincoln County's DNR permit  
8 that would be more appropriate than the adjustment  
9 proposed by Staff.

10           Another significant issue is the  
11 office space being rented by Lincoln County. In an  
12 effort to separate and distinguish Lincoln County  
13 from the Kallash's other business interests,  
14 Lincoln County rented office space that was known  
15 to the company.

16           This is space that is now occupied by  
17 the company and for which it pays rent and  
18 utilities on a monthly basis. It is located  
19 conveniently close to one of the subdivisions  
20 served by Lincoln County and provides a location  
21 for a payment drop box that is utilized by many of  
22 the company's customers.

23           Because of his association with the  
24 property, Mr. Kallash was able to agree to a rental  
25 amount he knew to be below the rental amount



1 previously charged for this property.

2                   The Staff and Public Counsel,  
3 however, recommend disallowance of a significant  
4 part of this rental amount and the subject  
5 utilities, or at least parts of the utilities,  
6 based on hypothetical rental amounts for properties  
7 that may or may not exist or be available and that  
8 would not have been as convenient for Lincoln  
9 County's customers or operations.

10                   We will address the remaining issues  
11 found in the issues list as we reach them during  
12 the hearing.

13                   In closing, I would state that  
14 Lincoln County has made substantial investments to  
15 move itself forward as a functioning regulated  
16 water and sewer utility. It has spent a  
17 significant amount of time attempting to work its  
18 way through the Commission's rate case process in  
19 an attempt to have those investments recognized in  
20 both its rate base and its rates.

21                   The company requests that the  
22 Commission issue an order that helps establish this  
23 small water and sewer utility as a viable business.

24 Thank you.

25                   JUDGE JONES: Any questions from the

1 Commissioners? Staff. Thank you, Mr. Cooper.

2 MS. MOORE: May it please the  
3 Commission?

4 As you know, Staff's role in all of  
5 this is to recommend to the Commission a position  
6 that balances the needs of the company and the  
7 interests of the customers, and of course, finding  
8 this balance is also your role.

9 What we have here is a case that is a  
10 very good example of the challenge we face. You  
11 see a long list of issues in front of you, and that  
12 list represents a company that is fully advocating  
13 for its interests, a Public Counsel that is fully  
14 advocating for the interests of the consumers, and  
15 Staff trying to find the reasonable middle ground.

16 The difficulty of Staff's and of your  
17 task is illustrated in the first issue on the list.  
18 Counsel for the company mentioned that we are here  
19 mostly because of the investments the company made  
20 in the automated meters and the automated meter  
21 reader technology. This is the company's reason  
22 for requesting a rate increase shortly after  
23 regulated rates were first put -- first set in that  
24 certificate case.

25 Staff's recommendation on this issue

1 is that the company's expense should be recovered  
2 in rates, though we have some strong reservations.  
3 We wonder about the wisdom of incurring such a  
4 large expense for such a small group of customers  
5 when there are so many perfectly good metering  
6 options out there that would have resulted in much  
7 less expense being spread over the small group of  
8 people.

9                   However, we have weighed our economic  
10 reservations against the less easily quantifiable  
11 benefits of the automated meters and in the end  
12 decided that the benefits to the customers and the  
13 company probably outweigh the detriment to the  
14 customers.

15                   What you see Staff asking ourselves  
16 in this issue, and what the Commission must ask  
17 themselves for all the issues we cover today, is  
18 whether decisions that were made were reasonable,  
19 whether costs that were incurred are reasonable,  
20 and in the case of costs Staff had to estimate  
21 based on its knowledge and expertise when  
22 documentation about those costs were not available,  
23 whether these estimates are reasonable.

24                   You're going to hear the word  
25 reasonable a lot today. This gets at the heart of

1 what Staff is trying to do. The difficult -- we  
2 are trying to balance the very serious needs and  
3 concerns of the company with the customers' very  
4 real interest in affordable rates.

5 Now, I'm interested in answering any  
6 questions you have, but one more point before I do  
7 that. There has been in testimony some mention of  
8 the company feeling it was difficult to work with  
9 Staff. I know in the filing of the company's  
10 position statement they said they ran into issues  
11 early on working with Staff.

12 And I don't want to get into a he  
13 said/she said, but I don't think I can let that  
14 pass that Staff has in any way made this ratemaking  
15 process somehow more difficult for this company  
16 than it should be or could be.

17 This company received the usual  
18 consideration that we have to give small companies  
19 in that Staff would go out to their location and  
20 help them dig through records and try to find the  
21 answers to Staff's data requests. For instance --  
22 or when they did that and they were not able to  
23 find the documentation or they met resistance,  
24 Staff would repeatedly explain why we need that  
25 information in order to build rates, why that's

1 necessary.

2                   Staff sent the company letters trying  
3 to fill in the blanks that we have, letters  
4 explaining what it is we have not yet received,  
5 sometimes at the request of the company who was  
6 asking us, what have we given you, what is left to  
7 give you?

8                   In addition to that, Staff asked that  
9 we be given an extension in this case -- that's  
10 part of the reason why this one has gone on so  
11 long -- because there was a gap when the company  
12 could not provide records, and we wanted to give  
13 them the opportunity to have a wide range of data  
14 to give us, and so we adjusted that test year  
15 backward to a later period so that we could  
16 hopefully get the representative data that we  
17 needed.

18                   While Staff understands that being  
19 regulated was never Mr. Kallash's preference, we  
20 cannot adjust our level of review in sympathy. All  
21 we can do is try to get a reasonable reality-based  
22 assessment of the company through whatever means  
23 possible to balance the needs of the company and  
24 the ratepayers.

25                   So I'm not going to go into more

1 detail about the particular issues we're covering  
2 today, except to say that wherever possible the  
3 Staff cannot include costs that are supported only  
4 by memory or guesses.

5                   It's never been staff's intention  
6 that the company would not have an opportunity to  
7 recover its reasonable costs as well as a return on  
8 its investment, even to the point of estimating  
9 costs that we know the company should have incurred  
10 and probably did incur and maybe will incur trying  
11 to find numbers to include in the rates for them.

12                   So with that, if I can help explain  
13 or clarify anything, I will. Either way, thank you  
14 for your time and consideration.

15                   JUDGE JONES: Thank you. Office of  
16 the Public Counsel.

17                   MS. BAKER: May it please the  
18 Commission?

19                   Lincoln County Sewer and Water, LLC  
20 filed this rate case on the heels of a complaint  
21 case and ultimately certificate cases where rates,  
22 a beginning rate base and recordkeeping  
23 requirements were agreed to by the parties, and  
24 that agreement was approved by this Commission.

25                   The earlier cases showed that if a

1 for-profit utility is going to charge for its  
2 services, it must do so under the watchful eye of  
3 the Commission, the Commission Staff and the Office  
4 of the Public Counsel. That is part of doing  
5 business in the state of Missouri. The customers  
6 deserve the protection required under that law.

7           Ratemaking 101 says rates must be  
8 just and reasonable, and that it is the burden of  
9 the company to prove its case. A part of that  
10 burden is to provide documentation to prove the  
11 reasonableness of what the company wants to base  
12 its rates on.

13           In setting just and reasonable rates,  
14 it is not sufficient to merely state that Public  
15 Counsel or Staff got it wrong or that Public  
16 Counsel or Staff were difficult. The company must  
17 provide actual numbers that make up its request and  
18 the documentation to support those numbers.

19           In many of the issues the company  
20 failed to provide documentation, making agreement  
21 impossible. So here we are with an expensive and  
22 timely rate case and still little documentation.

23           A good example of that is in the  
24 meters issue where, subsequent to the certificate  
25 case, Lincoln County purchased state-of-the-art

1 automatic meter reader equipment for its only 122  
2 customers. As a result, the evidence will show  
3 that the company is seeking to recover more than  
4 \$76,000, plus additional money for depreciation,  
5 reserve, return from its customers just for the AMR  
6 system to serve 122 customers.

7                   Additionally, Lincoln County is  
8 requesting to recover almost \$4,000 plus  
9 depreciation expense and taxes for a billing system  
10 add-on package just for that AMR system.

11                   In comparison, the evidence will show  
12 that the cost of -- I'm sorry. The cost for  
13 non-automated meters, which all but the largest --  
14 which mostly all but the largest water systems in  
15 Missouri routinely utilize, would be \$35,800, plus  
16 a relatively smaller depreciation, reserve and  
17 return.

18                   Even adding in the cost for a meter  
19 reader, the evidence is clear that the AMRs are  
20 almost double the cost for the customers. As a  
21 result, even Staff has noted its concerns regarding  
22 the economics of the use of the AMR system in a  
23 small water system versus a manual read meter.

24                   As was stated in Staff's opening  
25 statement, they came to the decision because the



1 benefits probably outweigh the costs. That word  
2 probably is very important. In a situation where  
3 we are in a rate case, where it is the burden of  
4 the company to prove that its numbers are just and  
5 reasonable, probably doesn't cut it. Probably  
6 shows that the company has not met that burden to  
7 show that the benefits outweigh the costs. If even  
8 Staff cannot say that they were given that  
9 documentation, then the company has not met its  
10 burden.

11 In an attempt to justify the  
12 extravagant costs of the AMR system, the company  
13 and Staff point to some potential benefits as  
14 probably having advantages. They say that some of  
15 these potential benefits include the ability to  
16 determine unusual customer usage, ability to  
17 identify back flow, ability to have a 96-day record  
18 of usage, ability to identify days of no usage.

19 But again, it's the ability to do  
20 that. There is no documentation from the company,  
21 and certainly Staff has stated that they have seen  
22 no documentation, that that ability has been  
23 actually put into use.

24 Without documentation that the AMRs  
25 are actually being utilized in such a way to

1 justify the costs, the company cannot meet its  
2 burden that the added costs are just and reasonable  
3 and should be borne by the ratepayer.

4 As compared to the non-automated  
5 meter costs, the excessive costs associated with  
6 the automated meter reading system are unnecessary  
7 for the provision of safe and adequate water  
8 service. It is an extravagant investment. It is  
9 gold plating by the company, and it is an  
10 investment that the customers of such a small  
11 utility system should not be asked to bear.

12 Therefore, the Commission should only  
13 authorize the costs for non-automated meter readers  
14 as just and reasonable in this case.

15 Another situation where there is an  
16 issue of discontent for Public Counsel is in the  
17 issue of depreciation rates for a fully depreciated  
18 pump in the Bennington system. The evidence will  
19 show that the company and Staff are advocating for  
20 continuing a 6.6 percent depreciation rate for a  
21 fully depreciated pump.

22 Similarly, Staff and the company are  
23 advocating for no adjustment to the accumulated  
24 depreciation reserve to account for that fully  
25 depreciated pump. Staff utilizes a general set of

1 depreciation rates for systems such as Lincoln  
2 County rather than performing a depreciation study  
3 for every single case. These general depreciation  
4 rates are normally agreed to by the parties and  
5 rates are set based on them. When plant is  
6 depreciated, rates are lowered to reflect the fully  
7 depreciated plant.

8                   However, in this case Staff has  
9 tweaked its general depreciation rate to try to  
10 continue a depreciation rate for the single piece  
11 of plant that is already fully depreciated. The  
12 result is customers are being asked to continue to  
13 pay through rates for a plant that has been fully  
14 just -- that has been fully depreciated.

15                   This is not just and reasonable. The  
16 depreciation rate for the depreciated plant should  
17 be set to zero. Also, the accumulated depreciation  
18 reserve balance of that submersible pump should be  
19 set at an amount of \$39,356 to reflect the fully  
20 depreciated value.

21                   On the issue of office rent, office  
22 utilities, the company is requesting a total of  
23 \$13,200 per year for rent and utilities for office  
24 space in a building that, as Mr. Cooper stated, was  
25 known to the company. Of course it was known to

1 the company. It is owned by an affiliate of  
2 Mr. Kallash, who is the owner of Lincoln County  
3 Sewer and Water. If it's owned by the affiliate,  
4 it is most certainly known by the company.

5 The evidence will show that under the  
6 current lease structure, the cost for Lincoln  
7 County could amount to as much as \$17,000 annually  
8 when ancillary expenses are included. This is  
9 based on a rental structure that is set up by  
10 Mr. Kallash for his own two companies as costs that  
11 pass between them.

12 This is an inappropriate financial  
13 burden for the company's customers to bear in rates  
14 for office expenses. The evidence will show that,  
15 based on the square feet of the current office  
16 space actually utilized by Lincoln County and  
17 research regarding rental rates per square foot for  
18 similar office rentals in Troy, Missouri, that  
19 Lincoln County should be allowed to recover an  
20 annualized rent of \$5,227.92.

21 The evidence will also show that it's  
22 just and reasonable for various utilities to be  
23 added, such as 900 per year for electricity  
24 expenses, \$180 per year for water expenses and  
25 sewer expenses as well.

1 Under the issue of salaries, which  
2 has been mentioned this morning, the company is  
3 requesting a management salary of \$29,193.12 per  
4 year plus salary for testing time for Dennis  
5 Kallash, and is also requesting a salary of  
6 \$17,236.44 per year, subject to the billing expense  
7 issue, for Mrs. Kallash.

8 As with so many of company's  
9 requests, documentation is hard to find. No  
10 explanation has been given as to why, with no major  
11 changes in its operations, the salaries agreed to  
12 in the certificate cases and updated for current  
13 customer counts are not just and reasonable merely  
14 a year later. Detailed time sheets have not been  
15 provided, even though they have been asked for  
16 several times.

17 Each of these requests also include  
18 an amount of employee payroll tax even though the  
19 evidence shows that Mr. and Mrs. Kallash are owners  
20 of the LLC, not employees, and therefore do not  
21 even pay employee tax.

22 The evidence will show that, based on  
23 a lack of detailed time sheets, no major changes in  
24 its operation and only a small increase in customer  
25 numbers since its last cases in 2012, it is just

1 and reasonable for Lincoln County to recover an  
2 annualized management salary of \$8,240 for  
3 Mr. Kallash and an annualized salary of \$6,592 for  
4 Mrs. Kallash.

5           There are other issues that were --  
6 that are here today for us to spend our time on,  
7 and these myriad of issues really come down to a  
8 lack of documentation to support them. No detailed  
9 time sheets, no detailed vehicle logs, no proof of  
10 company income tax burden, no proof of sludge  
11 hauling cost, et cetera. Without this  
12 documentation, the company cannot meet its burden  
13 to prove that the costs it proposes to put into  
14 rates are just and reasonable.

15           And other issues like rate base, the  
16 company has apparently decided now that it felt  
17 like changing its mind after making an agreement in  
18 the certificate cases which was approved by this  
19 Commission. This is certainly not just and  
20 reasonable.

21           And we come to the biggest elephant  
22 in the room today, which is rate case expense.  
23 Here we are, once again, in a small rate case  
24 having a full evidentiary hearing. Not only is the  
25 company expecting the ratepayers to pay the expense

1 of an attorney and an expert, but now, like  
2 deja vu, its second attorney has been sprung on the  
3 Commission and the parties just the day before the  
4 hearing with his bill in hand for the ratepayers to  
5 pay.

6 No one can argue that rate case  
7 expense is getting out of hand and certainly within  
8 these small rate case systems, and it is becoming a  
9 very expensive trend. Lincoln County added a  
10 second attorney the day before the evidentiary  
11 hearing to go along with its first attorney,  
12 Mr. Cooper, and its paid consultant, Mr. Johansen.

13 For months as we have come up with  
14 what the reasonable cost would be for this system,  
15 we have dealt with Mr. Cooper and Mr. Johansen, and  
16 it is expected that those -- those rate case  
17 expense would go into this case, but then all of a  
18 sudden, as has happened really just this summer,  
19 Mr. Cooper and Mr. Johansen apparently cannot  
20 handle everything themselves and a second attorney  
21 has been added at the last minute.

22 And while it is true that a company  
23 has the right to hire as many attorneys as it  
24 wishes for an evidentiary hearing, it is not true  
25 that the company has a right to expect the

1 ratepayers to pay for such unnecessary  
2 extravagance. Having two attorneys is merely gold  
3 plating, especially for a system with only 122  
4 customers. It is not just and reasonable to expect  
5 customers to pay these costs.

6 Rate case expense should not be just  
7 rubber stamped by the Commission. The Commission  
8 has the discretion to say that enough is enough and  
9 that customers need to be protected. The  
10 Commission needs to make a statement that the rate  
11 case expense in rates should be kept to the bare  
12 minimum. If additional attorneys are desired by  
13 the company, the company should be responsible for  
14 these costs, not the ratepayers. Only just and  
15 reasonable rate case expense should be allowed by  
16 the Commission.

17 Public Counsel's position on this  
18 issue was that just and reasonable rate case  
19 expense through the evidentiary hearing based on a  
20 three-year normalization and updated to the  
21 evidentiary hearing date is reasonable. However,  
22 that position was based on the costs of one  
23 attorney and one expert.

24 Given the surprise request by the  
25 company that the extravagant costs for a second



1 attorney should be borne by the ratepayers, Public  
2 Counsel now has changed its position to request a  
3 five-year normalization for these costs. This  
4 change of position is just and reasonable given the  
5 normal amount of time between rate cases and the  
6 need to keep rates as low as possible.

7 Thank you very much.

8 JUDGE JONES: Thank you. Okay.

9 Let's go right into witnesses. Company, call your  
10 first witness.

11 MR. COOPER: We would call Mr. Dale  
12 Johansen.

13 (Witness sworn.)

14 JUDGE JONES: Thank you, sir. You  
15 may be seated.

16 DALE JOHANSEN testified as follows:

17 DIRECT EXAMINATION BY MR. COOPER:

18 Q. Please state your name.

19 A. Dale Johansen.

20 Q. By whom are you employed and in what  
21 capacity?

22 A. I am the owner/manager of Johansen  
23 Consulting Services, LLC, and for the purposes of  
24 this case I've been retained by Lincoln County  
25 Sewer and Water.

1           **Q.**     Have you caused to be prepared for  
2     the purposes of this proceeding certain direct and  
3     surrebuttal testimony in question and answer form?

4           A.     Yes.

5           **Q.**     Is it your understanding that that  
6     testimony has been marked as Exhibits LCSW 1 and  
7     LCSW 2 for identification?

8           A.     Yes.

9           **Q.**     Any changes that you would like to  
10    make to that testimony at this time?

11          A.     I have just a couple of very minor  
12    things. In my direct testimony -- and my  
13    references are going to be to how my copy printed  
14    out -- on page 13, line 16 and 17, there are  
15    references to 209 customers on both of those lines,  
16    and that should be changed to 210.

17                   And in conjunction with that, on  
18    page 14 on line 5, the number 65.55 percent should  
19    be changed to 65.71. And then that same change  
20    needs to also be made on line 6. That's it.

21          **Q.**     Those are all the change you have?

22          A.     Yes.

23          **Q.**     If I were to ask you the questions  
24    which are contained in Exhibits LCSW 1 and LCSW 2  
25    today, would your answers as now amended be the

1 same?

2 A. Yes, they would.

3 Q. Are those answers as amended true and  
4 correct to the best of your information, knowledge  
5 and belief?

6 A. Yes, they are.

7 MR. COOPER: Your Honor, I would  
8 offer Exhibits LCSW 1 and LCSW 2 into evidence and  
9 tender Mr. Johansen for cross-examination.

10 JUDGE JONES: Any objection?

11 (No response.)

12 JUDGE JONES: Hearing none, Exhibits  
13 LCSW 1 and LCSW 2 are admitted into the record.

14 (LCSW EXHIBIT NOS. 1 AND 2 WERE  
15 RECEIVED INTO EVIDENCE.)

16 JUDGE JONES: And I believe  
17 cross-examination will begin Staff.

18 MS. MOORE: Thank you, Judge.

19 CROSS-EXAMINATION BY MS. MOORE:

20 Q. Good morning, Mr. Johansen.

21 A. Good morning.

22 Q. Just a couple of questions. On the  
23 subject of what to do if the meters are not  
24 included in rates, I believe your testimony is that  
25 the cost of a meter reader should be included; is

1     **that correct?**

2             A.     Yes, ma'am.

3             **Q.     And I believe the cost that you**  
4     **suggest is 2.75 per meter per month; is that**  
5     **correct?**

6             A.     Yes, ma'am.

7             **Q.     And is that based on a bid that the**  
8     **company received?**

9             A.     Yes, it is.

10            **Q.     Was that bid in writing?**

11            A.     Yes.

12            **Q.     And was that received from a**  
13    **professional meter reader?**

14            A.     Yes.

15            **Q.     Did the company receive any other**  
16    **bids?**

17            A.     Not that I'm aware of.

18                    MS. MOORE: Thank you. No other  
19    questions.

20                    JUDGE JONES: Any questions from the  
21    Bench? I have a couple of questions.

22    QUESTIONS BY JUDGE JONES:

23            **Q.     Mr. Johansen, were you working with**  
24    **Mr. Kallash before he purchased the meters?**

25            A.     No, sir.

1           **Q.     Had you been working with him before**  
2 **he purchased the meters, would you have advised**  
3 **that he do so? I realize that's speculative but --**

4           MS. BAKER: I have no objection to  
5 that question.

6           THE WITNESS: Possibly. I mean, it  
7 just depends on, you know, what other -- what  
8 information was available at the time and, you  
9 know, there would have to -- I would have probably  
10 done some kind of an evaluation from a cost  
11 standpoint and based a recommendation on that.

12 BY JUDGE JONES:

13           **Q.     Did you participate in the agreement**  
14 **back in the certificate case?**

15           A.     I did not.

16           JUDGE JONES: Okay. I'll save  
17 anything else for Mr. Kallash. Let's see. Any  
18 recross based on my questions? Any redirect?

19           MS. BAKER: Now, wait a minute. I  
20 get a chance to ask questions.

21           JUDGE JONES: I'm sorry.

22           THE WITNESS: Darn.

23           MS. BAKER: I know, you're so sad.

24           MR. THOMPSON: You want a turn?

25           MS. BAKER: I do want a turn, yes.

1 JUDGE JONES: Go right ahead.

2 CROSS-EXAMINATION BY MS. BAKER:

3 Q. Good morning, Mr. Johansen.

4 A. Good morning.

5 Q. It's very unclear from your testimony  
6 or from the position of the company, on the issue  
7 of the question 1B, if the automated meter costs  
8 are not included in rates, what amount of  
9 non-automated meter purchase, installation,  
10 operation and maintenance costs should be included  
11 in rates? What is the number that the company is  
12 advocating for that issue?

13 A. Well, it -- I don't have an exact  
14 number.

15 Q. And when Ms. Moore asked you about  
16 the bill for the meter reader cost, she asked you  
17 did you seek -- or did you get that bill in  
18 writing. Was that bill -- or was that bid provided  
19 to the parties?

20 A. I believe it was, but let me check  
21 one document here. It was provided I know to the  
22 Staff in response to their DR No. 9 to the company.  
23 I believe I provided that to OPC as well.

24 Q. Did the company seek any other bids  
25 besides that one?

1 A. Not that I am aware of.

2 Q. In your experience, isn't it prudent  
3 to seek more than one bid? Yes or no.

4 A. Yes.

5 MS. BAKER: And I will jump into a  
6 redirect question, if that's all right with you.

7 JUDGE JONES: That's fine.

8 BY MS. BAKER:

9 Q. Or recross. I'm sorry. A recross  
10 question. Recross. You were asked about would you  
11 have recommended the automated meters. Certainly  
12 one of the things that you would take into account  
13 is the fact that the automated meter readers cost  
14 twice as much; isn't that correct? Is that  
15 something you would take into account?

16 A. I would take into account the cost.

17 Q. And you would certainly note that's  
18 something that cost twice as much?

19 A. I don't know that for certain.

20 Q. You wouldn't --

21 A. It would not surprise me.

22 Q. You would also note how many  
23 customers there are to be served by these automated  
24 meters in your analysis, yes?

25 A. Well, that would be noted, yes.

1 MS. BAKER: I have no further  
2 questions.

3 JUDGE JONES: Any questions from the  
4 Commissioners? And redirect.

5 MR. COOPER: Thank you, your Honor.

6 REDIRECT EXAMINATION BY MR. COOPER:

7 Q. You were asked by Ms. Moore about how  
8 you calculated the meter reading expense that would  
9 be an alternative to the inclusion of the -- of the  
10 AMR meters in rate base. She talked about the  
11 2 point -- or the \$2.75 per meter reading charge,  
12 correct?

13 A. Yes.

14 Q. Can you tell us the rest of your  
15 calculation or explain to us the rest of your  
16 calculation for meter reading expense in the  
17 absence of these remote read meters?

18 A. I'm trying to refer to my testimony,  
19 see if I discussed anything in particular in there  
20 first. The basic difference would be the cost of  
21 having someone manually read the meters. There  
22 would likely be some -- or there might be -- there  
23 might be some additional costs related to how those  
24 meter readings are then taken and put into the  
25 billing program. But other than that, I think the



1 main portion of the cost would be the actual  
2 reading of the meters.

3 Q. And did you -- so you multiplied, I  
4 assume, what times the 2.75?

5 A. The 122 customers.

6 Q. On a monthly basis?

7 A. Correct.

8 Q. You were asked by Judge Jones about  
9 whether you would advise Mr. Kallash to purchase  
10 the remote read meters, correct?

11 A. Yes.

12 Q. And I think you explained that you  
13 weren't working for Mr. Kallash at that time,  
14 correct?

15 A. That's correct.

16 Q. However, would you agree that these  
17 meters are successfully used in other systems in  
18 Missouri?

19 A. Yes, they are.

20 Q. It's a technology that's used in many  
21 systems around the state, correct?

22 A. Correct.

23 Q. And do you believe there are any  
24 advantages to this technology over a standard  
25 meter?

1           A.     Well, I think there's several  
2     advantages, and I think some people have referred  
3     to them as intangible benefits. But there  
4     certainly are advantages from the standpoint of the  
5     type of information that the meter records, and I  
6     think several of those were discussed in the  
7     testimony.

8           **Q.     Have you -- have you seen any**  
9     **specific examples of where some of that technology**  
10    **was used to help Lincoln County's customers?**

11          A.     We provided again, I believe in  
12    response to Staff DRs -- and I'll have to find the  
13    appropriate number here. It was in response to  
14    Staff DR No. 5, we provided two examples of  
15    problems that were with apparent customer usage,  
16    high usage levels that were identified by the  
17    meters, by the meter readings that were taken.

18                 And that, in conjunction with other  
19    information that was available because of the type  
20    of information that was recorded by the meters, the  
21    company was able to identify problems for, and we  
22    gave examples of two customers where they had high  
23    usage, the company because of the information that  
24    was available through the meter readings was able  
25    to help the customer identify problems on their

1 facilities and get significant leakage issues  
2 corrected.

3 Q. You asked -- you answered a question  
4 from Ms. Baker about whether other bids for the  
5 meter reading were sought. Did you have any -- did  
6 you participate at all in that process?

7 A. No.

8 Q. So would you have -- would you know  
9 whether there were other bids sought?

10 A. No.

11 Q. You were asked by Ms. Baker about  
12 what should be included in rates, I assume rate  
13 base, in the absence of the remote read -- or  
14 remote read meters, correct?

15 A. Yes.

16 Q. In your testimony I believe you  
17 make -- well, let me back up.

18 The costs that Lincoln County  
19 incurred are split into meters on one hand and then  
20 parts and installation on the other, correct?

21 A. Correct.

22 Q. And I think Staff has made a  
23 recommendation or OPC at this point has made a  
24 recommendation as to what amounts to include in  
25 rate base in the absence of the remote read meters,

1 correct?

2 A. Yes.

3 Q. And I think in your testimony you  
4 compare those -- you compare the total amount of  
5 what OPC is recommending to the parts and  
6 installation that was actually incurred, correct?

7 A. Yes.

8 Q. And what's the significance of that  
9 comparison?

10 A. Well, the total amount that the Staff  
11 had originally proposed to be included, and which I  
12 believe is the amount that Public Counsel is  
13 supporting, even with the cost of the meters  
14 included barely covered the cost of the  
15 installations themselves.

16 So there would certainly need to be  
17 additional consideration given to the cost of an  
18 alternative meter that was available over and above  
19 the costs that are -- that Public Counsel is  
20 supporting.

21 Q. Is that because the installation  
22 process for those two types of meters would be  
23 largely similar?

24 A. Yes.

25 MR. COOPER: That's all the questions

1 I have, your Honor.

2 JUDGE JONES: Okay. Thank you.

3 QUESTIONS BY COMMISSIONER HALL:

4 Q. Good morning.

5 A. Good morning.

6 Q. Counsel for Public Counsel has stated  
7 that the cost for a manual read system would be  
8 about half the cost of the smart meters, about  
9 \$36,000. Do you agree with that?

10 A. Not without doing some research as to  
11 what alternative meters actually cost. The -- and  
12 as I just mentioned in response to some of  
13 Mr. Cooper's questions, the cost of the  
14 installations themselves separate from the meter  
15 cost was nearly equal to the cost, the total cost  
16 that Public Counsel is proposing is appropriate.

17 So I think there would have to be  
18 consideration given to the actual cost of a type  
19 of -- of some type of meter different than the  
20 remote read meters that were installed to come up  
21 with an appropriate number.

22 Q. And you have not done that analysis?

23 A. I have not.

24 COMMISSIONER HALL: Okay. Thank you.

25 JUDGE JONES: Any questions based on

1 questions from the Bench? Okay.

2 MR. COOPER: Yes, your Honor. Just  
3 one more thing.

4 FURTHER REDIRECT EXAMINATION BY MR. COOPER:

5 Q. Following up on that, Mr. Johansen --

6 MR. COOPER: Well, let me make sure  
7 there's no, I guess, recross based upon that  
8 question.

9 JUDGE JONES: Doesn't appear to be.

10 BY MR. COOPER:

11 Q. Okay. Mr. Johansen following up on  
12 that, and I think this continues on our earlier  
13 discussion, half the cost of what was incurred by  
14 Lincoln County was the installation part of the  
15 process, correct?

16 A. That's basically correct, yes.

17 Q. So if you assume that you've got to  
18 install standard meters as well, you've got to add  
19 the cost of those standard meters to that  
20 installation cost to come up with some alternative,  
21 correct?

22 A. Yes.

23 Q. And that gets you, just by sheer  
24 math, no matter what the cost of those meters are,  
25 it's going to be more than half the cost of what

1     **was incurred by Lincoln County?**

2             A.     I believe so, yes.

3             MR. COOPER:   That's all the questions  
4     I have.

5             JUDGE JONES:   Okay.   Thank you.   You  
6     may step down.   Call your next witness, Mr. Cooper.

7             MR. COOPER:   Judge, we would call  
8     Mr. Kallash at this time.

9             (Witness sworn.)

10    DENNIS KALLASH testified as follows:

11    DIRECT EXAMINATION BY MR. COOPER:

12             **Q.     Please state your name.**

13             A.     Dennis Kallash, K-a-l-l-a-s-h.

14             **Q.     And what's your connection to Lincoln  
15    County Sewer and Water, LLC?**

16             A.     I'm a member.

17             **Q.     Have you caused to be prepared for  
18    the purposes of this proceeding certain rebuttal  
19    and surrebuttal testimony in question and answer  
20    form?**

21             A.     Yes, sir.

22             **Q.     Is it your understanding that that  
23    testimony has been marked as Exhibits LCSW 3 and  
24    LCSW 4 for identification?**

25             A.     Yes, sir.

1 Q. Do you have any changes that you  
2 would like to make to that testimony at this time?

3 A. No, sir.

4 Q. If I were to ask you the questions  
5 which are contained in Exhibits LCSW 3 and LCSW 4  
6 today, would your answers be the same?

7 A. Yes, sir.

8 Q. Are those answers true and correct to  
9 the best of your information, knowledge and belief?

10 A. Yes, sir.

11 MR. COOPER: Your Honor, I would  
12 offer Exhibits LCSW 3 and LCSW 4 into evidence and  
13 tender the witness for cross-examination.

14 JUDGE JONES: Any objections?

15 (No response.)

16 JUDGE JONES: LCSW 3 and LCSW 4 are  
17 admitted into the record.

18 (LCSW EXHIBIT NOS. 3 AND 4 WERE  
19 RECEIVED INTO EVIDENCE.)

20 JUDGE JONES: Cross-examination  
21 beginning with Staff.

22 MS. MOORE: Good morning,  
23 Mr. Kallash.

24 THE WITNESS: Good morning.

25 MS. MOORE: I don't have any



1 questions for you right now, but perhaps later.

2 Judge, I don't have any questions.

3 JUDGE JONES: You don't have any  
4 questions on the issue of meters?

5 MS. MOORE: No, sir.

6 JUDGE JONES: Office of the Public  
7 Counsel?

8 MS. BAKER: No questions on this  
9 issue.

10 JUDGE JONES: Commission? I have a  
11 couple of questions for Mr. Kallash.

12 QUESTIONS BY JUDGE JONES:

13 Q. In the certificate case there was an  
14 agreement whereby you agreed to install a certain  
15 number of meters per year over time. Do you recall  
16 what I'm talking about?

17 A. Yes.

18 Q. What was the purpose of spreading  
19 that cost out over time?

20 A. When my lawyer talked to me and they  
21 said that -- they said we had to put a minimum of  
22 six meters in and a minimum of five in Bennington  
23 and minimum of six. It didn't say we had to spread  
24 them out over time. It said that was the minimum  
25 in the Stipulation & Agreement.

1 I made Staff aware that I was going  
2 to put them all in from the very first meeting that  
3 I had from the very first get-go.

4 Q. Oh, so Staff was aware of that, is  
5 what you're saying, at the time of the agreement?

6 A. Yes.

7 Q. Okay. Was the Office of Public  
8 Counsel aware of that at the time of the agreement?

9 A. I don't know, sir.

10 Q. When you--all spoke of meters, did you  
11 contemplate automated meters?

12 A. Not at first, sir.

13 Q. So it wasn't discussed in the context  
14 of the agreement?

15 A. No.

16 JUDGE JONES: Okay. That's all I  
17 have. Is there any Commission?

18 COMMISSIONER W. KENNEY: Yeah. I'm a  
19 little confused. Not by you. I'm confused by  
20 myself. Regarding the -- Judge, maybe you can  
21 answer this. On the records request, a lot of  
22 information was -- I know Mrs. Hanneken said  
23 Staff -- that some documentation was destroyed.  
24 Was that part of the meter information, too?

25 JUDGE JONES: I don't know.

1                   COMMISSIONER W. KENNEY: I wonder if  
2 that dealt with meters, the fact that we had  
3 information that was destroyed, records.

4                   MS. MOORE: I'm not certain I could  
5 answer that question, but I know that Ms. Hanneken  
6 will be available later.

7                   COMMISSIONER W. KENNEY: Okay. I'll  
8 wait then. Thank you.

9                   JUDGE JONES: Any recross based on my  
10 questions?

11                   MS. MOORE: Yes, Judge, I do have  
12 one.

13 RECROSS-EXAMINATION BY MS. MOORE:

14                   **Q. And this is just for clarification,**  
15 **to make sure I understood the question and the**  
16 **answer that the Judge asked you. Is your testimony**  
17 **that back when we were all involved in the**  
18 **certificate case and we came to that Stipulation &**  
19 **Agreement, that you believe you notified Staff at**  
20 **that time that it was your intention to put in all**  
21 **of the meters at once?**

22                   A. Yes, ma'am.

23                   MS. MOORE: Okay. No questions.

24                   JUDGE JONES: Any redirect?

25                   MR. COOPER: Yes, your Honor.

1 Mr. Kallash --

2 JUDGE JONES: Just a moment. Go  
3 right ahead. Sorry, Mr. Cooper.

4 REDIRECT EXAMINATION BY MR. COOPER:

5 Q. Why was it important to you to put  
6 all the meters in at once?

7 A. Two reasons. When PSC first  
8 contacted me back before we ever did the rate case  
9 or anything, we went in and talked to them. There  
10 was people leaving water on and going to  
11 ballgames. I went out one night and shut off 22  
12 hydrants that people had water running down the  
13 street. We was in a drought year, and there was  
14 real concerns with DNR because the water was at a  
15 set rate.

16 So when the first time before  
17 Mr. Cooper was involved, when me and my lawyer,  
18 Jim Burlison, went to meet with Staff, and I don't  
19 know if OPC was there, but Staff was at the  
20 meeting, we said we want to put all the meters in  
21 right up front before we ever got regulated so we  
22 could see what the usage was. They said that was a  
23 good ideal (sic).

24 Mr. Burlison then wrote all the  
25 people in the subdivision a letter stating that the

1 meters would all be put in before we even got  
2 regulated. People started calling -- people in the  
3 subdivision started calling Staff and OPC, said  
4 they didn't want meters. Now --

5 MS. BAKER: Objection, your Honor.  
6 He's going way beyond the question that was being  
7 asked, which were just what details, specific  
8 details went into his decision.

9 JUDGE JONES: Well, this is part of  
10 his decision-making process then. That's a pretty  
11 broad base of details.

12 MS. BAKER: And he's going very broad  
13 in his details.

14 JUDGE JONES: Then you agree with me.  
15 That objection is overruled. You may continue,  
16 Mr. Kallash.

17 THE WITNESS: Okay. So we sent --  
18 Mr. Burlison sent a letter, and some people started  
19 calling the Public Service Commission and the  
20 Attorney General. So then they decided to wait  
21 until we got a certificate case and then we could  
22 put them in.

23 The minute we got certificate case,  
24 we started putting the meters in in August,  
25 September. I called Mr. Merciel several times and

1 talked to him. I even explained that the cost on  
2 August 19th was going to be more than the \$500, and  
3 he said he pulled it out of thin air, just to come  
4 in for a rate case as soon as we got done.

5 That's why when we got all the meters  
6 installed, I talked to Jim Russo, and some things  
7 came up in November around Thanksgiving and we  
8 didn't get to put in for the rate case until  
9 December 4th. And that's how that all transpired.

10 BY MR. COOPER:

11 **Q. Would the minimum number of meter**  
12 **installations that was included in the stipulation**  
13 **have provided you at least the potential of some**  
14 **leeway if you had chosen to put in fewer?**

15 A. If the bank wasn't going to loan me  
16 the money to put them in, but then they only  
17 allowed \$1.50 -- I think that number's correct --  
18 on reading them.

19 And I -- the meter readers I talked  
20 to, nobody would go read five in one subdivision  
21 and go ten miles and read six in another one for  
22 10, \$15. Nobody would do it. And that's why we  
23 didn't go that -- there's no way we could go that  
24 route. We would have lost big time.

25 MR. COOPER: That's all the questions

1 I have at this time.

2 JUDGE JONES: Okay. Thank you. You  
3 may step down.

4 THE WITNESS: Thank you.

5 JUDGE JONES: I'm assuming because of  
6 the way this issue list is presented we're doing  
7 this issue by issue rather than witness by witness?

8 MR. THOMPSON: That's correct, Judge.

9 JUDGE JONES: Okay. Staff, call your  
10 first witness.

11 MS. MOORE: Staff calls Lisa  
12 Hanneken.

13 (Witness sworn.)

14 JUDGE JONES: Thank you. You may be  
15 seated.

16 LISA HANNEKEN testified as follows:

17 DIRECT EXAMINATION BY MS. MOORE:

18 Q. Would you please state your full name  
19 for the record.

20 A. Lisa Hanneken.

21 Q. Where are you employed and in what  
22 capacity?

23 A. I'm employed with the Missouri Public  
24 Service Commission as a Utility Regulatory Auditor.

25 Q. Are you the same Lisa Hanneken who

1 prepared or caused to be prepared the testimony  
2 that's been marked as Exhibit Staff 1?

3 A. Yes.

4 Q. You also have Staff 8?

5 A. Yes.

6 Q. And are you also the Staff member who  
7 sponsored the Staff Accounting Schedules that were  
8 submitted on August 22nd marked Staff 2A, B, C and  
9 D?

10 A. Yes.

11 Q. And also the Revised Staff Accounting  
12 Schedules that are marked as Staff 10A, B, C and D?

13 A. Yes.

14 Q. Okay. Do you have anything you wish  
15 to correct in that testimony?

16 A. Not the testimony itself, no.

17 Q. Accounting schedules?

18 A. Yes. There have been subsequent  
19 revisions, which I believe all the parties are  
20 aware of, regarding electricity expense and rate  
21 case expense.

22 MS. MOORE: Judge, we've had some  
23 printing difficulties this morning. The copies of  
24 the Revised Accounting Schedules are on their way  
25 down. We do not have them at this moment. When we



1 do have them, we'd like to mark them as Staff 11.

2 JUDGE JONES: We'll just supplement  
3 the record at a break.

4 MS. MOORE: Thank you, Judge.

5 BY MS. MOORE:

6 Q. So with those updates to the  
7 Accounting Schedules in mind, if asked the same  
8 questions today, would your answers be the same?

9 A. Yes.

10 Q. And is the information in those  
11 documents true and correct to the best of your  
12 knowledge and belief?

13 A. Yes.

14 MS. MOORE: Your Honor, Staff offers  
15 Exhibits Staff 1, Staff 8, Staff 2A, B, C and D,  
16 and Staff 10A, B, C and D and tenders the witness  
17 for cross.

18 JUDGE JONES: Any objection to any of  
19 those exhibits?

20 (No response.)

21 JUDGE JONES: Staff Exhibit 1, Staff  
22 Exhibit 2A, B, C and D, Staff Exhibit 8 and Staff  
23 Exhibits 10A, B, C, D are admitted into the record.

24 (STAFF EXHIBIT NOS. 1, 2A, 2B, 2C,  
25 2D, 8, 10A, 10B, 10C AND 10D WERE RECEIVED INTO

1 EVIDENCE.)

2 JUDGE JONES: OPC, do you have some  
3 cross?

4 CROSS-EXAMINATION BY MS. BAKER:

5 Q. Good morning, Ms. Hanneken.

6 A. Good morning, Ms. Baker.

7 Q. Did you participate in the  
8 certificate case for this company in 2012?

9 A. Yes, I did.

10 Q. And you heard the testimony and some  
11 of the questions that have come up this morning  
12 about an agreement within that certificate case for  
13 the company to put in a certain number of meters  
14 per year; is that correct?

15 A. Yes.

16 Q. And so is it your understanding that  
17 the rates that were set in the certificate case did  
18 include a certain amount of cost for those meters?

19 A. Yes.

20 MR. COOPER: I object, your Honor. I  
21 think the Stipulation & Agreement in that case can  
22 speak for itself.

23 MS. BAKER: I'm trying to find out  
24 what has been paid and what has not been paid and  
25 how much they should get paid now.

1 JUDGE JONES: Your objection is  
2 redundancy, but it's okay to have this in the  
3 record right now. Be convenient for us later when  
4 we're reviewing. Objection is overruled. Proceed.

5 MS. BAKER: Thank you.

6 BY MS. BAKER:

7 Q. Do you remember the question?

8 A. Go ahead and repeat it.

9 Q. Okay. Did the rate -- the current  
10 rates for the company include a certain amount of  
11 costs for meter installations?

12 A. There were actually two sets of rates  
13 included in the tariffs, one for a non-metered rate  
14 and one for a metered rate. So as the customers  
15 were becoming metered, then they would then get the  
16 metered rate. And those did take into account the  
17 costs involved with metering those customers.

18 Q. Okay. So since the rates have been  
19 in place about a year or so, and even through the  
20 evidentiary hearing today, the company is  
21 collecting costs for meter installations, correct?

22 A. For the meters and the installations  
23 as well as meter reading.

24 Q. And so going back to Staff's  
25 recommendation in this case, Staff is recommending

1 meter plant of about \$61,000; is that correct?

2 A. Approximately, yes.

3 Q. And added to that reserve,  
4 depreciation expense, return?

5 A. Correct.

6 Q. And Staff is recommending a handheld  
7 reader cost of almost \$11,000?

8 A. Correct.

9 Q. Okay. Plus that would have reserve,  
10 depreciation expense, return?

11 A. Correct.

12 Q. And then for the second portion of  
13 this issue for non-automated meter reader costs,  
14 non-automated meter costs, Staff has recommended  
15 that if the AMRs are not allowed, that manual read  
16 meters be put in plant of about \$36,000?

17 A. Correct.

18 Q. And with that reserve, depreciation  
19 expense and annual return?

20 A. Yes.

21 Q. So we are -- when we are looking at  
22 balancing between AMR costs and non-AMR costs,  
23 we're looking at something well over \$70,000,  
24 \$75,000 for AMRs versus \$36,000 for meter -- manual  
25 read meters in Staff's recommendation?

1           A.     With a caveat that the 76,000  
2 includes the billing software cost.

3           **Q.     All right.  And Staff is aware that**  
4 **there is 122 customers --**

5           A.     Correct.

6           **Q.     -- in the system?**

7           A.     Yes.

8           **Q.     And so if we looked at the costs of**  
9 **the manual read meters versus the AMR systems, that**  
10 **is twice the cost, correct?**

11          A.     Yes.  My calculations show that it  
12 was around -- just around half, yes.

13          **Q.     And so if we look at about \$70,000**  
14 **divided by 122 customers, we're looking at -- and**  
15 **taking off what a manual read meter is, so about**  
16 **\$36,000 between those two, divided by about 120**  
17 **customers, customers are looking at paying an**  
18 **additional \$300 each, rough guess?**

19          A.     I would have to -- subject to check  
20 the calculations, I would assume.

21          **Q.     \$36,000 divided by 120 would be 300?**

22          A.     Okay.

23          **Q.     And that is a per-meter per-customer**  
24 **cost?**

25          A.     Yes.

1           **Q.**     And in your testimony you did mention  
2     that Staff is recommending the AMR costs but that  
3     they had grave reserves over the actual cost of  
4     them and that they would do a benefit analysis and  
5     they found that that probably outweighed the costs;  
6     is that correct?

7           A.     We had concerns of the economic  
8     benefits or the economic cost regarding the meters,  
9     but taking into account the Staff's review as a  
10    whole, taking into account the other benefits with  
11    the meters, Staff has included the entire cost of  
12    the meters.

13          **Q.**     And whenever -- were you personally  
14    provided any documentation of those benefits?

15          A.     The only thing that I personally am  
16    aware of is the example that was provided in  
17    response to Staff's Data Request No. 5.

18          **Q.**     And that is regarding that they could  
19    find a high usage number from the -- from the AMRs;  
20    is that correct?

21          A.     Well, what it -- what it provided was  
22    an example of where a customer had, like, an  
23    average around \$60 bill and then suddenly the next  
24    month it went up to around 500, and, therefore,  
25    there was a problem noted and the customer fixed

1 some leakage on his side of the meter, and then  
2 subsequently the bill was then reduced to its  
3 normal -- normal level.

4 **Q. In your experience dealing with**  
5 **billing for meter reading systems, manual read**  
6 **meter systems, if there was a leak on a customer's**  
7 **side, that would also be picked up by a manual**  
8 **meter read, correct?**

9 A. Correct. The customer would be well  
10 aware when they received their bill that there was  
11 something going on, and then an investigation would  
12 likely ensue.

13 **Q. So that is not a benefit that is**  
14 **solely because of an automated meter, correct?**

15 A. I don't believe so.

16 MS. BAKER: No further questions.

17 JUDGE JONES: Any cross by the  
18 company?

19 MR. COOPER: Yes, your Honor.

20 CROSS-EXAMINATION BY MR. COOPER:

21 **Q. Ms. Baker was asking you questions, I**  
22 **think, about the certificate case stipulation,**  
23 **correct?**

24 A. Correct.

25 **Q. And there was some reference to some**

1 meter purchase and installation estimates that may  
2 have been associated with that case, correct?

3 A. Correct.

4 Q. Do those meter installation estimates  
5 show up in the Stipulation & Agreement?

6 A. I'm not aware that they do.

7 Q. And to the extent there were any  
8 meter estimates or estimates for meters and meter  
9 installations at the time of that certificate case,  
10 they necessarily would have been performed prior to  
11 the actual installation of meters, correct?

12 A. Correct, as the rate design was done  
13 prior to the installation, yes.

14 Q. And again, the -- as was stated  
15 earlier, the installation, the actual installation  
16 ended up being pretty close to the overall estimate  
17 from the certificate case, correct?

18 A. For the AMR meters, yes.

19 Q. Is there any -- do you know, is there  
20 any difference in the installation required for an  
21 AMR meter versus a standard meter?

22 A. Well, I do know there were some  
23 invoices for items that would not have been  
24 required for regular manual read meters.

25 Q. But you still need a meter pit and



1 various other items associated with either a  
2 standard meter or a remote read meter, correct?

3 A. Correct. But like I said, there  
4 are -- you know, the invoices I received included  
5 items that were related to only AMR meters. So I  
6 don't know the extent to which the costs would  
7 be --

8 Q. But again, when Ms. Baker talking to  
9 you about their being twice the cost, your  
10 reference point is that Staff estimate from the  
11 certificate case prior to the actual installation  
12 of any meters, correct?

13 A. Right, based on our experience with  
14 other companies and current costing of the  
15 equipment.

16 Q. And again, that was a Staff estimate,  
17 it was -- to your knowledge, it was not included in  
18 the Stipulation & Agreement or specifically agreed  
19 to by the parties to that certificate case,  
20 correct?

21 A. Well, I believe it was agreed to as  
22 part of the rates that were set. It was used as  
23 part of the rate design in the certificate case.

24 Q. So if there were conversations at  
25 that time about disagreement in regard to those

1     **Staff estimates, you're not -- you weren't a party**  
2     **to those conversations?**

3             A.     No. Rate design is not within my  
4     department.

5             **Q.     You were asked questions about**  
6     **documentation of benefits. You're an auditor,**  
7     **correct?**

8             A.     Yes.

9             **Q.     Your focus is on the numbers,**  
10    **correct?**

11            A.     Yes.

12            **Q.     And there are other Staff members**  
13    **that would have more experience with perhaps the**  
14    **operation and maintenance of utilities, correct?**

15            A.     Yes. The water and sewer department  
16    in this particular case.

17                    MR. COOPER: That's all the questions  
18    I have, your Honor.

19                    JUDGE JONES: Questions?

20                    COMMISSIONER W. KENNEY: Yes.

21    QUESTIONS BY COMMISSIONER W. KENNEY:

22            **Q.     Hello, Ms. Hanneken.**

23            A.     Good morning.

24            **Q.     I have three questions for you.**

25            A.     Yes.

1           **Q.     First off, on your surrebuttal**  
2 **testimony on page 10 dealing with the Schulte**  
3 **Supply, Inc., their invoice for the Neptune**  
4 **maintenance contract for their -- related to the**  
5 **company's handheld device and software for 2,261,**  
6 **what is your analysis on that now? Three-part**  
7 **question. What is your analysis now? Does the**  
8 **company need this service, and should the**  
9 **ratepayers pay for it?**

10           A.     Basically, the answers to all of  
11 those questions is I don't know, because this  
12 invoice was provided to us on a date in which I  
13 could not perform any discovery on the item.

14                     So I'm not -- at this point in time,  
15 I can't give data requests to the company to  
16 inquire about what types of services are provided,  
17 how they would benefit or disadvantage the  
18 customers, you know, is there a lower cost  
19 available, all of those types of questions. You  
20 know, this was provided very, very late, right  
21 before surrebuttal. So the discovery in this case  
22 was over at that point.

23           **Q.     And why was that?**

24           A.     That's just the timeline available to  
25 us in this case.

1           **Q.    No.    Okay.    That the information was**  
2 **supplied so late?**

3           A.    I'm assuming because these invoices  
4 were not entered into -- the contracts were not  
5 entered into. In fact, they don't go into effect  
6 until November.

7           **Q.    So just timing?**

8           A.    The timing of when they occurred, and  
9 Staff was not aware of these costs during the rate  
10 case. If we had been aware that these maintenance  
11 contracts were going to be executed, then we would  
12 have done our research on the front end and at  
13 least found out what the services were going to be  
14 provided, why it was necessary, what kind of costs  
15 were involved and that type of thing.

16           **Q.    Okay.    Well, then I have the same**  
17 **question, same three questions on page 11 of your**  
18 **surrebuttal dealing with Continental Utility**  
19 **Solutions for their annual maintenance and**  
20 **technical support I think in the amount of 895.**  
21 **What's your analysis now, does the company need**  
22 **this service and should ratepayers pay for it?**

23           A.    Same answer as the other one. This  
24 was also provided at the same time. We have not  
25 been able to do our discovery. We were not aware

1 that this contract was going to be entered into.

2 Q. Got it. My last question. The  
3 company says that they should get the 2.75 per  
4 meter per month because that was the singular  
5 estimate that they received or bid that they  
6 received. Staff comes up with a number of \$1.50.  
7 Now, where do you come up with that number of  
8 \$1.50?

9 A. I personally got that number from the  
10 rate design performed in the last case, the  
11 certificate case a year ago. Staff had included  
12 \$1.50 per meter read in the rates that are  
13 currently effective. So I --

14 Q. So we just took that same number?

15 A. I took that same number because I  
16 thought it was only a year ago, and I'm aware of  
17 companies that only receive 75 cents per meter for  
18 reading.

19 Q. How many meters do they read at  
20 75 cents?

21 A. About 140, I believe.

22 Q. So when you come up with that number,  
23 do you take into account some of the concerns that  
24 were raised by the company where they couldn't find  
25 anybody because they're so spread out that --

1           A.     Well, I mean, there's two  
2 subdivisions, and they are, in my experience, one  
3 of the best types of meter reading you can get.  
4 The meters are right in front. There's no  
5 obstructions, no fences. You know, they're all  
6 right in a row in a paved, nice, level subdivision.

7                     We have experienced meter reading  
8 where the companies actually have to use ATVs to go  
9 from meter to meter because it's in a very hilly,  
10 woody --

11           **Q.     So the \$1.50 is based on previous**  
12 **rate case and I'm sure the analysis was done at**  
13 **that time?**

14           A.     Correct.

15                     COMMISSIONER W. KENNEY: Thank you  
16 very much.

17                     JUDGE JONES: Commissioner Hall, do  
18 you have any questions?

19                     COMMISSIONER HALL: No.

20                     JUDGE JONES: Any recross?

21                     MS. BAKER: I do. I have a question.

22 RE-CROSS-EXAMINATION BY MS. BAKER:

23           **Q.     You were asked about the maintenance**  
24 **contracts which were just received right at the end**  
25 **of the discovery time. Do you remember that?**

1 A. Correct. Yes.

2 Q. These maintenance costs would also go  
3 into your evaluation of the costs versus the  
4 benefit of whether Staff would still recommend  
5 these systems if that information had been received  
6 earlier, correct?

7 A. Correct. Now, I did take these costs  
8 and apply it to my cost/benefit analysis that I had  
9 done, and over a ten-year period the ratepayers  
10 would pay an additional \$45,000 over a ten-year  
11 period for the AMR meters versus the manual read  
12 meters.

13 Q. And this is because it is a  
14 maintenance contract, something that would have to  
15 be paid every year?

16 A. Yes. It's an annual maintenance  
17 contract. So, for example, the \$2,200 one, that  
18 would be experienced each year going forward  
19 \$22,000 (sic) a year, or hundred a year.

20 Q. So if these were included on the cost  
21 side would add about \$45,000, is that what --

22 A. That would be totality.

23 Q. Totality.

24 A. The AMR meters versus manual read  
25 meters. If you're looking at these two particular

1 maintenance contracts, for a ten-year spread, that  
2 would be around \$31,000.

3 MS. BAKER: No further questions.

4 Thank you.

5 JUDGE JONES: Any recross from the  
6 company?

7 MR. COOPER: Yes, sir.

8 JUDGE JONES: Go right ahead.

9 RECROSS-EXAMINATION BY MR. COOPER:

10 Q. You were asked about the meter  
11 reading costs, and I think you talked about \$1.50  
12 being included in the certificate case rate; is  
13 that correct?

14 A. Yes.

15 Q. I guess my question for you is the  
16 same as the other one. I look at the Stipulation &  
17 Agreement in that certificate case, I see rates,  
18 but I don't see any breakout of where those rates  
19 come from. Would you agree with me?

20 A. Not in the Stipulation & Agreement, I  
21 don't believe they're included.

22 Q. The only thing that was agreed to in  
23 that Stipulation & Agreement was the rate, correct?

24 A. Correct. But Staff used those  
25 numbers --



1           **Q.**     **Staff used those numbers, but the**  
2     **rate that's included in the Stipulation & Agreement**  
3     **would be something that we would have referred to**  
4     **as a black box settlement as to the rate, correct?**

5           A.     I don't know that we referred to it  
6     as a black box settlement, but I do not believe the  
7     \$1.50 is specifically lined out in the  
8     Stipulation & Agreement.

9           **Q.**     **Nor are there any other line items**  
10    **lined out in that Stipulation & Agreement, are**  
11    **there, other than there's a rate -- there are rate**  
12    **base numbers?**

13          A.     Correct.

14          **Q.**     **But beyond the rate base numbers,**  
15    **there are no specific rate elements included in**  
16    **that Stipulation & Agreement, are there?**

17          A.     Correct.

18          **Q.**     **And the 2.75 that is referred to,**  
19    **that was a bid that was available to Staff at the**  
20    **time of the certificate case, wasn't it?**

21          A.     I'm not aware of that. I'm -- it's  
22    possible that it was provided to the water and  
23    sewer department, but I don't know that I received  
24    a copy of it.

25                   MR. COOPER: That's all the questions

1 I have.

2 JUDGE JONES: Redirect from Staff?

3 MS. MOORE: Yes, Judge.

4 REDIRECT EXAMINATION BY MS. MOORE:

5 Q. Ms. Hanneken, just a couple  
6 questions. I believe Ms. Baker asked you about the  
7 rates that were in the tariff after the certificate  
8 case. You mentioned there's a non-metered and a  
9 metered rate; is that correct?

10 A. Correct.

11 Q. Can you explain to us in your -- best  
12 of your knowledge or your memory, why were those  
13 two different rates put in there?

14 A. Because as part of the agreement, the  
15 company was to put in a minimum amount of meters  
16 per year, and part of that spreading of placement  
17 of meters was also to shield the company from a  
18 large investment down the road in ten years when  
19 you have to do the ten-year meter replacement  
20 program.

21 So it was anticipated that the  
22 company would put in a small amount of meters per  
23 year, and as those meters were being placed, then  
24 there would be the need for two separate rates, one  
25 the fully audited cost of service that went into

1 the non-metered rate and then the estimated rate  
2 for the metered customers, which was based on those  
3 audited numbers and then, in addition, the costs  
4 for the meters and meter reader were included.

5 **Q. Okay. And when you were back in the**  
6 **certificate case coming up with your part of those**  
7 **numbers that get factored in to the rate design,**  
8 **was it ever your understanding that the spreading**  
9 **of that number as you said over years would not be**  
10 **the approach the company would make?**

11 A. I was not aware of that personally,  
12 no.

13 **Q. Mr. Cooper was asking you about the**  
14 **\$1.50 number. Is it your testimony that the**  
15 **company agreed to use the \$1.50 number for a meter**  
16 **reader?**

17 A. I think it's in the rates, and they  
18 agreed to the rates as a whole. I was not -- those  
19 were not my calculations. That was done by the  
20 water and sewer department as part of their rate  
21 design, and since they are familiar with the  
22 equipment and installation costs that are normally  
23 involved, they estimated those costs and did the  
24 rate design based on that.

25 **Q. Okay. And then also you received a**

1 few questions on the information you received the  
2 last minute about those maintenance contracts.  
3 Taking that into account, understanding that your  
4 part of the Staff's position is about the numbers,  
5 in your mind would that have outweighed -- if you  
6 added those in when you made your recommendations,  
7 would that have outweighed the other benefits that  
8 we've discussed today?

9 A. I have limited knowledge of what  
10 those other benefits are and how they would  
11 actually benefit. But from an accounting  
12 standpoint, a numbers person, you know, looking at  
13 a ten-year analysis, if a customer is going to be  
14 put under the burden of sharing \$45,000 of extra  
15 costs, you know, that's a great difference from the  
16 original \$23,000 of additional costs. So I mean,  
17 that is a large thing to be considered.

18 MS. MOORE: Thank you. No other  
19 questions.

20 JUDGE JONES: Commissioner Hall.

21 QUESTIONS BY COMMISSIONER HALL:

22 Q. Good morning.

23 A. Good morning.

24 Q. Do you believe that when determining  
25 whether or not the cost of an AMR system is

1 reasonable and prudent, that we should take into  
2 account the number of customers being served by the  
3 company?

4 A. Yes. The number of customers always  
5 impacts Staff's decisions.

6 Q. Could you explain to me why it  
7 matters if it's -- if the number of customers is  
8 100 versus 1,000, why it's more or less prudent in  
9 one situation to employ that kind of AMR system?

10 A. It's economies of scale. The more  
11 customers you have, the more of the fixed costs can  
12 be spread amongst the group. So like for the  
13 handheld meter reading device, that device costs  
14 approximately \$10,000. If you have one customer,  
15 that customer's going to have to pay \$10,000 for  
16 that, ultimately for that item. If you have 10,000  
17 customers, they're only going to have to pay \$1  
18 each for that device.

19 So, I mean, there's -- the more  
20 customers you have to spread the cost, the less of  
21 a rate impact, the less of a rate burden there is  
22 on the customers.

23 Q. But that's just for the meter reader  
24 in this case, the \$10,000. The actual cost of  
25 installing the system is a per-customer cost,

1 correct?

2 A. Correct.

3 Q. And so you would not take that into  
4 account when determining whether or not it's  
5 reasonable because that's a per-customer cost?

6 A. Right. But when taken as a whole,  
7 there is a customer impact varying on the number of  
8 customers.

9 Q. That's just for the meter reader?

10 A. Correct.

11 COMMISSIONER HALL: Okay. Thank you.

12 JUDGE JONES: I just have one  
13 question.

14 QUESTIONS BY JUDGE JONES:

15 Q. The automated meters are installed  
16 now?

17 A. Correct.

18 Q. This is a fact, correct?

19 A. Correct.

20 Q. Isn't there a cost to removing those?

21 A. I don't know that Staff is advocating  
22 for removal of the meters. It's simply that the  
23 rates that will be put in place should the  
24 Commission decide that the manual read meter is the  
25 better option would be less than what would be

1 recovered if we included the AMR meters.

2 **Q. So that's a cost that the company**  
3 **would just have to eat?**

4 A. Like with any other rate case, when  
5 there's a prudence issue or, you know, overage in  
6 the construction audits or anything like that,  
7 those costs are borne by the company itself.

8 JUDGE JONES: All right. Any  
9 questions based on questions from the Bench?

10 (No response.)

11 JUDGE JONES: Okay. You may step  
12 down, Ms. Hanneken.

13 Staff, call your next witness.

14 MS. MOORE: Staff calls Jim Merciel.

15 (Witness sworn.)

16 JUDGE JONES: Thank you. You may be  
17 seated.

18 JAMES MERCIEL testified as follows:

19 DIRECT EXAMINATION BY MS. MOORE:

20 **Q. If you would please state your full**  
21 **name for the record.**

22 A. James A. Merciel, Junior.

23 **Q. Where are you employed and in what**  
24 **capacity?**

25 A. Employed at the Public Service

1 Commission in the water and sewer unit. I'm an  
2 engineer.

3 Q. Are you the same James Merciel who  
4 prepared or caused to be prepared the testimony  
5 that's been marked as Exhibit Staff 4?

6 A. Yes, I am.

7 Q. Do you have anything you wish to  
8 correct in that testimony?

9 A. No.

10 Q. If asked the same questions today,  
11 would your answers be the same?

12 A. Yes.

13 Q. Is the information in that document  
14 true and correct to the best of your knowledge and  
15 belief?

16 A. Yes.

17 MS. MOORE: Your Honor, Staff offers  
18 Exhibit Staff 4 and tenders the witness for cross.

19 JUDGE JONES: Any objection to Staff  
20 Exhibit 4?

21 (No response.)

22 JUDGE JONES: Seeing none, Staff  
23 Exhibit 4 is admitted into the record.

24 (STAFF EXHIBIT NO. 4 WAS RECEIVED  
25 INTO EVIDENCE.)



1 JUDGE JONES: Office of Public

2 Counsel, you may proceed with cross.

3 CROSS-EXAMINATION BY MS. BAKER:

4 Q. Good morning, Mr. Merciel.

5 A. Good morning.

6 Q. You've heard testimony this morning  
7 about the Staff data request where Staff was asking  
8 for information regarding some of the benefits of  
9 the AMR system; is that correct?

10 A. Yes.

11 Q. Did you review that Staff data  
12 request response?

13 A. I did. I reviewed it. I didn't  
14 participate in writing it.

15 Q. All right. But you reviewed the  
16 response?

17 A. Yes.

18 Q. All right. And so you are aware of  
19 the one example that was given that was mentioned  
20 by Ms. Hanneken about a customer whose bill was  
21 larger?

22 A. Yes.

23 Q. Okay. And so is it your  
24 understanding that the company is stating that  
25 because they were able to see that the bill was

1 larger, that the AMR system has benefits; is that  
2 correct?

3 A. Well, I do agree it has benefits,  
4 yes.

5 Q. Okay.

6 A. The answer is yes.

7 Q. And so what you are agreeing is that  
8 there are potential benefits?

9 A. Yes. Let me clarify. What you're  
10 talking about is not simply the AMR, the reading  
11 system. These particular meters have the  
12 capability of recording water flow. That's not  
13 part of the reading system. That's -- these  
14 particular meters have that capability. So that's  
15 really what we're talking about in that case.

16 Q. And by a capability, you mean the  
17 potential for?

18 A. Well, potential. They can do it.  
19 They do it. The records are there if needed and if  
20 desired, yes.

21 Q. And if the company utilizes those  
22 records?

23 A. Correct.

24 Q. All right. And so from this data  
25 request response, with this -- this situation where

1 one month the bill was something like \$60, the next  
2 month the bill was \$500, even in a manual read  
3 system that would be known by the customer?

4 A. Well, with a manual read system, you  
5 only have the information based on when the meter  
6 is read, which, of course, is normally monthly on a  
7 billing period. Companies do go out and make a  
8 special reading if necessary, such as high bill  
9 complaints.

10 And I need to say, we do -- there  
11 certainly is such a thing as high water bills.  
12 They happen frequently. We get complaints.  
13 Companies get complaints. Most of the time you  
14 don't know what happened. You know that last month  
15 this was the usage, and then you know this past  
16 month it's a higher usage, and then most of the  
17 time it goes back down to normal and you really  
18 have no idea what happened, whether it was a leak  
19 over a few hours or over the whole month. You just  
20 don't know. These meters would be able to help you  
21 narrow that down.

22 Q. Okay. But those complaints come from  
23 people who do not have automated meter readers,  
24 correct?

25 A. Well, yes.

1           **Q.**     Because the situation in a manual  
2     read meter is a meter reader goes out one month,  
3     reads the meter, goes out the next month, reads the  
4     meter and compares those two numbers and can see  
5     that, oh my, the read is extremely high, maybe  
6     there's a leak, correct?

7           A.     Correct.

8           **Q.**     And so it doesn't take an automated  
9     meter system to make that analysis?

10          A.     Well, as I said --

11          **Q.**     Correct? Yes or no?

12          A.     Well --

13          **Q.**     Yes or no?

14          A.     You're talking about the monthly  
15     meter reading. What we're also talking about is  
16     the ability to go back and look at the water usage  
17     on a daily basis or an hourly basis.

18                   MS. BAKER: Your Honor, he's not  
19     answering my question.

20     BY MS. BAKER:

21           **Q.**     My question is, does it take an  
22     automated meter system to know that there might be  
23     a leak from month to month? Yes or no.

24          A.     If you're asking about a high bill,  
25     yes. You see that whether you read it with an

1 electronic system or manual. The answer is yes.

2 Q. And that was the example that was  
3 given by the company of a high bill from month to  
4 month, correct?

5 A. I believe that's right.

6 Q. All right. And so some other things  
7 that were mentioned today were whether there were  
8 costs that were -- that were necessary for a manual  
9 system. There are costs that are incurred whether  
10 the system is an AMR system or whether it is a  
11 manual system, for example, things like a meter  
12 pit, correct?

13 A. Yes.

14 Q. And there are some costs that are  
15 only for an AMR system, such as a meter reading  
16 wand, correct?

17 A. Correct, or other device.

18 Q. So there are certainly some costs  
19 that are just strictly because the company decided  
20 to put in an AMR system, correct?

21 A. That is correct.

22 Q. And we were talking a little bit  
23 about the maintenance contract. That is something  
24 that is really just for an AMR system, correct?

25 A. It's my understanding that's correct.

1 I believe that maintenance system is for this  
2 particular meter reading system.

3 MS. BAKER: I have no further  
4 questions.

5 JUDGE JONES: Any cross from Lincoln  
6 County?

7 MR. COOPER: Yes, your Honor.

8 CROSS-EXAMINATION BY MR. COOPER:

9 Q. Mr. Merciel, you were starting to  
10 explain what's different about the information that  
11 you can gather with an automated meter reading  
12 system from what you can gather with a standard  
13 meter. Could you continue that answer for me?

14 A. Okay.

15 MS. BAKER: Objection, your Honor.  
16 This is cross-examination. This is not direct. If  
17 Ms. --

18 JUDGE JONES: He can be friendly or  
19 adverse to the witness.

20 THE WITNESS: Okay. I wanted to  
21 distinguish between reading the meter, which would  
22 be either you go to the customer's property, you  
23 open the meter pit, you have to open the lid and  
24 you read the numbers on the meter and you write it  
25 down. That's what we normally refer to as a manual

1 reading system. The meter reader takes that back  
2 and the company uses those numbers to enter in its  
3 billing system.

4 Automated meter reading systems,  
5 there's a couple of types. One is what's called a  
6 touch read. Instead of opening the meter lid,  
7 there's a -- there's a contact, if you will, on the  
8 meter box. The meter reader goes around and has a  
9 wand and touches that, and that takes the meter  
10 reading data and puts it into a computer that he's  
11 carrying around and that goes back.

12 What this company has and a few  
13 companies utilize is what's called a radio read  
14 system. You don't actually walk around on the  
15 property. You drive on the street in a car. You  
16 have a system that reads the meter by radio, reads  
17 it remotely, and that also goes into the computer  
18 system. And that's what this company's utilizing,  
19 the radio read.

20 Now, okay. That's how you're reading  
21 the meters. What we're talking about the benefit  
22 of these meters, that reading system, all that does  
23 is gets you the meter reading for billing, but  
24 these meters also have the capability of recording  
25 the water usage on a, I think it can go down to an

1 hourly, either daily or hourly, so you can narrow  
2 down any unusual events. You can go back for the  
3 past 90 days or so and see how that customer used  
4 water, whether it was a leak for several days or  
5 the whole billing period or one day. You can see  
6 that.

7 That really has nothing to do with  
8 the -- with the reading system. That's just what  
9 these meters are capable of doing.

10 BY MR. COOPER:

11 **Q. And that ability to read down to**  
12 **smaller periods of time, is that something that's**  
13 **useful in identifying the specific source of a leak**  
14 **on customer property or can be?**

15 A. Yeah. Not so much the source. You  
16 can narrow down the time frame. You can see if it  
17 happened one particular day or if it happened  
18 overnight, and it could help narrow down what  
19 happened.

20 As I think I said before, when you  
21 get a -- when you get a high bill complaint, most  
22 of the time the customer had a high bill that  
23 month. So you just know something happened, but  
24 you don't know when. You don't know -- have no  
25 idea how it could have happened. This just narrows



1 down the time frame. It still doesn't tell you  
2 what happened, whether it was a plumbing break or a  
3 toilet leaking, you know, valve that's not closing.

4 Q. But it's information that could be  
5 helpful --

6 A. It could be helpful, exactly.

7 Q. -- in trying to figure out which it  
8 is, correct?

9 A. Correct.

10 Q. And I think you were -- you responded  
11 that, you know, the information could be available  
12 to the company. I suppose it could be available to  
13 the Staff as well when it's trying to deal with  
14 complaints and that sort of thing?

15 A. Yes, through the company. We would  
16 go to the company and ask for that information if  
17 it's available.

18 MR. COOPER: Your Honor, I'd like to  
19 mark an exhibit at this point in time. I guess  
20 this would be LCSW 5. I would identify it as  
21 Company Data Request 1.

22 (LCSW EXHIBIT NO. 5 WAS MARKED FOR  
23 IDENTIFICATION BY THE REPORTER.)

24 BY MR. COOPER:

25 Q. Mr. Merciel, do you have what has

1 **been marked for identification as LCSW 5 in front**  
2 **of you?**

3 A. Yes, I do.

4 **Q. Do you recognize that?**

5 A. I do.

6 **Q. And what is it?**

7 A. It's a list of utilities that the  
8 Staff was able to determine that has -- well, let's  
9 see -- some level of AMR technology, some type of  
10 electronic meter reading other than manual read.

11 **Q. And that's a -- that's a true**  
12 **listing, to your knowledge?**

13 A. To the best of my knowledge. I  
14 remember we put this together. I contributed on  
15 some of this. I'm a customer of Callaway No. 1. I  
16 also have some knowledge of Tri-States and Missouri  
17 American Water Company and Raytown.

18 **Q. And this again, you said this was a**  
19 **list of companies that the Staff could determine,**  
20 **correct?**

21 A. Correct. To my knowledge, this is  
22 just what the Staff put together.

23 **Q. But you wouldn't represent that this**  
24 **is necessarily an exclusive listing of systems in**  
25 **Missouri that would use that technology, correct?**

1 A. That would be correct.

2 MR. COOPER: Your Honor, I would  
3 offer LCSW 5.

4 JUDGE JONES: Any objections?

5 MS. MOORE: No.

6 JUDGE JONES: LCSW 5 is admitted into  
7 the record.

8 (LCSW EXHIBIT NO. 5 WAS RECEIVED INTO  
9 EVIDENCE.)

10 BY MR. COOPER:

11 Q. You participated in the certificate  
12 case for Lincoln County Sewer and Water, correct?

13 A. Yes, I did.

14 Q. There was discussion this morning  
15 with Ms. Hanneken about the estimates for meters  
16 and meter installations. Were you here for that?

17 A. Yes.

18 Q. Is it your memory that there was at  
19 least issue put forth by the company or  
20 disagreement put forth by the company in regard to  
21 those estimates at the time of the certificate  
22 case?

23 A. There -- yes, that would be an  
24 accurate statement. There was some disagreement,  
25 discussion about it.

1           **Q.     And ultimately, I think, you and**  
2 **perhaps others indicated that in the end what would**  
3 **be examined in a rate case would be the actual cost**  
4 **of those meters and meter installations, correct?**

5           A.     Generally, yes.

6           MR. COOPER:   That's all the questions  
7 I have at this time, your Honor.

8           JUDGE JONES:   Any questions?

9           COMMISSIONER HALL:   No.

10          JUDGE JONES:   Any redirect from  
11 Staff?

12          MS. MOORE:   Just a couple questions.

13          REDIRECT EXAMINATION BY MS. MOORE:

14               **Q.     Mr. Merciel, you were discussing**  
15 **other meter benefits. To the best of your**  
16 **knowledge, is the company utilizing those benefits**  
17 **you discussed, the AMRs?**

18          A.     Well, as far as the meter reading, to  
19 my knowledge, yes, they would be using that in that  
20 that's how they're reading the meters. So yeah,  
21 they're utilizing it.

22               On the -- on the ability of the  
23 meters to record water usage, I'm not sure if  
24 they've had the occasion to use it. They may have.  
25 I haven't personally gotten any high bill

1 complaints, and I'm not -- I'm not aware that any  
2 have come in recently. We had a few when they were  
3 transitioning from flat rate to metered usage, but  
4 that was really a different issue.

5 So I guess my answer is I'm not aware  
6 firsthand of the company utilizing it, but I'm not  
7 sure they've had a need to.

8 **Q. And then referring to LCSW 5, the**  
9 **company's data request to Staff and Staff's**  
10 **response, can you identify for us how many of the**  
11 **companies are regulated and which ones?**

12 A. Yes, I can. Well, Lincoln County,  
13 this company, Tri-States Utilities, which actually  
14 doesn't exist anymore. It's since sold to Missouri  
15 American Water Company. That's a recent event.  
16 And then Missouri American Water Company, Raytown  
17 Water Company are all regulated.

18 The rest of these are either  
19 municipal water systems or public water districts,  
20 which are not regulated, but we do have some --  
21 some knowledge of some of them. As I said, I'm a  
22 customer of Public Water Supply District No. 1 in  
23 Callaway County.

24 **Q. For the regulated systems, can you**  
25 **give us estimates on the customer size?**

1           A.     Tri-States when it was a standalone  
2     company had about 3,500 customers or so. Missouri  
3     American has about a half million customers,  
4     550,000 or something like that. Raytown has about  
5     6,700, although I don't think they're exclusively  
6     using AMRs. They have for some customers, but I  
7     don't think they have it on their entire system.

8           **Q.     And then finally, to the best of your**  
9     **knowledge, has the Commission ever issued an order**  
10    **explaining what would be the standard for**  
11    **determining who, which companies may implement AMR**  
12    **technology?**

13          A.     To my knowledge, this issue has never  
14    been before the Commission. The Commission's never  
15    issued any orders on it. We don't have any rules  
16    on standards of service regarding automated meter  
17    reading.

18                   MS. MOORE: Thank you.

19                   JUDGE JONES: Any questions from  
20    Commissioners? You may step down, Mr. Merciel.

21                   OPC, you can call your witness.

22                   MS. BAKER: Yes. Public Counsel  
23    calls William Addo.

24                   (Witness sworn.)

25                   JUDGE JONES: Thank you, sir. You

1 may proceed.

2 WILLIAM ADDO testified as follows:

3 DIRECT EXAMINATION BY MS. BAKER:

4 Q. Good morning, Mr. Addo.

5 A. Good morning.

6 Q. Please state and spell your name for  
7 the court reporter.

8 A. My name is William Addo. Addo is  
9 A-d-d-o.

10 Q. And by whom are you employed?

11 A. I'm employed by Missouri Office of  
12 the Public Counsel.

13 Q. And what position do you hold with  
14 the Office of the Public Counsel?

15 A. Public Utility Accountant I.

16 Q. Are you the same William Addo who  
17 filed rebuttal and surrebuttal testimony in this  
18 case?

19 A. Yes, I am.

20 Q. Do you have any changes, corrections  
21 or updates to your testimony?

22 A. Yes, I do.

23 Q. And which testimony are you beginning  
24 with?

25 A. With my rebuttal testimony. The

1 first one is on page 9, line 7.

2 **Q. Page 9, line 7?**

3 A. Yes. I want to makes changes to \$180  
4 to \$265.

5 **Q. So the \$180 is 265?**

6 A. 265.

7 **Q. All right. Is there any other**  
8 **changes?**

9 A. Yes. The second one is to in the  
10 rebuttal testimony on page 34, line 15.

11 **Q. Page 34?**

12 A. Yes.

13 **Q. And what is your change there?**

14 A. At the end of it, the period, I want  
15 to take the period off and continue with, regarding  
16 Staff's base calculation.

17 **Q. Okay. Why don't you go ahead and**  
18 **just read that sentence as it is changed?**

19 A. It's read, the company provided no  
20 support for this additional cost. Public Counsel  
21 therefore supports the Staff's position regarding  
22 Staff's base calculation.

23 **Q. All right. Any other changes or**  
24 **updates in your rebuttal testimony?**

25 A. The last one is on page -- on the



1 rebuttal testimony, no. The other change is on the  
2 surrebuttal.

3 Q. All right.

4 A. On page 4, line 4.

5 Q. Page 4, line 4?

6 A. Yes.

7 Q. All right.

8 A. I want to strike out "and expenses  
9 related to hiring a meter reader to read the meters  
10 once a month". So then that sentence will read,  
11 Public Counsel recommends that Lincoln County Sewer  
12 and Water's meters and meter installation costs  
13 should be based on estimated amount in Lincoln  
14 County Sewer and Water last case, Case No.  
15 WA-2012-0018 and then SA-2012-0019, for standard  
16 meters and installation, period.

17 Q. All right. Any other changes or  
18 updates?

19 A. That would be all.

20 Q. All right. And is the testimony,  
21 with your changes and updates, true and accurate to  
22 the best of your knowledge and belief?

23 A. Yes.

24 Q. And with those updates and changes  
25 and corrections in mind, if asked the same

1     **questions today, would your answers be essentially**  
2     **the same?**

3             A.     Yes.

4                     MS. BAKER: I'd like to move for  
5     admission of Addo rebuttal and Addo surrebuttal,  
6     Exhibit No. OPC 2 and OPC 3, and tender the witness  
7     for cross-examination.

8                     JUDGE JONES: Any objections to OPC's  
9     Exhibits 2 and 3?

10                    (No response.)

11                    JUDGE JONES: Seeing none, OPC  
12     Exhibit 2 on OPC Exhibit 3 are admitted into the  
13     record.

14                    (OPC EXHIBIT NOS. 2 AND 3 WERE  
15     RECEIVED INTO EVIDENCE.)

16                    JUDGE JONES: Staff, you may proceed  
17     with your cross.

18                    MS. MOORE: No questions for this  
19     witness. Thank you, Mr. Addo.

20                    JUDGE JONES: Any cross from the  
21     company?

22                    MR. COOPER: Yes, your Honor.

23                    JUDGE JONES: You may proceed.

24     CROSS-EXAMINATION BY MR. COOPER:

25             **Q.     Mr. Addo, you're an accountant,**

1 aren't you?

2 A. I am.

3 Q. You're not an engineer?

4 A. No.

5 Q. Do you have any experience designing  
6 water or sewer systems?

7 A. No.

8 Q. Have any experience operating water  
9 or sewer systems?

10 A. No.

11 Q. Now, you suggest that the meter and  
12 meter installation costs should be based on the  
13 estimated amounts in LCSW's last cases, correct?

14 A. That's correct.

15 Q. Are those estimates contained in the  
16 Stipulation & Agreement in that last case?

17 A. I know they are part of the rates but  
18 not part of the stipulation.

19 Q. Not part of the stipulation, are  
20 they?

21 A. Correct.

22 Q. And at the time of that case, no  
23 actual work on the meter installation had taken  
24 place, had it?

25 A. Can you rephrase your question?

1           **Q.     At the time of the certificate case**  
2 **or at the time the stipulation was signed, no**  
3 **meters had been installed, had they?**

4           A.     No.

5           **Q.     Now, the estimates that you refer to,**  
6 **they're not your estimates, are they?**

7           A.     I've adopted it, so I would say they  
8 are my -- I mean, in the last case, that was what  
9 was estimated. So, yes, I adopted it in this case.

10          **Q.     Well, what -- where did you go to**  
11 **seek the prices for those meters?**

12          A.     I did searches on the Internet.

13          **Q.     Say that again. I'm sorry.**

14          A.     I did Internet search for my basic  
15 calculation.

16          **Q.     So did you seek bids for standard**  
17 **meters as of July of 2012?**

18          A.     I did not.

19          **Q.     Did you seek bids as of July of 2012**  
20 **for any of the parts associated with this**  
21 **installation?**

22          A.     No.

23          **Q.     Do you have any experience in regard**  
24 **to meter installation?**

25          A.     I do not.

1           **Q.**     And you would agree with me, wouldn't  
2 you, that the cost that Lincoln County seeks to put  
3 into rate base for the meters includes not only the  
4 cost of the meters but also the cost of  
5 installation, correct?

6           A.     Right.

7           MR. COOPER: That's all the questions  
8 I have.

9           JUDGE JONES: Do you have any  
10 questions?

11          COMMISSIONER W. KENNEY: No.

12          COMMISSIONER HALL: No questions.

13          JUDGE JONES: Any redirect? I'm  
14 sorry. Recross. Where are we?

15          MS. BAKER: Redirect.

16          MR. COOPER: I think we're on to  
17 redirect.

18          MS. BAKER: I do have.

19 REDIRECT EXAMINATION BY MS. BAKER:

20           **Q.**     Mr. Cooper discussed the certificate  
21 case. You were not a part of that certificate  
22 case, were you?

23          A.     I wasn't.

24           **Q.**     But you did review the Stipulation &  
25 Agreement that was approved by the Commission in

1 that case?

2 A. I did.

3 Q. And you did review the tariff rates  
4 that were agreed to and approved by the Commission  
5 in that case?

6 A. That's correct.

7 Q. And you are aware that there were two  
8 rates that were set, one was a metered rate and one  
9 that was a non-metered rate, correct?

10 A. That's correct.

11 Q. And during your review of this case,  
12 you did look back at some of the work papers and  
13 some of the documentation from the certificate  
14 case?

15 A. Yes, I did.

16 Q. And you also looked at Staff's  
17 accounting schedules from this case through each of  
18 the direct, rebuttal, surrebuttal?

19 A. Yes, I did.

20 Q. And so through your review of that,  
21 that is how you came up with the number that you  
22 are recommending for OPC's position?

23 A. Yes.

24 MS. BAKER: No further questions.

25 JUDGE JONES: Thank you, Mr. Addo.

1 You may step down.

2 Okay. Does anyone need to take a  
3 break? If not, I propose we work through.

4 MS. BAKER: Can we take about a  
5 ten-minute break?

6 JUDGE JONES: Let's make it five.  
7 Don't hold any conversations. That's fine. Off  
8 the record.

9 (A BREAK WAS TAKEN.)

10 (STAFF EXHIBIT NOS. 11A, 11B, 11C AND  
11 11D WERE MARKED FOR IDENTIFICATION BY THE  
12 REPORTER.)

13 JUDGE JONES: There's some discussion  
14 about the data request that was Lincoln County's  
15 Exhibit No. 5, and we're wanting to know if the  
16 Staff can supplement the record with an exhaustive  
17 list of regulated water and sewer companies, the  
18 number of customers and whether or not that company  
19 has an automated meter reading system.

20 MR. COOPER: Regulated and  
21 unregulated?

22 JUDGE JONES: Well, definitely  
23 regulated. I suspect unregulated may be extremely  
24 burdensome. If it's not, we would like that  
25 information also.

1 MS. MOORE: I think that going into  
2 the unregulated companies would require quite a lot  
3 of research and contacting the companies, the  
4 municipalities and such.

5 Just to make sure I understand the  
6 request, is it that for the regulated companies you  
7 want to know an exhaustive list of who out of the  
8 regulated companies uses AMR technology, what their  
9 customer numbers are, and was there something else?

10 JUDGE JONES: That's it.

11 MR. COOPER: Your Honor, I apologize.  
12 I was talking to my client there. But what have  
13 you directed in terms of the Staff?

14 JUDGE JONES: To give us a list of  
15 regulated water and -- or water companies would  
16 be --

17 MR. COOPER: If the company is able  
18 to add to that list, may it do so?

19 JUDGE JONES: Well, if the company's  
20 able to add to the list, then Staff's list isn't  
21 exhaustive. So we do want an exhaustive list. If  
22 it takes the two of you to work together to do  
23 that, that's fine. We'll mark that as a Commission  
24 Exhibit 1.

25 Okay. Let's move on to billing



1 program and billing expenses. Lincoln County, call  
2 your witness.

3 MR. COOPER: We would call  
4 Mr. Johansen.

5 JUDGE JONES: Mr. Johansen, you  
6 remain under oath. You may proceed.

7 MR. COOPER: Your Honor, we would  
8 tender him for cross-examination.

9 JUDGE JONES: Staff.

10 DALE JOHANSEN testified as follows:

11 CROSS-EXAMINATION BY MS. MOORE:

12 Q. Just a couple questions,  
13 Mr. Johansen. Is it correct that you have  
14 testified it would be necessary to include 12  
15 additional labor hours in rates for billing if the  
16 billing program is disallowed?

17 A. Yes.

18 Q. And is that based on your experience  
19 in the field?

20 A. Yes, ma'am.

21 Q. And then was that conclusion also  
22 based on this company and the resources it  
23 currently has, minus the billing program?

24 A. Correct.

25 Q. So that amount does not factor in to

1 **Staff's recommended expense of \$250 for an**  
2 **alternative billing program?**

3 A. I'm not sure I was aware that there  
4 was that option.

5 MS. MOORE: Okay. Thank you.

6 JUDGE JONES: Cross by Office of the  
7 Public Counsel?

8 MS. BAKER: Thank you.

9 CROSS-EXAMINATION BY MS. BAKER:

10 **Q. Bills are being produced by the**  
11 **company today; is that correct?**

12 A. Yes.

13 MS. BAKER: No further questions.

14 JUDGE JONES: Questions from  
15 Commissioners?

16 COMMISSIONER STOLL: No questions.

17 COMMISSIONER W. KENNEY: No  
18 questions.

19 JUDGE JONES: Okay. Any recross?  
20 Redirect?

21 MR. COOPER: Yes, your Honor.

22 REDIRECT EXAMINATION BY MR. COOPER:

23 **Q. Mr. Johansen, you talked about that**  
24 **your estimate was based upon your experience.**  
25 **Could you tell us what that experience is?**

1           A.     Well, I'm currently the -- a court-  
2 appointed receiver for Rogue Creek Utilities, which  
3 is a company that has approximately 100 customers  
4 and has a water and sewer system. And then I'm  
5 also a Commission-appointed interim receiver for  
6 MPB, Inc. and PCB, Inc., which are both  
7 Commission-regulated companies.

8           **Q.     And in those positions you've had the**  
9 **occasion to actually perform billing without the**  
10 **benefit of a program such as that that Lincoln**  
11 **County has in place?**

12          A.     Yes. That's correct.

13          **Q.     And Ms. Baker asked you whether the**  
14 **company was producing bills today, correct?**

15          A.     Yes.

16          **Q.     What's it use -- does it utilize the**  
17 **billing program at issue in producing those bills?**

18          A.     Yes.

19          **Q.     And does that program provide**  
20 **features connected to billing that are separate and**  
21 **apart from the remote read meters and those**  
22 **capabilities?**

23          A.     Yes.

24                   MR. COOPER: That's all the questions  
25 I have.

1 JUDGE JONES: Thank you,  
2 Mr. Johansen. You may step down. Staff, call your  
3 witness.

4 MS. MOORE: Your Honor, Staff calls  
5 Lisa Hanneken.

6 JUDGE JONES: Ms. Hanneken, you  
7 remain under oath.

8 MS. MOORE: We tender the witness for  
9 cross.

10 JUDGE JONES: Office of the Public  
11 Counsel?

12 MS. BAKER: I just have one question.

13 LISA HANNEKEN testified as follows:

14 CROSS-EXAMINATION BY MS. BAKER:

15 Q. You are aware that the company is  
16 doing billing today, correct?

17 A. Yes.

18 Q. And it would be your understanding  
19 that rates that are in place for the system now  
20 would have taken into account costs for billing,  
21 correct?

22 A. Yes.

23 MS. BAKER: No further questions.

24 JUDGE JONES: Any cross from the  
25 company?

1 MR. COOPER: Yes.

2 CROSS-EXAMINATION BY MR. COOPER:

3 Q. The rates in place today would not  
4 have taken into account the billing program that  
5 was purchased after the conclusion of the  
6 certificate case, would they?

7 A. No. Not the AMR compatible one, no.

8 MR. COOPER: Thank you.

9 JUDGE JONES: Any questions from the  
10 Commissioners? I just have one.

11 QUESTIONS BY JUDGE JONES:

12 Q. Was the billing program contemplated  
13 during the agreement in the certificate case?

14 A. There was not a specific capital  
15 investment contemplated, but billing expenses were  
16 contemplated.

17 Q. And the amount that Staff proposes,  
18 the \$250, is that what Staff was thinking at the  
19 time the agreement was entered into?

20 A. That is a current amount that we  
21 looked at in this case after reviewing several  
22 alternative software programs.

23 JUDGE JONES: Commissioner Hall.

24 COMMISSIONER HALL: Yes.

25 QUESTIONS BY COMMISSIONER HALL:

1           **Q.     This particular software was provided**  
2 **by Continental Utility Solutions, Inc.; is that**  
3 **correct?**

4           A.     I believe so, yes.

5           **Q.     Is that a company that you're**  
6 **familiar with?**

7           A.     I had not heard of it until this  
8 case.

9           **Q.     So you don't know how widespread is**  
10 **the usage of that particular software?**

11          A.     In my experience in Missouri on the  
12 cases I'm aware of, that is not one that's  
13 prevalent. I think part of that maybe is because,  
14 after reviewing their website, it seems that they  
15 are geared towards more automated systems than just  
16 simple billing software. And, therefore, I've  
17 never come across an AMR system before, other than  
18 Missouri American, so I would not be aware of this  
19 company.

20                   COMMISSIONER HALL: Okay. Thank you.

21                   JUDGE JONES: Any recross based on  
22 questions from the Commission? Any redirect?

23                   MS. MOORE: Yes, just a couple.

24 REDIRECT EXAMINATION BY MS. MOORE:

25           **Q.     Ms. Hanneken, you were asked about**

1    **your suggestion that the alternative billing**  
2    **program cost that is appropriate is \$250. Would**  
3    **you include any labor for the company that is not**  
4    **currently included in order to use that alternative**  
5    **billing program?**

6           A.    Well, they're already, you know,  
7    experiencing -- or, you know, they're already  
8    billing people with a billing software program, and  
9    that was taken into account in Staff's salary  
10   amounts. So, you know, in the fact that they're  
11   going to have an alternative billing software  
12   system, you know, that's similar to what they have  
13   now, other than the fact that you have to manually  
14   enter the meter reads.

15                  However, there is some leeway in some  
16   of the numbers in the averaging of the salaries  
17   that should compensate for that.

18           **Q.    And so for the company's suggestion**  
19   **that the alternative would be, instead of your**  
20   **suggestion, should be 12 hours of labor per month,**  
21   **did you ever see any calculations supporting that**  
22   **number?**

23           A.    No, I have not.

24                  MS. MOORE: Thank you.

25                  JUDGE JONES: You may step down.

1 Just a moment.

2 COMMISSIONER HALL: One follow-up  
3 question.

4 FURTHER QUESTIONS BY COMMISSIONER HALL:

5 **Q. So you did not see any documentation**  
6 **to support that 12-hour figure. Is that**  
7 **reasonable, though?**

8 A. I do not know. I am familiar -- I  
9 did actually do billing for one company whose owner  
10 walked away from the system. For a couple of  
11 months Staff had to perform those types of duties  
12 as far as the billing and that. In my experience,  
13 I don't know that 12 hours is a reasonable amount,  
14 but I had nothing other than my personal experience  
15 in other companies to base that on.

16 Without details of what those 12  
17 hours, the company envisions those 12 hours to  
18 entail, I can't make an educated assumption as to  
19 whether it's reasonable or not.

20 COMMISSIONER HALL: Thank you.

21 JUDGE JONES: You may step down.  
22 Office of the Public Counsel, you may call your  
23 witness.

24 MS. BAKER: We call William Addo.

25 JUDGE JONES: Mr. Addo, you remain



1 under oath. Questions from Staff?

2 MS. MOORE: No questions.

3 JUDGE JONES: Lincoln County?

4 MR. COOPER: No questions.

5 JUDGE JONES: Questions from the

6 Commission?

7 COMMISSIONER W. KENNEY: No

8 questions.

9 COMMISSIONER STOLL: No questions.

10 JUDGE JONES: I have one question.

11 QUESTIONS BY JUDGE JONES:

12 Q. OPC is saying that the company should  
13 get no money for billing expense, nothing in rate  
14 base?

15 A. Yes.

16 Q. Does it cost to bill customers?

17 A. It does, which I think I did that in  
18 my analysis when I was considering the salary for  
19 the company. So I took that into consideration for  
20 the salary of the personnel who prepares the bills.

21 JUDGE JONES: Any questions based on  
22 my questions?

23 (No response.)

24 JUDGE JONES: Hearing none, you  
25 may step down.

1 MS. BAKER: May I?

2 JUDGE JONES: Go right ahead.

3 REDIRECT EXAMINATION BY MS. BAKER:

4 Q. Just to follow up a little bit on  
5 that for some clarification, it's not that you  
6 haven't given any time to doing billing, that is  
7 just folded into your salary recommendation?

8 A. That's correct.

9 MS. BAKER: Thank you.

10 JUDGE JONES: Okay. You may step  
11 down.

12 Okay. Skipping over land ownership  
13 and valuation, that issue has been resolved, and  
14 moving on to rate base. Lincoln County, you may  
15 call your first witness.

16 MR. COOPER: We would call  
17 Mr. Johansen and tender him for cross-examination.

18 JUDGE JONES: Mr. Johansen, you  
19 remain under oath. Cross-examination from Staff.

20 MR. THOMPSON: Thank you, Judge.

21 DALE JOHANSEN testified as follows:

22 CROSS-EXAMINATION BY MR. THOMPSON:

23 Q. Good morning, Mr. Johansen.

24 A. Good morning.

25 Q. Mr. Johansen, you have suggested that

1 there are certain items that should be added to  
2 rate base; isn't that correct?

3 A. Yes.

4 Q. And these are items that existed at  
5 the time of the certificate case; isn't that  
6 correct?

7 A. Yes.

8 Q. So at the time of the certificate  
9 case, Mr. Kallash, as far as you know, would have  
10 known about the engineering fees; isn't that right?

11 A. Yes.

12 Q. And he would have known that he had  
13 well and tank houses?

14 A. Yes.

15 Q. And he would have known that he had a  
16 sewage blower house or houses?

17 A. Yes.

18 Q. And pads?

19 A. Yes.

20 Q. And that land issue's been removed,  
21 right?

22 A. Correct.

23 Q. Okay. So he knew about those things  
24 at the time of the certificate case, correct?

25 A. Yes.

1 Q. Okay. Were you involved in that  
2 case? I think you've said you were not.

3 A. I was not.

4 Q. You were not. Okay. And there was a  
5 stipulated amount of rate base; isn't that correct?

6 A. Yes.

7 Q. And it's my understanding that the  
8 stipulation actually enumerated items of rate base;  
9 isn't that right?

10 A. I recall that -- I don't have a copy  
11 of that in front of me, but I recall that it  
12 specifically excluded some things. I don't recall  
13 that it enumerated what was included from the  
14 standpoint of the type of plant. It may have. I  
15 don't know.

16 Q. Okay. And am I correct in my  
17 understanding that, up 'til now, the company has  
18 provided no valuations to Staff as to any of those  
19 items that you propose to add to rate base?

20 A. As far as what I've done, that's  
21 correct.

22 Q. Okay. Are you aware of anyone else  
23 providing valuations for those items?

24 A. Between the time this -- after the  
25 certificate case was over or at that time?

1 Q. Right.

2 A. I don't --

3 Q. Up to today?

4 A. Not that I know of.

5 Q. Not that you know of.

6 MR. THOMPSON: Okay. No further  
7 questions.

8 JUDGE JONES: Any cross from Public  
9 Counsel?

10 MS. BAKER: Yes, your Honor.

11 CROSS-EXAMINATION BY MS. BAKER:

12 Q. You were aware that Mr. Kallash was  
13 represented by counsel in the certificate case;  
14 isn't that correct?

15 A. Yes, ma'am.

16 Q. And you are aware that Mr. Kallash  
17 was part of that Stipulation & Agreement, correct,  
18 in the certificate cases?

19 A. Well, I assume he was.

20 MS. BAKER: Your Honor, could I take  
21 Commission notice of the Stipulation & Agreement in  
22 the certificate cases WA-2012-0018 and SA-2012-019?

23 JUDGE JONES: Notice is taken.

24 MS. BAKER: I have no further  
25 questions.

1 JUDGE JONES: Any questions from the  
2 Commission? Any recross? Redirect?

3 MR. COOPER: Yes, your Honor.

4 REDIRECT EXAMINATION BY MR. COOPER:

5 Q. Mr. Johansen, can you tell from that  
6 Stipulation & Agreement what individual pieces of  
7 plant are or are not included in the rate base  
8 numbers?

9 A. I don't believe so, no. Well, let me  
10 clarify that. There are -- there is a specific  
11 reference to the mains not being included. I don't  
12 recall any specific references to what is included.

13 Q. What did you have to do to try to  
14 determine what was or wasn't included in that  
15 number?

16 A. I reviewed the -- some work papers  
17 that were provided from the certificate case and  
18 the EMS runs from the certificate case, and I also  
19 reviewed documentation that Mr. Kallash provided  
20 me.

21 Q. And there was -- and have you viewed  
22 the plant as well that's -- that exists?

23 A. Yes.

24 Q. Based upon the plant that's in place,  
25 do you have an estimate of the value of that -- of

1 **the missing items that you identified?**

2 A. I have that document but not with me.  
3 I have a document that I can get that does identify  
4 that. I don't have it physically with me.

5 **Q. Is it in the hearing room?**

6 A. I'm not sure if I have it  
7 electronically or not. If I -- probably not. Let  
8 me put it that way.

9 **Q. Do you remember in order of magnitude**  
10 **what type of dollars you're talking about?**

11 A. I'm going to go from memory here from  
12 what's in the certificate case stip, which I think  
13 was about 250,000, rough number. Or somebody  
14 can --

15 **Q. Would it be helpful if I handed you**  
16 **the Stipulation & Agreement?**

17 A. Yeah. The rate base number  
18 referenced in the stip is \$245,957, and -- and I  
19 believe the items that I discussed in my testimony,  
20 again excluding the land since that's off the table  
21 now, was probably -- again, I'm going from memory  
22 here. I will get that information. I think it's  
23 probably about another 75 to 100,000 total.

24 **Q. But that's something that, with the**  
25 **assistance of another document, you could be more**

1     **specific about; is that correct?**

2             A.     Yes.

3             MR. COOPER:   That's all the questions  
4     I have.

5             JUDGE JONES:   Thank you,  
6     Mr. Johansen.   You may step down.

7             Lincoln County, you can call your  
8     next witness.

9             MR. COOPER:   We would call  
10    Mr. Kallash.

11            JUDGE JONES:   Mr. Kallash, you remain  
12    under oath.

13            JUDGE JONES:   Cross-examination from  
14    Staff?

15    DENNIS KALLASH testified as follows:

16    CROSS-EXAMINATION BY MR. THOMPSON:

17            **Q.     Mr. Kallash, at the time of the**  
18    **certificate case, you entered into a stipulation of**  
19    **\$245,957 as the value of rate base; isn't that**  
20    **correct?**

21            A.     I never seen that figure.

22            **Q.     You never saw that figure?**

23            A.     I never seen that figure.

24            **Q.     Okay.**

25            A.     Until the other day, or until a few



1 months ago.

2 Q. Did you sign the Stipulation &  
3 Agreement?

4 A. No, I did not.

5 Q. Was it executed by someone else on  
6 your behalf?

7 A. I found out that Mr. Cooper had  
8 signed it.

9 Q. Mr. Cooper signed it on your behalf?

10 A. I'm saying he signed it.

11 Q. Okay. So are you saying you  
12 repudiate that Stipulation & Agreement?

13 A. I'm saying it's not correct.

14 Q. Not correct. Okay. Now, did  
15 Mr. Cooper represent you in the certificate case?

16 A. Yes, he did.

17 Q. And did he confer with you from time  
18 to time?

19 A. Yes, he did.

20 Q. And did he discuss the Stipulation &  
21 Agreement with you? Don't tell me what he  
22 discussed, but did he discuss it with you?

23 A. Yes.

24 Q. Okay. Were you aware that there was  
25 going to be such a document?

1 A. Yes.

2 Q. And were you aware that the company  
3 was entering into that agreement?

4 A. Yes and no.

5 Q. Yes and no. Well, what part would be  
6 the yes?

7 A. When I got the draft copy, there was  
8 the -- the rate base for non-metered and metered,  
9 and I read through the stuff, and where the numbers  
10 were to be put in for the rate case, they were  
11 blank.

12 And I had talked to Lisa and Jim  
13 Merciel about the number several times before that,  
14 and then when I found out was when we was doing the  
15 yearend -- the yearly audit, and they came up and  
16 gave me numbers that I had never seen before and I  
17 asked them where they got them, and they said the  
18 stip.

19 I got out my stip and it wasn't on  
20 there. They said, you don't have the original one  
21 filed. And that's when I became aware of it.

22 Q. So if I understand your testimony,  
23 prior to the execution of the Stipulation &  
24 Agreement, the draft that you saw was incomplete in  
25 that some numbers were missing?

1 A. There was two numbers missing.

2 **Q. Okay. And those numbers were?**

3 A. If you show me a stip, I can show you  
4 where they were.

5 **Q. I don't happen to have a copy.**

6 MR. THOMPSON: Thank you, Mr. Cooper.

7 THE WITNESS: On this page here --

8 BY MR. THOMPSON:

9 **Q. What is the number of that page, if**  
10 **you would?**

11 A. It doesn't have a number on the page.

12 **Q. Okay. Counting from the front, how**  
13 **far is it into the document?**

14 A. It's the second page.

15 **Q. Second page. Okay.**

16 A. On line 8 where it says rate base,  
17 where it says 245,957, that number on mine is  
18 blank.

19 **Q. Now, you said there were two numbers**  
20 **that were missing. What is the other number that**  
21 **is missing?**

22 A. On page 3 at the bottom, that  
23 Rockport whole statement.

24 **Q. Go ahead and read that statement,**  
25 **would you?**

1           A.     The Rockport water and sewer rate  
2 base numbers contemplate capacity adjustments that  
3 result in \$153,160 of water plant and 98 of sewer  
4 plant being recorded as plant held in future use at  
5 a customer level of 62 residential customers.

6           **Q.     Okay. And that was missing on yours?**

7           A.     That's correct.

8           **Q.     Okay. Now, I wonder if you could**  
9 **look at the page with the signatures?**

10          A.     There is no signature page on this  
11 one, sir.

12          **Q.     There is no signature page. Okay.**

13          A.     Oh, wait. Is this what you call the  
14 signature page?

15          **Q.     Yes, that is.**

16          A.     Okay.

17          **Q.     Is there a signature for Lincoln**  
18 **County Water and Sewer?**

19          A.     Not for Lincoln County Water and  
20 Sewer.

21          **Q.     Is there a signature for your agent,**  
22 **that is your attorney?**

23          A.     Says attorney for Lincoln County  
24 Water and Sewer.

25          **Q.     Okay. There is a signature for**

1 **Mr. Cooper?**

2 A. This is printed. There's no  
3 signature.

4 **Q. But it is printed?**

5 A. It's printed there, yes.

6 **Q. Okay. Thank you.**

7 MR. THOMPSON: No further questions.

8 JUDGE JONES: Public Counsel?

9 MS. BAKER: I have no questions.

10 JUDGE JONES: Commissioners?

11 COMMISSIONER W. KENNEY: I do.

12 QUESTIONS BY COMMISSIONER W. KENNEY:

13 **Q. Hello, sir.**

14 A. Hello.

15 **Q. Going back, I asked a question to**  
16 **Ms. Hanneken regarding her testimony that --**  
17 **specifically I had two questions, that she had said**  
18 **she needed more time to review the Schulte Supply,**  
19 **Inc., their invoice for the 2,261.**

20 I asked her what her analysis was,  
21 does the company need the service and should the  
22 ratepayers pay it? I also asked her the same  
23 question regarding the invoice from Continental  
24 Utility, and she kind of answered that she didn't  
25 have enough time because they had just gotten them

1 in so late.

2 My question to you is, when did you  
3 decide to enter into those agreements, and why was  
4 the info not provided earlier to the Office of  
5 Public Counsel and Staff?

6 A. Okay. To answer the second question,  
7 the reason it was provided, I sent it in the day  
8 after I got the invoice in the mail. Okay. We got  
9 an invoice. I opened it up. I called them to see  
10 what was going on with the invoice. They said  
11 they're changing their procedure on the handheld.

12 Q. Who is they?

13 A. Okay. Neptune.

14 Q. Okay.

15 A. When we had to do the handheld for  
16 the reading of the meters, it comes with a one-year  
17 warranty. Our warranty was up in one year, and I  
18 asked them why I would need to keep this -- this  
19 update and pay for this thing, and they said --  
20 Neptune said, we have a new policy coming into  
21 effect January 1st of '14. If something happens to  
22 your computer and it goes down, we can take 21 to  
23 28 days to work on it. If you sign this  
24 maintenance agreement, we will guarantee we will do  
25 it in four days. I sent them the minute I got it.

1           Q.     Okay.  When did you enter into that  
2     **agreement, though?**

3           A.     I have never entered in an agreement.  
4     I haven't paid it yet.  That's why I called  
5     Mr. Busch right when I got it and I said, we just  
6     got this.  I don't know if I should pay it or not  
7     pay it because it just came in today.  So I sent  
8     him the thing.  And we're anticipating going ahead  
9     with it just for the customer service and  
10    everything.

11          Q.     Okay.  Another question regarding --  
12    **it came up earlier and I guess now is the**  
13    **appropriate time to ask it.  On the same -- on Lisa**  
14    **Hanneken's surrebuttal testimony, she discusses**  
15    **trying to get records from you.**

16          A.     Yes, sir.

17          Q.     And specifically several times --  
18    **I'll read this.  Several times throughout the audit**  
19    **process Mr. Kallash stated to the Staff that he**  
20    **had, in fact, disposed of the records.**  
21    **Specifically in a meeting on January 3rd, 2013**  
22    **attended by multiple Staff members, the company**  
23    **indicated that they had thrown all the**  
24    **documentation prior to the certification date of**  
25    **July 20, 2012 away.**

1                   In addition, on page 35 of OPC  
2     **witness William Addo's rebuttal testimony, Mr. Addo**  
3     **states that he was able -- was also made aware that**  
4     **the company disposed of much of its historical**  
5     **records.**

6                   **Why would you dispose of your**  
7     **records?**

8           A.     I'm glad you asked that question. We  
9     didn't dispose of the historical records because  
10    there wasn't any. What I got rid of, we had four  
11    bank accounts. We had one Bennington Water, one  
12    for Bennington Sewer, one for Rockport Water and  
13    Rockport Sewer.

14                   I did find and brought in a ledger  
15    that we had sent to them in the '07 and '08. They  
16    had all that. In a whole year, every month we  
17    wrote two checks. We wrote one check to the  
18    electric and one check to the contracted labor that  
19    was handling the treatment. There was no gas  
20    checks. There was no phone checks. There was no  
21    checks because that was never -- that was all  
22    assumed by my other company.

23                   So when she said I destroyed the  
24    records, what I did is, when I became regulated, I  
25    had electric bills for five years and I had bank



1 statements from four accounts and the canceled  
2 checks, two for each month, which I have a copy to  
3 show you-all. I took and got rid of them because  
4 they didn't exist anymore.

5 She wanted the electric bills. So I  
6 called the electric company and they provided the  
7 electric bills for Ameren and Cuivre River. She  
8 said in there several times I destroyed or disposed  
9 of them. I got rid of electric bills that had  
10 been -- I'd been using for 16 years that I had  
11 paid. There was no other records.

12 And when she did the original audit,  
13 she came up, she said, you have to have other  
14 records. She went through our checkbook and  
15 through our register and looked at every check.  
16 Two checks a month got wrote. And like I said, it  
17 was to the electric company and to the contracted  
18 labor. There was no other records.

19 So I did not dispose of all these  
20 records she said I disposed of. That's a real  
21 concern of mine.

22 COMMISSIONER W. KENNEY: No other  
23 questions. Thank you.

24 JUDGE JONES: Any recross based on  
25 questions from the Bench? Any redirect?

1 REDIRECT EXAMINATION BY MR. COOPER:

2 Q. Did you operate as Lincoln County  
3 Sewer and Water, LLC prior to July of 2012?

4 A. No, sir.

5 Q. So in terms of Lincoln County Sewer  
6 and Water, LLC records, that's when you would have  
7 started accumulating records for that company?

8 A. We opened the account right after we  
9 got certification. That's when we started keeping  
10 track of every record that they require us to keep.

11 Q. In the certificate case, did you  
12 provide everything you had in terms of records  
13 relating to those periods prior to the certificate  
14 case?

15 A. Yes. We gave her all the records  
16 that we had.

17 Q. It was referenced earlier that the  
18 stipulation said -- well, hold on just a second.

19 You were asked about that  
20 Stipulation & Agreement from the certificate case.  
21 Is Lincoln County Sewer and Water the party to that  
22 stipulation?

23 A. I'm not a lawyer, but Lincoln County  
24 Sewer and Water, LLC appears up here, yes.

25 Q. And then Staff and then OPC, correct?

1 A. That's correct.

2 Q. No other party? There are no other  
3 parties to that stipulation?

4 A. That's correct.

5 Q. And I'm doing this by memory because  
6 I think you have my only copy of the stipulation,  
7 but look maybe at, I think maybe paragraph 12.

8 A. Outdoor water usage.

9 Q. That's not it. Hold on just a  
10 second. Paragraph 14, do you see that?

11 A. Yes, sir.

12 Q. Does that refer to records  
13 maintenance?

14 A. Yes, sir.

15 Q. And it says, Lincoln County Sewer and  
16 Water shall maintain plant records going forward?

17 A. That is correct.

18 Q. What was some of your frustration in  
19 terms of the record process in regard to records  
20 that you provided during the certificate case and  
21 then how those records were requested in this case?

22 A. Back in the certificate case, when  
23 they -- when the auditors came up, they went next  
24 door and we gave them every bank statement. Gave  
25 it to right to them. They went next door and

1 copied every bank statement, every check, every  
2 deposit. Took copies of all the checks. Took  
3 copies of all electric bills, and the only other  
4 bill we had was to the contractor. They took all  
5 them.

6                   They -- we never sent a bill out.  
7 She asked for all the bills. Lisa said, I'd like  
8 to see the bills you sent out. These people were  
9 charged \$55 a month. It was a flat rate. Some of  
10 them paid six months. Some of them paid by the  
11 year. There was no bill sent out. So we had no  
12 envelopes, no billing process, no stamps.

13                   When we had to send out CCRs or we  
14 had to send any notices from DNR, all that was done  
15 through my surveying company. The envelope was put  
16 there and the stamps were put on it.

17                   Lisa told me if we would start  
18 keeping records after this, she would use the  
19 records. We -- when she came up for the second  
20 rate case, we had hired a contracted labor to test  
21 the water, and he charged \$150 a month per  
22 subdivision, and he did all the water testing and  
23 then sent the samples in to DNR. Then we kept the  
24 stuff in our office.

25                   When Lisa came up, we provided her

1 with all the checks that we had been doing that  
2 since the rate case began, so for four or five  
3 months. And he had got dogged in, so I started  
4 doing them and was paying myself \$150. She said  
5 that she thought 150 was too much. She said 125  
6 was more reasonable. So I started paying myself  
7 \$125 to test the water. Then in this rate case she  
8 put \$380 down for the whole year, which is less  
9 than \$10. Every time she comes up and we keep a  
10 record, she doesn't use it.

11 **Q. On that expense, would you have any**  
12 **record other than the check of what you paid**  
13 **yourself?**

14 A. No. We have -- there would be no  
15 other record because personal items, there's  
16 four -- there's four companies out there. They say  
17 we have to keep everything separate. Well, when  
18 she first came up, doing the bookkeeping, we have  
19 postage in one column we showed her. We have  
20 office expense. We have this expense, this  
21 expense. She said, your postage needs to be  
22 divided four ways, one for each thing.

23 I use -- when I go out to the  
24 treatment plant to test water, I take a -- I keep a  
25 roll of paper towels in my truck. Well, right

1 before I came up to this I was clarifying leaves  
2 out of the clarifier and I got human waste on me.  
3 According to her, we've got to keep four rolls of  
4 paper towels and use this one for this subdivision,  
5 this one for this subdivision. Nobody operates  
6 like that. It's ridiculous. I can't operate like  
7 that.

8 So I just buy the materials out of my  
9 personal account. Don't even charge them to the  
10 company. It's been very frustrating.

11 **Q. Earlier you were asked questions**  
12 **about that Stipulation & Agreement and the rate**  
13 **case amounts that are included in that stip, and**  
14 **you were asked about what you thought was included,**  
15 **I think, in that rate -- those rate base numbers.**

16 **What was your -- what was your**  
17 **understanding of how those numbers were going to be**  
18 **created by Staff, how -- what was going to be**  
19 **included in those numbers?**

20 A. Oh, boy. When Lisa first came up and  
21 did the first audit, the one plants were put in 16  
22 years ago. I didn't have receipts. I didn't even  
23 have the checks from 16 years ago. So I went to  
24 the bank. We had to call the company. We provided  
25 them with checks. They went out and looked at it.

1 She said why don't I have receipts?

2 Well, back then I wasn't governed by the PSC and  
3 you didn't have to keep receipts for 16 years. The  
4 IRS didn't even require that.

5 So the well house is there. She  
6 said, I'm not going to allow it. I said, well, I  
7 can go get a receipt. We can get the check from  
8 the bank and I can go have a company. She said she  
9 would not accept nothing if we didn't have the  
10 original receipt.

11 Well, the way we work in Lincoln  
12 County, we're a farming community. If somebody  
13 tells me 15,000 to build something, that's what I  
14 pay them. If I -- now I keep every receipt. I  
15 keep everything on this company. Back then we  
16 didn't because we weren't regulated and nobody said  
17 we had to.

18 So the frustration was, I told Lisa  
19 what I had in them. Jim Merciel, we went over it.  
20 They told me that they couldn't allow it. They had  
21 to put some it in future use. I said, that's  
22 great. But then they didn't put it in future use.  
23 I find out that they -- that I've got a million  
24 dollars tied up. They give me 500,000.

25 They have destroyed my whole company.

1 And I didn't want to come here, but when I put the  
2 meters in, they would not accept them. They have  
3 done nothing but make this small company spend  
4 money and they've tried to break us. And I've went  
5 to the bank and I've borrowed thousands of dollars  
6 to bring this forward because this is not right  
7 what they're doing to this small company.

8 I'll be in receivership if we keep  
9 going the way they are in no time. And Dale and  
10 even Steve Loethen said, if we go into receivership  
11 he said it would be the best companies he ever took  
12 over because I bust my tail to keep this where the  
13 water's good. Our results from DNR, we haven't had  
14 a violation in 16 years. Never. We work hard at  
15 this.

16 And I have never seen anything like  
17 this in my life to where you can be treated -- I've  
18 been called a liar. I've been accused of fraud by  
19 the Commission, by the Staff and stuff. It's just  
20 reprehensible. Nobody has ever treated me like  
21 that. They always say, you can't do nothing, go in  
22 front of the Commission. Guys, I'm here. I'll  
23 answer any question you've got because this is  
24 serious.

25 MR. COOPER: That's all the questions



1 I have.

2 JUDGE JONES: We'll reserve questions  
3 from the Bench 'til after lunch, but right now  
4 let's go ahead and go forward with Staff's witness,  
5 unless there's -- no questions. Let's go with  
6 Staff's witness.

7 MR. THOMPSON: Thank you. We'll call  
8 Lisa Hanneken.

9 JUDGE JONES: You may step down,  
10 Mr. Kallash.

11 MR. THOMPSON: And we'll tender her  
12 for cross-examination, judge.

13 JUDGE JONES: Any cross from Public  
14 Counsel?

15 LISA HANNEKEN testified as follows:

16 CROSS-EXAMINATION BY MS. BAKER:

17 **Q. Were you given any documentation as**  
18 **to the costs that the company has claimed is not**  
19 **included in rate base, namely the engineering fees,**  
20 **the structures, base rock, concrete pads?**

21 A. There's been no invoices or other  
22 documentation provided to support those costs.

23 MS. BAKER: No questions.

24 JUDGE JONES: Cross from Lincoln  
25 County?

1 CROSS-EXAMINATION BY MR. COOPER:

2 **Q. Does no invoices include canceled**  
3 **checks?**

4 A. It's not been Staff's practices to  
5 include canceled checks when they are not aware of  
6 what those items were being paid for.

7 **Q. So when you say no documentation,**  
8 **you're talking about something other than canceled**  
9 **checks, correct?**

10 A. Correct, although I don't know that  
11 each of the items that we're talking about here  
12 today had a canceled check tied to them.

13 **Q. But you have had -- you have received**  
14 **some of the canceled -- some canceled checks,**  
15 **correct, pertaining to these items?**

16 A. I would have to go back and look --  
17 that was in the certificate case -- and refresh my  
18 memory.

19 **Q. But from your point of view, even if**  
20 **you did have canceled checks, that's not good**  
21 **enough, right?**

22 A. No. There are instances where we  
23 will go out and actually evaluate the property in  
24 question.

25 **Q. Did you do that in this case?**

1           A.     In this case, no, because we used the  
2 rate base balances that were agreed to by all  
3 parties in the last case Stip & Agreement.

4           MR. COOPER: That's all the questions  
5 I have.

6           JUDGE JONES: Any questions from the  
7 Commission?

8           COMMISSIONER W. KENNEY: I do. Thank  
9 you.

10          QUESTIONS BY COMMISSIONER W. KENNEY:

11           **Q.     So do they have no value? Is that**  
12 **what's determined, that they have zero value or**  
13 **would they --**

14           A.     They are not -- they were not  
15 included in the contemplation of the balances that  
16 are in the Stip & Agreement amounts. However --

17           **Q.     But they do have a value, right?**  
18 **Wouldn't you say something costs money to build?**

19           A.     Yes, but there's also -- you have to  
20 take into account whether or not some of the items  
21 were CIAC related and, therefore, there would still  
22 be no value. Yes, there is a value to the  
23 property. However, for ratemaking purposes there  
24 may be no value to those items if they're CIAC  
25 related.

1           **Q.     So it was just -- and they've been --**  
2           **that's what they're determined by Staff to be?**

3           A.     I don't know, because we didn't have  
4           enough documentation to even make that  
5           determination.  However, all of these questions,  
6           all of these pieces of property were thought about  
7           in contemplation of the Stip & Agreement by all  
8           parties.  So we were aware of this in the last  
9           case, and it was decided by all parties these would  
10          be the agreed amounts.

11                         COMMISSIONER W. KENNEY:  Thank you.

12                         JUDGE JONES:  Commissioner Hall?

13                         QUESTIONS BY COMMISSIONER HALL:

14           **Q.     The prior witness testified that he**  
15           **offered copies of receipts because he could not**  
16           **locate originals of the receipt and testified that**  
17           **you indicated that you would not accept copies.**

18           A.     I don't think --

19           **Q.     Did I misunderstand that?**

20           A.     I'm not exactly sure what you're  
21           referring to.  The only thing that I'm aware of is  
22           we did request the Ameren bills, the AmerenUE or  
23           Ameren Missouri electric bills, and when the  
24           originals were not available, we said, well, you  
25           could ask for the specific information from Ameren

1 Missouri and they could provide you copies of the  
2 bills.

3                   However, what was provided to Staff  
4 was a, like, broad level summary from Ameren  
5 Missouri, which did not have all the necessary  
6 documentation that we needed to annualize the  
7 electric expense.

8                   Staff was well aware that Ameren  
9 Missouri had a rate increase and was more than  
10 willing to reannualize their electric expense to  
11 account for that, but we didn't have the necessary  
12 numbers specifically related to Lincoln County in  
13 order to do that.

14                   However, immediately before  
15 surrebuttal testimony, these bills did come to us.  
16 I'm -- it looks to me like they might even be the  
17 originals. I'm not sure. But they are not copies  
18 that we normally see being provided to Ameren  
19 Missouri customers. They look more like the  
20 originals.

21                   But at no time have I ever told the  
22 company I would not accept a copy of something.

23                   **Q. On page 4 of your direct testimony,**  
24 **you discussed the fact that Staff received**  
25 **historical data for the certificate case. Is that**

1 **documentation that Staff is still in possession of?**

2 A. Anything that was provided in the  
3 certificate case Staff has possession of. However,  
4 the certificate case cut off at a certain point in  
5 time, and after that point in time, we did not have  
6 any documentation subsequent.

7 So like, for example, some of the  
8 bank statements were only through like maybe July  
9 or August of 2011, and then we have requested to  
10 pick up from that point in time in this case going  
11 forward to get all of the bank statements.

12 So we do have possession of all of  
13 the bank statements from the previous case, but we  
14 only have that up to a certain point in time, and  
15 then we requested in this case to pick up from that  
16 point going forward.

17 COMMISSIONER HALL: Thank you.

18 JUDGE JONES: Any recross?

19 MR. COOPER: Yes, your Honor.

20 RE-CROSS-EXAMINATION BY MR. COOPER:

21 **Q. The gap, I guess, or the -- the**  
22 **period between the ending of your data in the**  
23 **certificate case and where the data picks up, that**  
24 **would include a time period prior to the operation**  
25 **of Lincoln County Sewer and Water, LLC, correct, a**

1 time period prior to July of 2012?

2 A. Correct.

3 Q. And you were asked about copies of  
4 receipts. How about -- or invoices. How about  
5 recreated invoices, if an invoice was recreated 16  
6 years later, how would you view that documentation?

7 A. If it were, you know, the actual  
8 documentation, then that would be reviewed by  
9 Staff.

10 Q. But if it's an invoice that's  
11 recreated from memory, work performed 16 years  
12 prior?

13 A. If it's not -- you know, if you go to  
14 a vendor and say, hey, do you have a copy of your  
15 invoices from 16 years ago, can I get a fresh copy,  
16 then that is good. If it's someone trying to rely  
17 on their memory, we would have to take all that  
18 into consideration.

19 Q. You'd have an issue with that, right?

20 A. I don't know that we would have an  
21 issue. I'd have to look at the data. I can't  
22 tell you without looking at what you're referring  
23 to.

24 MR. COOPER: That's all the questions  
25 I have.

1 JUDGE JONES: Public Counsel?

2 MS. BAKER: No questions.

3 JUDGE JONES: Any redirect?

4 MR. THOMPSON: Just a moment, Judge.

5 REDIRECT EXAMINATION BY MR. THOMPSON:

6 Q. Were you present during the testimony  
7 of Mr. Johansen on this issue?

8 A. Yes.

9 Q. And did you hear Mr. Johansen give a  
10 valuation of the items that he indicates were left  
11 out of rate base?

12 A. No, I don't believe I did.

13 Q. You did not hear that. If he did  
14 give a valuation, would that have been the first  
15 time in this case that the company had provided any  
16 valuation for those items?

17 A. Correct.

18 Q. And did you ask for a valuation  
19 prior?

20 A. We did. We have -- even in the last  
21 case, we asked for invoices related to all plant-  
22 related items, yes.

23 Q. Now, you were present for the  
24 testimony of Mr. Kallash?

25 A. Yes.



1           **Q. Did you work with Mr. Kallash to**  
2           **obtain necessary documentation to support the rate**  
3           **increase request?**

4           A. Yes. And when there was no  
5           documentation, Staff went outside to try and help  
6           Mr. Kallash. We went to Ameren Missouri, but  
7           Ameren Missouri said, well, with confidentiality we  
8           can't give you that information. So then we  
9           suggested that he could go there and get that  
10          information.

11          **Q. Is it common for Staff to work with**  
12          **small companies to attempt to round out or**  
13          **supplement or create or find the documentation**  
14          **necessary?**

15          A. Yes. And if the documentation is not  
16          necessary, we do best we can to still provide those  
17          costs.

18          **Q. Is it usual or unusual for a small**  
19          **company to have gaps in their documentation?**

20          A. It varies company to company. In  
21          general, it depends on the circumstances of the  
22          company. I've not been on a case where we  
23          previously had the documentation and then in the  
24          next case we don't have that documentation. But we  
25          have -- there are certain gaps sometimes due to

1 certain circumstances.

2 Q. Did you ever hear anyone from Staff  
3 call Mr. Kallash a liar?

4 A. Not to my knowledge, no.

5 Q. Did you ever hear anyone from Staff  
6 accuse Mr. Kallash of fraud?

7 A. Not to my knowledge, no.

8 MR. THOMPSON: Thank you. No further  
9 questions.

10 JUDGE JONES: Okay. You may step  
11 down, Ms. Hanneken.

12 Let's take a lunch break. It's ten  
13 after noon. Let's make it 1:20.

14 (A BREAK WAS TAKEN.)

15 JUDGE JONES: Let's go ahead and go  
16 back on the record in Case No. SR-2013-0231.

17 We broke for lunch just before the  
18 issue of capacity adjustments. Let's go ahead and  
19 start up with that.

20 MS. BAKER: Your Honor, before we  
21 begin, I brought with me copies of the Order  
22 Approving the Unanimous Stipulation & Agreement  
23 that has the Stipulation & Agreement attached to it  
24 from Case WA-2012-0018. If that would help the  
25 Commission, I would certainly be willing to add

1 that in as an exhibit.

2 JUDGE JONES: We're already taking  
3 notice of it.

4 MS. BAKER: I'm just saying --

5 JUDGE JONES: Unless you want it.

6 COMMISSIONER HALL: I have a copy.

7 JUDGE JONES: Thanks for offering.

8 MS. BAKER: All right. Wonderful.

9 JUDGE JONES: Did Staff have  
10 something?

11 MS. MOORE: Yes. Just to let you  
12 know, Jim Merciel is currently out of the office,  
13 as we discussed this morning, for capacity  
14 adjustment. That's his issue.

15 JUDGE JONES: Okay. So we'll skip  
16 over that.

17 MS. MOORE: Thank you, Judge.

18 JUDGE JONES: Let's move on to plant  
19 held for future use. Lincoln County, you can call  
20 your first witness.

21 MR. COOPER: Company would call  
22 Mr. Johansen and tender him for cross-examination.

23 JUDGE JONES: Mr. Johansen, you  
24 remain under oath. Cross from Staff?

25 MS. MOORE: Thank you, Judge.

1 DALE JOHANSEN testified as follows:

2 CROSS-EXAMINATION BY MS. MOORE:

3 Q. Mr. Johansen, just one question. Are  
4 you an accountant?

5 A. No.

6 MS. MOORE: Thank you.

7 JUDGE JONES: What was that question?

8 MS. MOORE: The question was whether  
9 he is an accountant.

10 JUDGE JONES: Okay. Any cross from  
11 Public Counsel?

12 MS. BAKER: No questions.

13 JUDGE JONES: Questions from the  
14 Bench?

15 COMMISSIONER W. KENNEY: No  
16 questions.

17 COMMISSIONER HALL: No questions.

18 JUDGE JONES: I don't suppose you  
19 need any redirect?

20 MR. COOPER: No, your Honor.

21 JUDGE JONES: You may step down,  
22 Mr. Johansen. Public Counsel, you may call your  
23 witness.

24 MS. BAKER: We'll call William Addo.

25 JUDGE JONES: Mr. Addo, you remain

1 under oath.

2 THE WITNESS: Thank you.

3 JUDGE JONES: Do we have cross from  
4 Staff?

5 MS. MOORE: No questions. Thank you.

6 JUDGE JONES: Cross-examination from  
7 Lincoln County?

8 MR. COOPER: No questions.

9 JUDGE JONES: Any questions from the  
10 Bench? No redirect. I suppose you may step down.  
11 Let's move on to Staff's witness.

12 MS. MOORE: Staff calls Lisa  
13 Hanneken.

14 JUDGE JONES: Ms. Hanneken, you  
15 remain under oath.

16 MS. MOORE: Staff tenders the witness  
17 for cross.

18 JUDGE JONES: Any cross-examination  
19 from Public Counsel?

20 MS. BAKER: No questions. Thank you.

21 JUDGE JONES: Any questions from the  
22 company?

23 MR. COOPER: No questions.

24 JUDGE JONES: Any questions from the  
25 Bench?

1 COMMISSIONER W. KENNEY: No

2 questions.

3 COMMISSIONER STOLL: No.

4 LISA HANNEKEN testified as follows:

5 QUESTIONS BY JUDGE JONES:

6 Q. I just have one question,  
7 Ms. Hanneken. Is what the company proposes on this  
8 issue contrary to the USOA?

9 A. Yes, it is.

10 JUDGE JONES: Okay. Any questions  
11 based on my question?

12 (No response.)

13 JUDGE JONES: You may step down,  
14 Ms. Hanneken.

15 THE WITNESS: Thank you.

16 JUDGE JONES: We'll move on to  
17 depreciation rates. Lincoln County, call your  
18 first witness. Let's do this. This is starting to  
19 make me dizzy with people running back and forth.  
20 These rates -- I mean, these issues, does anybody  
21 have issue with these issues? Is there going to be  
22 questions on these? What I'm thinking I might want  
23 to do is keep -- we have Johansen, Johansen,  
24 Johansen for the next three issues. It would be  
25 nice just to keep him there, do the next three

1 issues or four issues. Does anybody have a problem  
2 with that?

3 (No response.)

4 JUDGE JONES: Okay. Mr. Johansen,  
5 you can come up. Any cross-examination from Staff?

6 MR. THOMPSON: No, thank you.

7 JUDGE JONES: Cross-examination from  
8 OPC?

9 MS. BAKER: So we're dealing with  
10 depreciation rates?

11 JUDGE JONES: We're dealing with  
12 depreciation right now. Now, if is this going to  
13 throw any strategy off for anyone, let me know. I  
14 don't want to do that. I know you-all anticipated  
15 doing it issue by issue, but I don't want to keep  
16 running people like this.

17 MS. BAKER: So he's doing  
18 depreciation rates and rate case expense?

19 JUDGE JONES: Yes.

20 MS. BAKER: And certificate case  
21 expense.

22 JUDGE JONES: We'll go as far as  
23 nobody has questions for him. When one of these  
24 issues becomes an issue on the stand, then we'll  
25 rotate the witnesses out. But if nobody has

1 questions for Johansen on any of these issues, I  
2 don't want to keep bringing him up.

3 MS. MOORE: Judge, I do have  
4 questions on some of the issues further down the  
5 list.

6 JUDGE JONES: Okay. When we get  
7 there, we'll deal with that. Depreciation rates.  
8 Just follow my lead.

9 MS. BAKER: You'll have to point it  
10 out for me.

11 JUDGE JONES: We're on depreciation  
12 rates. Do you have any questions?

13 MS. BAKER: I just have one question  
14 about depreciation rates.

15 DALE JOHANSEN testified as follows:

16 CROSS-EXAMINATION BY MS. BAKER:

17 Q. You are aware that the submersible  
18 pump at Bennington is fully depreciated, correct?

19 A. I'll be real honest with you. I have  
20 not looked at that particular account or the  
21 Staff's work papers, so I don't know if it is or  
22 not.

23 MS. BAKER: Then I have no questions  
24 for you.

25 JUDGE JONES: Any questions from the



1 Bench? Any redirect or recross -- or redirect?

2 I'm sorry.

3 MR. COOPER: No, your Honor.

4 JUDGE JONES: Okay. Let's move on to  
5 rate case expense with Johansen still on the stand.

6 Any cross from Staff?

7 MR. THOMPSON: No cross from Staff.

8 Thank you.

9 JUDGE JONES: Any cross from OPC?

10 CROSS-EXAMINATION BY MS. BAKER:

11 **Q. For rate case expense, is it your**  
12 **understanding that the company is requesting one**  
13 **week after post-hearing briefings for rate case**  
14 **expense?**

15 A. I believe that's correct. Let me  
16 check here. Yes.

17 **Q. What type of rate case expense are**  
18 **you expecting after the post-hearing briefs go in?**

19 A. Well, that suggestion was made simply  
20 based on what was done in the Emerald Point case.  
21 That was the date that the Commission chose, so  
22 that's why we're proposing that.

23 **Q. And you are aware now that there are**  
24 **two attorneys who have entered their appearance in**  
25 **this case?**

1 A. Yes.

2 Q. Is it your understanding that the  
3 cost for both of these attorneys will be asked to  
4 be put into rates?

5 A. So far as I know, yes.

6 MS. BAKER: No further questions.

7 JUDGE JONES: Any questions from the  
8 Bench? I don't see anything. Any recross, Staff?  
9 Company, redirect?

10 MR. COOPER: No, your Honor.

11 MR. THOMPSON: No, thank you, Judge.

12 JUDGE JONES: Let's move on to  
13 certificate case expense with witness Johansen.  
14 Cross-examination from Staff?

15 MS. MOORE: Yes, a few questions.

16 CROSS-EXAMINATION BY MS. MOORE:

17 Q. Mr. Johansen, I believe you argue  
18 that certificate case expenses should be included  
19 in rates in this case because those expenses were  
20 incident to procuring the company's certificate; is  
21 that correct?

22 A. Yes.

23 Q. And that's the basis for including  
24 these costs as intangible plant, franchises and  
25 consents in that account, correct?

1 A. Yes.

2 Q. Are you aware that the costs you term  
3 certificate case expenses included costs for a  
4 complaint case against the company?

5 A. The dollars associated with what the  
6 Staff identified as complaint case related are not  
7 in what I'm suggesting to be included.

8 Q. Okay. If any portion of the costs  
9 that you've identified as incident to acquiring a  
10 certificate included costs completely unrelated to  
11 acquiring a certificate, would you still argue  
12 these costs should be included in the account  
13 you've identified?

14 A. No.

15 MS. MOORE: Thank you.

16 JUDGE JONES: Any cross from OPC?

17 CROSS-EXAMINATION BY MS. BAKER:

18 Q. What is the exact amount that you are  
19 requesting for this issue?

20 A. I thought I stated in my testimony,  
21 but I did not. I would have to refer to my -- to  
22 the work papers I provided on that. Let me see. I  
23 don't think I've got those with me here.

24 Q. So as you sit on the stand today, you  
25 have no number to give to the Commission?

1           A.     Since I don't have my computer  
2 sitting here with me, that's correct.

3           **Q.     And you are aware that it is the**  
4 **standard practice, certainly because you worked for**  
5 **Staff, that it is the standard practice that in**  
6 **subsequent rate cases, no matter how often a**  
7 **company chooses to file for a rate increase, the**  
8 **rate case expense from the previous rate case is**  
9 **dropped?**

10          A.     Well, we're not talking about rate  
11 case expense here. We're talking about certificate  
12 case expense. I think there's a difference.

13          **Q.     But in the certificate case they set**  
14 **rates, correct?**

15          A.     Yes, as they always do in certificate  
16 cases.

17                   MS. BAKER: No further questions.

18                   JUDGE JONES: Any questions from the  
19 Bench? Any redirect?

20                   MR. COOPER: Yes.

21 REDIRECT EXAMINATION BY MR. COOPER:

22           **Q.     Mr. Johansen, if I were to hand you a**  
23 **reconciliation sheet, would you be able to refresh**  
24 **your memory as to the certificate case expense**  
25 **number?**

1 A. Yes.

2 Q. Is that a document you prepared?

3 A. Yes, it is.

4 Q. Having looked at that document, do  
5 you recall what the number was for certificate case  
6 expense?

7 A. Yes. \$4,810.

8 Q. Earlier you indicated that rates are  
9 always set in a certificate case. Could you  
10 explain that?

11 A. Well, in particular for a new company  
12 coming into being, the -- that's simply one of the  
13 aspects of a certificate case is to establish the  
14 company's initial rates.

15 Q. So they have no rates and they need  
16 rates on day one, correct?

17 A. Correct.

18 MR. COOPER: That's all the questions  
19 I have.

20 JUDGE JONES: Okay. Let's keep going  
21 with witness Johansen to office rent, office  
22 utilities. Cross-examination from Staff?

23 CROSS-EXAMINATION BY MS. MOORE:

24 Q. Mr. Johansen, you're familiar with  
25 the company's lease for its office building,

1 correct?

2 A. Yes.

3 Q. Is it true that the lease requires  
4 the company to pay 950 per month for its office  
5 space?

6 A. Yes.

7 Q. Is it true that, in addition to that  
8 amount, the company is responsible for other  
9 expenses, such as homeowners association fees,  
10 water charges, electricity, mowing around the  
11 office, and any and all maintenance on the building  
12 including heating and cooling repairs?

13 A. That's my understanding of the lease,  
14 but --

15 Q. That's what I asked. That's just the  
16 question. Thank you.

17 Are you familiar with Staff witness  
18 Kofi Boateng's testimony saying that because of  
19 this lease, the company could be paying  
20 approximately 17,000 per year for its office space?

21 A. I am familiar with that testimony,  
22 yes.

23 Q. In your experience, is it normal for  
24 a utility with only about 120 customers to rent a  
25 space for basic office activities that cost

1     **approximately 1,400 per month?**

2             A.     Probably not.

3             MS. MOORE:   Thank you.

4             JUDGE JONES:   Any cross from OPC?

5     CROSS-EXAMINATION BY MS. BAKER:

6             **Q.     Mr. Johansen, as you reviewed the**  
7     **lease for the office location where Lincoln County**  
8     **is presently at, you were aware that the owner of**  
9     **the building is an affiliate organization or entity**  
10    **also owned by Mr. Kallash?**

11            A.     I -- I don't believe that's correct.

12            **Q.     And how do you not believe that is**  
13    **correct?**

14            A.     Mr. Kallash can probably explain this  
15    better, but my understanding is there's a contract  
16    for deed between the trust you're referring to and  
17    Mike Lordo, and that contract for deed basically  
18    provides control over the property to Mr. Lordo.

19            **Q.     Control over the property or**  
20    **ownership over the property?**

21            A.     Control and eventual ownership.

22            **Q.     So who has the ownership today?**

23            A.     I don't know.

24            MS. BAKER:   I have no further  
25    questions.

1 JUDGE JONES: Questions from the  
2 Bench?

3 COMMISSIONER STOLL: I'll ask one.  
4 QUESTIONS BY COMMISSIONER STOLL:

5 Q. You were about to make a statement  
6 about qualifying the question that was asked from  
7 Staff regarding the rent. Would you care to finish  
8 that?

9 A. Well, yes. There are certain  
10 expenses that are set out in the lease that's the  
11 responsibility of the tenant, which is Lincoln  
12 County Sewer and Water. For this case, the company  
13 has specifically requested as an expense in  
14 their -- to be recovered through their rates only  
15 the rent and utilities, the electric and water.  
16 They have not requested any of the other expenses  
17 that may have been incurred to date or that would  
18 be incurred in the future under that lease.

19 Q. So if -- so as far as the lawn mowing  
20 and possible future air conditioning repairs,  
21 heating and air conditioning, those other items,  
22 they are not holding the company responsible, is  
23 that how you said it?

24 A. Well, the company has not requested  
25 those expenses to be recovered through their rates.



1 COMMISSIONER STOLL: Okay. Thank  
2 you.

3 QUESTIONS BY COMMISSIONER W. KENNEY:

4 Q. Is that 950 a month rent, in your  
5 estimation, is that a reasonable rent for the size  
6 of the property?

7 A. I would say for the size of the  
8 property, it probably is. I'm not -- I'll admit, I  
9 am not that familiar with the rental market in the  
10 Troy area.

11 COMMISSIONER W. KENNEY: Thank you.

12 JUDGE JONES: Any recross based on  
13 questions from the Bench?

14 MS. MOORE: Yes, Judge.

15 RECROSS-EXAMINATION BY MS. MOORE:

16 Q. Commissioner Kenney asked you if that  
17 was reasonable for the size of the space. Are you  
18 familiar with how that office space has been used  
19 since the company was certificated?

20 A. Only from the standpoint of how it's  
21 been described in the -- in other witness'  
22 testimony.

23 Q. Would it be accurate to say that for  
24 most of the time since the certificate case, there  
25 has only been a table and chair in that office

1 space that was used for the company's customers?

2 A. I don't know.

3 Q. If that were so, would you say \$950  
4 for the use of a space with just a table and chair  
5 would be reasonable?

6 A. Depends on the market.

7 MS. MOORE: Thank you.

8 JUDGE JONES: Any recross from Public  
9 Counsel?

10 MS. BAKER: No.

11 JUDGE JONES: Any redirect?

12 MR. COOPER: No, thank you.

13 JUDGE JONES: I have a question  
14 that's procedurally relevant. Mr. Johansen, were  
15 you hired by the company?

16 THE WITNESS: Yes.

17 JUDGE JONES: Are you hired per hour  
18 or per case?

19 THE WITNESS: Per hour.

20 JUDGE JONES: Let's go ahead and  
21 finish your testimony. Income taxes. Any cross  
22 from Staff?

23 MR. THOMPSON: Yes. Thank you,  
24 Judge.

25 CROSS-EXAMINATION BY MR. THOMPSON:

1 Q. Mr. Johansen, do you pay taxes?

2 A. I do.

3 Q. And are you aware that the way we  
4 organize our affairs may have tax consequences?

5 A. I am.

6 Q. If you know, does Lincoln County  
7 Sewer and Water pay taxes?

8 A. Not directly.

9 Q. And that's a consequence of the way  
10 the affairs of that entity have been organized;  
11 isn't that true?

12 A. Yes.

13 MR. THOMPSON: No further questions.

14 JUDGE JONES: Any cross from Public  
15 Counsel?

16 MS. BAKER: No questions.

17 JUDGE JONES: Any questions from the  
18 Bench? Any redirect?

19 MR. COOPER: Yes, your Honor.

20 REDIRECT EXAMINATION BY MR. COOPER:

21 Q. Is there gain or is there potentially  
22 gain for Lincoln County Sewer and Water?

23 A. Yes.

24 Q. In fact, the objective of this case  
25 is to come up with a rate that would provide some

1 gain for Lincoln County Sewer and Water?

2 A. Certainly.

3 Q. Would there be taxes on that gain?  
4 Would that -- let me rephrase that. Would gain  
5 show up on a tax return?

6 A. Yes.

7 Q. And if it shows up on a tax return,  
8 presumably there would be some taxes associated  
9 with it, correct?

10 A. Presumably, yes.

11 MR. COOPER: That's all the questions  
12 I have.

13 JUDGE JONES: Let's move on to the  
14 issue of salaries. Any cross from Staff?

15 MS. MOORE: No questions for this  
16 witness.

17 JUDGE JONES: Any cross from Public  
18 Counsel?

19 MS. BAKER: No questions.

20 JUDGE JONES: Any questions from the  
21 Bench? Okay. Let's move on to mileage, the issue  
22 of mileage. Any cross-examination from Staff on  
23 mileage?

24 MS. MOORE: No cross. Thank you.

25 JUDGE JONES: Any cross from Public

1 Counsel?

2 MS. BAKER: No questions.

3 JUDGE JONES: Any questions from the  
4 Bench? Let's move on to testing, water testing,  
5 the issue of water testing. Any questions from  
6 Staff?

7 MR. THOMPSON: Just a moment, Judge,  
8 if you would.

9 JUDGE JONES: Sure. Take your time.

10 CROSS-EXAMINATION BY MR. THOMPSON:

11 **Q. Mr. Johansen, are you personally**  
12 **familiar with what's involved in water testing?**

13 A. Yes.

14 **Q. Is that something that you undertake**  
15 **in your duties as a receiver?**

16 A. Yes.

17 **Q. Now, you testified that -- strike**  
18 **that.**

19 MR. THOMPSON: That's it. No further  
20 questions, Judge.

21 JUDGE JONES: Any questions from the  
22 Bench, or from OPC?

23 MS. BAKER: No questions.

24 JUDGE JONES: Any questions on  
25 redirect?

1 MR. COOPER: Yes, your Honor.

2 REDIRECT EXAMINATION BY MR. COOPER:

3 Q. Mr. Thompson asked you about your  
4 experience in water testing; is that correct?

5 A. Yes.

6 Q. Did you utilize that experience in  
7 coming up with your estimates of time and expense  
8 that would be associated with these testing  
9 activities?

10 A. Partially, yes.

11 Q. What else did you use?

12 A. The -- I think one thing I -- I think  
13 this is clear in the testimony but I do want to  
14 clarify is the separate expense that we've proposed  
15 here is what I -- what I've termed an incremental  
16 expense over and above what's covered elsewhere.  
17 And one of the things that -- that I did use was an  
18 incremental amount of time of two hours per trip  
19 for work that's not accounted for elsewhere.

20 And that in part is based on my  
21 experience from the standpoint of the amount of  
22 time it takes to take a sample, to deliver that --  
23 to prepare the site to take the sample, to take the  
24 sample, to do the paperwork related with it, and  
25 then to deliver that either to a lab or to a health

1 department office for subsequent -- for their  
2 delivery to a testing lab.

3 **Q. And did you use your experience in**  
4 **coming up with a listing of supplies that you**  
5 **provide for that, for water testing?**

6 A. That and discussions with  
7 Mr. Kallash, yes.

8 MR. COOPER: That's all the questions  
9 I have.

10 JUDGE JONES: Okay. Let's move on to  
11 the issue of sludge hauling. Any cross from staff?

12 MR. THOMPSON: Yes, Judge.

13 CROSS-EXAMINATION BY MR. THOMPSON:

14 **Q. You're aware, Mr. Johansen, that**  
15 **Staff proposes to use a figure for sludge hauling**  
16 **based on a three-year average?**

17 A. Yes.

18 **Q. And that's Staff's typical approach**  
19 **to an expense of that kind, isn't it?**

20 A. Yes.

21 **Q. You've also testified that the**  
22 **company is contemplating a change in the way it**  
23 **does its sledge hauling and an associated change in**  
24 **the cost?**

25 A. Correct.

1           **Q.     Do you personally know whether the**  
2 **company has, in fact, implemented that change?**

3           A.     I have been told by Mr. Kallash that  
4 they have.

5           **Q.     But you are not aware other than that**  
6 **that they have; is that correct?**

7           A.     Correct.

8           MR. THOMPSON: Thank you. No further  
9 questions.

10          JUDGE JONES: Questions from Public  
11 Counsel?

12          CROSS-EXAMINATION BY MS. BAKER:

13          **Q.     Again, for this issue, what is your**  
14 **specific amount that is being requested?**

15          A.     First of all, the difference between  
16 the three-year average that the Staff is using  
17 versus the most recent year of experience, and that  
18 is -- that would -- that would be a total amount of  
19 \$4,005, versus a three-year average that the Staff  
20 is proposing to use which is \$2,780. So the  
21 difference there is \$1,225.

22                         So far as the additional work that  
23 the company is now doing on the clarifier pumping,  
24 that's \$4,895.

25          MS. BAKER: No further questions.



1 JUDGE JONES: Any questions from the  
2 Commission? Redirect?

3 MR. COOPER: Yes, your Honor.

4 REDIRECT EXAMINATION BY MR. COOPER:

5 Q. You were asked a question about  
6 whether a three-year average is typical, and yet  
7 you have not used a three-year average in this case  
8 for your recommendation. Is there anything out of  
9 the ordinary about the data in those three years  
10 that caused you to do something different?

11 A. Well, for one of the years that the  
12 Staff included in their three-year average, there  
13 was no sludge hauling for one of the plants at all.

14 Q. And why was that?

15 A. Because they were able to use the  
16 plant for sludge holding. So they weren't required  
17 to haul sludge from the plant because they had the  
18 ability to hold it at the plant.

19 Q. Eventually it has to be -- does it  
20 have to be hauled, pumped and hauled?

21 A. Yes.

22 MR. COOPER: That's all the questions  
23 I have.

24 JUDGE JONES: Okay. Let's move to  
25 the issue of office supplies and postage. Any

1 cross-examination from Staff?

2 CROSS-EXAMINATION BY MS. MOORE:

3 Q. Mr. Johansen, I believe you  
4 testified -- or this issue mainly revolves around  
5 the mailing of the consumer confidence report,  
6 correct?

7 A. Yes.

8 Q. And that is a report that is produced  
9 by DNR?

10 A. It's a report that regulated public  
11 water supplies are required to produce via a DNR  
12 regulation.

13 Q. Thank you. Are you aware that DNR  
14 does not require small company owners to mail the  
15 consumer confidential report to customers but  
16 rather to just make it available to them?

17 A. That is an option, yes.

18 Q. And are you aware that it's the  
19 company that chooses which method they will use?

20 A. Yes.

21 Q. Wouldn't you agree that if the  
22 company chooses to incur a cost to send this  
23 publication to the customers, it should do so in  
24 the most economical way?

25 A. Yes.

1 MS. MOORE: Thank you.

2 JUDGE JONES: Any questions from  
3 Public Counsel?

4 MS. BAKER: I do.

5 CROSS-EXAMINATION BY MS. BAKER:

6 Q. On the same lines as that particular  
7 question about the consumer confidence report not  
8 having to be mailed to the customers, if the  
9 company did -- if the company did choose to mail  
10 that to their customers, since it's not required,  
11 it could certainly be timed to go with a normal  
12 mailing of the bills, correct?

13 A. Well, my understanding of the DNR  
14 regulation is that the company has to produce the  
15 report and at least provide notice of the  
16 availability in a certain time, in a specific time  
17 frame.

18 So depending upon -- let's say  
19 they're going to -- they're going to provide notice  
20 instead of the actual report. That has to be done  
21 within a specific time frame. If that would fall  
22 within a billing cycle, they could do that. If it  
23 does not fall within a billing cycle, they would  
24 have to provide that notice separately.

25 Q. And that is not something that you

1 know happens yet, that happens at the time that the  
2 consumer confidence report comes out, so that is  
3 not something that is known and measurable today as  
4 to the need of that in the future, correct?

5 A. Yes.

6 MS. BAKER: No further questions.

7 JUDGE JONES: Any questions from the  
8 Commission? Any redirect?

9 MR. COOPER: Yes, your Honor.

10 REDIRECT EXAMINATION BY MR. COOPER:

11 Q. To your knowledge, has it been the  
12 company's practice to direct mail the confidence  
13 report to the customers?

14 A. Yes.

15 Q. Do you think that there are benefits  
16 in terms of customer service in providing that  
17 information to the customers?

18 A. Yes.

19 Q. Do you think all the customers would  
20 see it if it were just sat on a desk at the  
21 company's office somewhere?

22 A. I doubt it.

23 MR. COOPER: That's all the questions  
24 I have.

25 JUDGE JONES: Okay. Let's move on to

1 late fees with witness Johansen. Any questions  
2 from Staff?

3 CROSS-EXAMINATION BY MS. MOORE:

4 Q. Mr. Johansen, you've argued that  
5 Staff should consider in its calculations of late  
6 fee revenues some recent and upcoming customer  
7 changes, correct?

8 A. Yes, ma'am.

9 Q. And you believe that these recent and  
10 upcoming changes mean Staff has overstated its  
11 calculations by 14 customer counts?

12 A. Yes.

13 Q. Do you agree that rates in Missouri  
14 are based on historical test year?

15 A. Yes, ma'am.

16 Q. So in order to include the company's  
17 annualized late fee revenues in rates, we would  
18 need to see how changes in customer levels have  
19 affected the company's late fee revenues, correct?

20 A. Yes.

21 Q. And are you familiar with the  
22 matching principle?

23 A. Yes, ma'am.

24 Q. Do you agree that the matching  
25 principle dictates that if we consider changes in

1 numbers past the point when all related factors for  
2 rates have been considered, we should also update  
3 all those related factors?

4 A. Yes.

5 Q. Do you agree that a decision to  
6 update any numbers past the test year would require  
7 that those numbers first be material?

8 A. Generally, yes.

9 Q. Have you ever quantified for Staff  
10 how the recent and upcoming customer changes you  
11 mentioned have affected the company's historical  
12 late fees revenues?

13 A. I have not.

14 Q. So we would not know if that amount  
15 is material, right?

16 A. As I sit here today, that's correct.

17 Q. Have you provided Staff with all the  
18 information it would need to update related numbers  
19 in its calculations in order to match those changes  
20 that you proposed with any other changes?

21 A. I have not done that, no.

22 Q. So we would not be able to adhere to  
23 the matching principle, correct?

24 A. Oh, okay. I'm sorry. I was confused  
25 with your prior question. Are you talking about

1 just the miscellaneous revenues or everything in  
2 general?

3 Q. I'll reask the question.

4 A. Okay.

5 Q. Have you provided Staff with all the  
6 information it would need in order to update the  
7 related numbers, the numbers that are related to  
8 those late fee revenues?

9 A. No.

10 Q. So we would not be able to adhere to  
11 the matching principle, correct?

12 A. That's correct.

13 MS. MOORE: That's all the questions  
14 I have right now. Thank you.

15 JUDGE JONES: Thank you. Any cross  
16 from Public Counsel?

17 CROSS-EXAMINATION BY MS. BAKER:

18 Q. What is the -- what is the specific  
19 amount that the company is requesting for this  
20 issue?

21 A. I don't have one.

22 MS. BAKER: No further questions.

23 JUDGE JONES: Questions from the  
24 Commission?

25 QUESTIONS BY COMMISSIONER STOLL:

1 Q. Mr. Johansen?

2 A. Yes, sir.

3 Q. Could you explain the matching  
4 principle to me?

5 A. Well, basically you -- the goal is to  
6 match revenues and expenses from a timing  
7 standpoint, and, you know, so if you -- if you  
8 would update one expense or one revenue, you  
9 would -- you would hope to be able to update other  
10 expenses and revenues as well to keep -- to keep  
11 everything in sync.

12 Q. And this applies to -- this applies  
13 to things other than late fees?

14 A. Oh, well, yes. I mean, it -- you  
15 know, it could be as broad as every expense and  
16 every revenue.

17 Q. So you would look at the expense, at  
18 the expense and revenue for late fees and those  
19 should basically match?

20 A. Well, from a timing standpoint --

21 Q. Yeah.

22 A. -- you would -- yes, you would want  
23 to match. You would want miscellaneous revenues,  
24 the time frame used to determine those -- this is  
25 under the theory of the matching principle. You



1 would want the time period used to establish those  
2 to be the same time period that you use to  
3 establish other revenues, for example.

4 COMMISSIONER STOLL: Okay. Thank  
5 you.

6 JUDGE JONES: Any recross based on  
7 questions from the Commission? Any redirect?

8 MR. COOPER: Yes.

9 REDIRECT EXAMINATION BY MR. COOPER:

10 Q. In addition to the matching  
11 principle, is there also a recognition that the  
12 Commission is setting rates for a future time  
13 period?

14 A. Yes.

15 Q. And would you agree with me that it's  
16 common to make known and measurable changes to  
17 numbers that have been in a test year, historical  
18 test year?

19 A. It's certainly not unusual.

20 Q. There was a question on the  
21 materiality of the numbers. Do you know the  
22 revenues associated with late fees that are being  
23 contemplated by the adjustment that you've  
24 suggested?

25 A. I believe the total late fee revenue

1 we're talking about for all four systems combined  
2 is about \$2,100, and the issue really is with  
3 changes that have -- that have occurred with  
4 certain of those accounts where they've experienced  
5 late fees in the past, the issue is, you know, are  
6 those continuing problems for those accounts.

7                   And what I've not -- quite honestly,  
8 what I've not been able to be do is based on the  
9 way that Staff annualized those revenues, is  
10 identify where those revenues came from on an  
11 account-by-account basis. So that's why we don't  
12 have an exact number to say, well, these five  
13 accounts, those people -- those late payers no  
14 longer live there. We don't have sufficient  
15 detail, quite honestly, to be able to do that.

16                   **Q. Don't have sufficient detail from the**  
17 **Staff's work papers to determine that?**

18                   A. Correct.

19                   **Q. And the consequence of overshooting**  
20 **the late fee revenue is that -- well, let me back**  
21 **up.**

22                   **Late fee revenues will essentially be**  
23 **subtracted from the revenue requirement before you**  
24 **set the customer's rate, correct?**

25                   A. Correct.

1           **Q.**     **So if you're off on the late fee**  
2     **revenues, that's money that was contemplated the**  
3     **company will receive that it will not receive?**

4           A.     Correct.

5           MR. COOPER: That's all the questions  
6 I have.

7           JUDGE JONES: Let's move on to  
8 telephone and Internet. Cross-examination from  
9 Staff?

10          MR. THOMPSON: Just a moment, please.

11 CROSS-EXAMINATION BY MR. THOMPSON:

12          **Q.**     **Now, Mr. Johansen, the company has a**  
13     **landline/Internet service from one provider; isn't**  
14     **that correct?**

15          A.     Yes.

16          **Q.**     **And that provider is CenturyLink?**

17          A.     Correct.

18          **Q.**     **And the company also has cell phone**  
19     **service?**

20          A.     Yes.

21          **Q.**     **That's from a different provider;**  
22     **isn't that correct?**

23          A.     Correct.

24          **Q.**     **And the company is seeking the actual**  
25     **cost of both of those services; is that correct?**

1 A. Yes.

2 Q. Now, isn't it true that Staff has  
3 adjusted the costs to reflect the basic service  
4 available from CenturyLink plus Internet?

5 A. That's what they claim.

6 Q. Okay. And is there a business  
7 purpose, so far as you know, to the additional  
8 services that the company buys from CenturyLink?

9 A. From the standpoint of?

10 Q. Well, from the standpoint of why  
11 should the ratepayers pay for them? Staff has  
12 adjusted the cost of the basic service. You agreed  
13 with me on that proposition.

14 A. No. I said that's what they claim to  
15 have done. I don't know that.

16 Q. You don't know that. Okay. But  
17 you'll agree with me they claim they did that?

18 A. Yeah.

19 Q. Okay. So the additional services for  
20 which the company seeks reimbursement, what I'm  
21 asking you is, what is the business purpose of  
22 those additional services?

23 A. Well, the company believes that the  
24 landline package that it has from CenturyLink is  
25 the basic package, the most -- the least expensive

1 basic package that's available, and that's --  
2 that's why I say that -- that's why I'm saying,  
3 using the term that the Staff claims that there's  
4 another one out there. I don't know that there is.  
5 The company believes that the landline package it  
6 has is the least expensive.

7 **Q. Now, is that something you verified**  
8 **personally?**

9 A. From the standpoint of comparing to  
10 other --

11 **Q. Did you contact CenturyLink and**  
12 **inquire as to the different plans that were**  
13 **available in the Troy area?**

14 A. No.

15 **Q. Okay. So that's something somebody**  
16 **told you?**

17 A. What I'm looking at is the package  
18 that the company has, and -- oh, okay. I'm relying  
19 on my conversations with Mr. Kallash that --

20 **Q. Okay.**

21 A. -- this is the best cost package that  
22 was available.

23 **Q. Okay. Now, as far as you know, does**  
24 **the landline package include unlimited long**  
25 **distance calling?**

1 A. It does.

2 Q. But unlimited long distance calling  
3 at no additional charge is also available through  
4 the cell phone, is it not?

5 A. Probably, but I don't know that.

6 MR. THOMPSON: No further questions.

7 JUDGE JONES: Any cross from Public  
8 Counsel?

9 MS. BAKER: Yes.

10 CROSS-EXAMINATION BY MS. BAKER:

11 Q. Did you inquire as to what were the  
12 individual services that were included in this  
13 telephone/Internet landline bundle?

14 A. No, from the standpoint of -- I don't  
15 know what you mean by inquire. I'm sorry.

16 Q. Did you ask what individual services  
17 were being received by Lincoln County for this \$95  
18 per month?

19 A. I did not inquire of anyone of that.  
20 I reviewed -- I have reviewed the bill to see what  
21 is included.

22 Q. So you saw the bill of \$95 per month  
23 and that's what you are advocating?

24 A. Correct.

25 MS. BAKER: No further questions.

1 JUDGE JONES: Any questions from the  
2 Commission? Any redirect?

3 MR. COOPER: Yes, your Honor.

4 REDIRECT EXAMINATION BY MR. COOPER:

5 Q. Is the amount you've included in  
6 rates the amount that's actually being paid by  
7 Lincoln County Sewer and Water?

8 A. Yes.

9 Q. And, in fact, you have attached a  
10 copy of the bill that includes the features of this  
11 plan as Schedule DWJ-5 of your surrebuttal, haven't  
12 you?

13 A. Correct.

14 MR. COOPER: Thank you. That's all  
15 the questions I have.

16 JUDGE JONES: Let's move on to  
17 electricity expense.

18 MS. MOORE: Judge, we were having  
19 discussions about this issue. We didn't expect to  
20 get to it so quickly, so we had not reached a final  
21 result.

22 JUDGE JONES: Let's just hold off on  
23 it, then. And the final, No. 21, doesn't seem to  
24 be an issue.

25 MS. MOORE: That was one of the

1 issues we dropped this morning.

2 JUDGE JONES: Okay. We will come  
3 back to electricity expense, and Mr. Johansen, you  
4 can have a seat.

5 Okay. And we go back to depreciation  
6 rates. Staff may call its witness.

7 MR. THOMPSON: Thank you, Judge. I  
8 would call Art Rice.

9 JUDGE JONES: Mr. Rice, will you  
10 raise your right hand.

11 (Witness sworn.)

12 JUDGE JONES: Thank you, sir. You  
13 may be seated.

14 ARTHUR RICE testified as follows:

15 DIRECT EXAMINATION BY MR. THOMPSON:

16 Q. State your name, please.

17 A. Arthur Rice, R-i-c-e.

18 Q. And how are you employed, Mr. Rice?

19 A. I am employed as an engineer for the  
20 engineering management and services unit at the  
21 Public Service Commission.

22 Q. Are you the same Art Rice who  
23 prepared or caused to be prepared the testimony  
24 that has been marked as Exhibit 9 in this case?

25 A. I have not looked to see which one is



1 Exhibit 9, but yes, I submitted surrebuttal  
2 testimony.

3 Q. I was going to say, let me further  
4 identify it as the surrebuttal testimony of  
5 Arthur W. Rice, PE.

6 A. Yes.

7 Q. That is the testimony you prepared?

8 A. Yes, it is.

9 Q. If I -- first of all, do you have any  
10 corrections or changes to that testimony?

11 A. Yes, I have one. On page 10,  
12 line 14, the question -- sentence reads, does this  
13 cost of removal adjustment alter the revenue  
14 equipment for this rate case? Change the word  
15 equipment to requirement. So it reads, does the  
16 cost of removal adjustment alter the revenue  
17 requirement for this rate case? That's the only  
18 correction.

19 Q. You have no other changes?

20 A. That's correct.

21 Q. With these changes in mind, if I  
22 asked you the same questions today, would your  
23 answers be the same?

24 A. Yes.

25 Q. Are they true and correct to the best

1 **of your knowledge and belief?**

2 A. Yes.

3 MR. THOMPSON: At this time, your  
4 Honor, I will offer Staff's Exhibit 9.

5 JUDGE JONES: Any objection to Staff  
6 Exhibit 9?

7 (No response.)

8 JUDGE JONES: Staff Exhibit 9 is  
9 admitted into the record.

10 (STAFF EXHIBIT NO. 9 WAS RECEIVED  
11 INTO EVIDENCE.)

12 MR. THOMPSON: I will tender Mr. Rice  
13 for cross-examination.

14 JUDGE JONES: Cross-examination from  
15 Public Counsel?

16 CROSS-EXAMINATION BY MS. BAKER:

17 **Q. Good afternoon, Mr. Rice. You are**  
18 **aware that in this particular issue we are dealing**  
19 **with a submersible pump in the Bennington system**  
20 **that has been completely depreciated, correct?**

21 A. I'm aware of the issue, yes.

22 **Q. And you are aware that the pump has**  
23 **been completely depreciated?**

24 A. I dispute that.

25 **Q. And why do you dispute that?**

1           A.     The depreciation rates are not issued  
2     on an individual item. The account does not  
3     include just an individual pump. The account  
4     includes a lot more than just the pump. It  
5     includes the Rockport pumping equipment as well as  
6     the Bennington pumping equipment, which includes  
7     the piping through to the discharge or to the  
8     distribution system, including the valves, flow  
9     measurement, pressure transmission or pressure  
10    transmitter, all the electrical that goes with it,  
11    all the way back to the transformer if it's owned  
12    by the company for both the Bennington and the  
13    Rockport systems.

14           **Q.     Okay. So within this particular**  
15    **account, take us through, there is a depreciation**  
16    **rate that is set on pumping equipment --**

17           A.     Correct.

18           **Q.     -- correct?**

19                   **And within this pumping equipment is**  
20    **a pump for the Bennington system?**

21           A.     There is an item in that account for  
22    the pump that's in the Bennington well, yes.

23           **Q.     And within that account there is a**  
24    **depreciation rate that is applied to the equipment**  
25    **that is within that account, correct?**

1 A. Correct.

2 Q. And if there are individual pieces  
3 within that account that have been in place long  
4 enough to meet the depreciation life span that has  
5 been given to that account, then that equipment has  
6 exceeded its depreciation life span?

7 A. It is -- no. We do not look at  
8 individual pieces of equipment within an account.  
9 We look at the dollars, the dollars in the account.

10 Q. Okay. That is Staff's view, correct?

11 A. That is the depreciation model that  
12 Staff has always used, yes.

13 Q. And so the separate utilities within  
14 this system are not tied together in depreciation  
15 books? You have depreciation rates that are set  
16 for each utility type, correct? Because you have  
17 sewage equipment, you have water equipment,  
18 correct?

19 A. And you have different accounts  
20 within water and sewer.

21 Q. That's not my question. My question  
22 is --

23 MR. THOMPSON: I'm going to object.  
24 Her question was compound.

25 JUDGE JONES: I didn't understand it.

1 MS. BAKER: I'll rephrase.

2 BY MS. BAKER:

3 Q. There are separate utilities that we  
4 are dealing with here today, water and sewer,  
5 correct?

6 A. That is correct.

7 Q. Each one of these has their own  
8 equipment, correct?

9 A. That's correct.

10 Q. Each of this equipment has a  
11 depreciation rate attached to it, correct?

12 A. For a specified definition type of  
13 equipment, yes.

14 Q. So for pumping equipment, yes?

15 A. There is more than one type of  
16 pumping equipment.

17 Q. Within the account that we are  
18 looking at for this submersible pump, it has a  
19 depreciation account, yes or no?

20 A. The pump is within an account called  
21 pumping equipment, yes.

22 Q. So that would be a yes. It's a  
23 simple yes or no. Staff generates depreciation  
24 sheets to apply to the systems, yes?

25 A. Staff has depreciation rate schedules

1 that are recommended for each company for water and  
2 for sewer for the accounts according to the USOA,  
3 yes.

4 **Q. There are no depreciation studies**  
5 **that are done on these individual accounts. Staff**  
6 **uses these generic forms, correct?**

7 A. For these small water companies,  
8 that's correct, water and sewer companies.

9 **Q. In this system, for this particular**  
10 **pump, that pump is located within an account that**  
11 **has a generic depreciation rate that has been**  
12 **applied by Staff, correct?**

13 A. That's correct.

14 **Q. For this particular pump, it has**  
15 **exceeded the life span on the generic life span**  
16 **that Staff has applied to that account?**

17 A. There is no specific life span  
18 definition for an item in that account.

19 **Q. You are applying a now, what,**  
20 **6.6 percent depreciation rate to this particular**  
21 **submersible pump?**

22 A. I'm recommending a 6.6 percent  
23 depreciation rate for the pumping equipment account  
24 for Lincoln Water, yes.

25 **Q. What is the pumping equipment balance**

1     **dollars for the pump that is set at Bennington?**

2             A.     Approximate numbers, there's \$101,000  
3     in the pumping equipment account for Lincoln Water.

4             **Q.     And within that is a pump that has**  
5     **been in place longer than the life span that you**  
6     **have placed on the entire account?**

7             A.     Correct, that item.

8             **Q.     That item?**

9             A.     Yes.

10            **Q.     What is the reserve balance that is**  
11     **associated with that same account?**

12            A.     On the test year date, the end of the  
13     test year, which I believe is March 31st, 2013, the  
14     accumulated reserve balance I have is approximately  
15     \$84,000.

16            **Q.     What is Staff's reasoning for having**  
17     **customers continue to pay for this submersible pump**  
18     **that has exceeded the life span that has been**  
19     **applied to the pumping account?**

20            A.     Again, the pumping equipment account  
21     has not been overaccrued.

22            **Q.     That's not my question. My question**  
23     **is, what is your reasoning for continuing a**  
24     **depreciation rate and having that put into rates**  
25     **and collecting money from customers for this**

1 particular pump that has been depreciated and has  
2 had a life span that is longer than is applied to  
3 the pumping account?

4 A. I agree the account is overaccrued in  
5 that it has accrued more than it should at this  
6 point in its life. That's why I recommended the  
7 decrease in the depreciation rate. The company is  
8 receiving reasonable compensation for the  
9 consumption of plant equipment in this account.

10 Q. Okay. That reasonable compensation,  
11 that is compensation to pay for a pump that has had  
12 a life span longer than the life span on the  
13 pumping account?

14 A. If I was to look at the flow meter,  
15 the pressure transmitter, the breaker, all of the  
16 individual pieces in that account, they all have  
17 different individual item expected lives.

18 Q. Uh-huh.

19 A. That's why we don't look at  
20 individual items.

21 Q. Right. So that is why Staff has  
22 decided not to do a depreciation study?

23 A. No. Staff does not do a depreciation  
24 study in this small company because there's  
25 insufficient records and insufficient retirement



1 data to look at.

2 Q. And I will agree with you in that  
3 regard. And so for this, is it not true that Staff  
4 is of the opinion that this particular type of  
5 equipment that has been in place longer than the  
6 life span that is put on the pumping account should  
7 remain in rates because it is something that will  
8 be replaced potentially very soon?

9 A. I did not understand your question.

10 Q. Is it -- is it Staff's position that  
11 customers should continue to pay on a fully  
12 depreciated pump or a pump that has gone past the  
13 life span on the account because Staff believes  
14 that the company needs the money to replace that  
15 pump fairly soon?

16 A. No. That is not what is occurring at  
17 all.

18 Q. Okay. But you will agree that there  
19 is money that is being collected by the company  
20 that is associated with this pump?

21 A. Correct.

22 Q. And where is that money going?

23 A. It's going -- it's going into  
24 depreciation reserves, which reduces rate base.

25 Q. And it's not going to pay for that

1 **pump because it has met its life span, correct?**

2 A. The amount of money that it would  
3 cost to replace that individual item is setting in  
4 depreciation reserves when it's necessary to use  
5 it.

6 **Q. Okay. So you're saying that there is**  
7 **money set aside in depreciation reserve to replace**  
8 **this pump at some time in the future?**

9 A. And any other equipment in that  
10 account, yes.

11 **Q. Okay.**

12 A. Whether it's -- has met your  
13 definition of its expected life or not.

14 **Q. So the customers are prepaying for**  
15 **this pump?**

16 A. The customers are paying a rate that  
17 Staff believes is equivalent to the consumption of  
18 the dollars in that account overall.

19 **Q. And you have a reserve account**  
20 **sitting there, and your idea is that when this pump**  
21 **needs to be replaced, that money should be there**  
22 **for the company through that reserve account?**

23 A. That money is sitting there to cover  
24 the original cost of all the components in that  
25 account, yes.

1           **Q.     Is there any way to track the extra**  
2 **money that the customers are paying because of**  
3 **this?**

4           A.     For a small company like this, you  
5 look at the reserves versus what is normal for that  
6 type of account for the age of the company, so to  
7 speak.

8           **Q.     And the age of the individual pieces?**

9           A.     No.

10           MS. BAKER: I have no further  
11 questions.

12           JUDGE JONES: Any cross from Lincoln  
13 County?

14           MR. COOPER: Yes, your Honor.

15 CROSS-EXAMINATION BY MR. COOPER:

16           **Q.     Mr. Rice, would you agree with me**  
17 **that Lincoln County first had rates set by the**  
18 **Commission and Commission-ordered depreciation**  
19 **rates in July of 2012?**

20           A.     That's my understanding, yes.

21           **Q.     You referred to a standard set of**  
22 **depreciation rates that the Staff general applies**  
23 **to all small water and sewer companies, didn't you?**

24           A.     Correct.

25           **Q.     Now, you also made mention of**

1 insufficient data to do a study. Do you remember  
2 that?

3 A. Yes.

4 Q. When you're talking about  
5 insufficient data to do a study, are you referring  
6 to the fact that a small company just doesn't have  
7 enough retirements, enough plan to do a  
8 company-specific study?

9 A. Generally, you'd expect or you should  
10 have about 20 percent of the dollars in the account  
11 having a retirement history that you can believe in  
12 to look at to study the retirement database, I  
13 think.

14 Q. And you don't normally have that with  
15 a small water and sewer company, which is why the  
16 Staff has a set of standard rates it utilizes,  
17 correct?

18 A. That's correct.

19 MR. COOPER: That's all the questions  
20 I have.

21 JUDGE JONES: Any questions from the  
22 Commission? Any redirect?

23 MR. THOMPSON: Thank you, Judge.

24 REDIRECT EXAMINATION BY MR. THOMPSON:

25 Q. You mentioned a standard set of

1     **depreciation rates that you use with small water**  
2     **and sewer companies?**

3             A.     Yes.

4             **Q.     Where did those rates come from?**

5             A.     I'll say decades ago, two or three  
6     decades ago, those standard rate sheets were  
7     developed in the water and sewer unit from  
8     depreciation studies conducted on larger companies,  
9     such as water and sewer companies in St. Louis,  
10    St. Joseph, Kansas City.

11            Then over the years the depreciation  
12    years in the water and sewer company monitors  
13    reserves and the performance of these rates for the  
14    individual small companies and has reviewed the  
15    rates and made adjustments to them over time.

16            MR. THOMPSON: Thank you, Mr. Rice.  
17    No further questions.

18            JUDGE JONES: Thank you, Mr. Rice.  
19    You may step down. Still on the issue depreciation  
20    rates, we'll move on to OPC witness Addo. And so  
21    you all know, it's my intention to take Mr. Addo  
22    through the remaining issues that he is testifying,  
23    has filed testimony on, with the exception of  
24    electricity expense which you-all will resolve at  
25    our next break.

1 Cross-examination from Staff?

2 WILLIAM ADDO testified as follows:

3 CROSS-EXAMINATION BY MR. THOMPSON:

4 Q. Good afternoon, Mr. Addo.

5 A. Good afternoon.

6 Q. Mr. Addo, have you ever conducted a  
7 depreciation study?

8 A. No, I have not.

9 Q. Are you a depreciation engineer?

10 A. No. I am an accountant.

11 Q. You are an accountant?

12 A. Yes.

13 Q. Thank you.

14 A. And depreciation is part of my  
15 duties. Depreciation is part of accounting. I  
16 don't necessarily have to be an engineer to know  
17 much about depreciation.

18 MR. THOMPSON: No further questions.

19 Thank you.

20 JUDGE JONES: Any cross-examination  
21 from Lincoln County?

22 MR. COOPER: No, your Honor.

23 JUDGE JONES: Any questions from the  
24 Commission?

25 COMMISSIONER W. KENNEY: No

1 questions.

2 JUDGE JONES: Redirect, OPC?

3 REDIRECT EXAMINATION BY MS. BAKER:

4 Q. Just a little bit about -- just some  
5 clarification of your testimony. Can you address  
6 the balances in the specific accounts not in the  
7 Bennington specific account, not all the pumping  
8 accounts, just the Bennington accounts?

9 MR. THOMPSON: Judge, I think that  
10 exceeds the scope of the cross-examination of this  
11 witness.

12 JUDGE JONES: I have to agree with  
13 him.

14 MS. BAKER: All right.

15 JUDGE JONES: Let's move on to rate  
16 case expense. So you all know, we'll have to come  
17 back to this and pick up Staff's witness Hanneken.  
18 Any other cross-examination from Staff?

19 MR. THOMPSON: No questions. Thank  
20 you.

21 JUDGE JONES: Any cross from Lincoln  
22 County?

23 MR. COOPER: No, your Honor.

24 JUDGE JONES: Certificate case  
25 expense, any cross-examination from Staff?

1 MS. MOORE: No questions.

2 JUDGE JONES: From Lincoln County?

3 MR. COOPER: Yes, your Honor.

4 CROSS-EXAMINATION BY MR. COOPER:

5 Q. Mr. Addo, I've handed you a copy of  
6 the Stipulation & Agreement from Lincoln County's  
7 prior certificate case. Do you recognize that  
8 document?

9 A. Yes, I do.

10 Q. I believe in your rebuttal testimony  
11 you state that your review of the company's last  
12 cases -- I assume you're referring to the  
13 certificate cases, correct?

14 A. That's correct.

15 Q. -- shows that a total of \$2,275 was  
16 included as rate case expense in the previous  
17 case's cost of service; is that correct?

18 A. That's correct.

19 Q. Can you point me to where that \$2,275  
20 was included in the cost of service in that  
21 Stipulation & Agreement?

22 A. It's not stated here, but it is  
23 stated in Staff's work papers, Staff's run for the  
24 last case.

25 Q. So that would have been Staff's view



1 of what was included in the rates, but that number  
2 doesn't show up anywhere in the Stipulation &  
3 Agreement, does it?

4 A. Correct. It doesn't show here.

5 MR. COOPER: That's all the questions  
6 I have.

7 JUDGE JONES: Any questions from the  
8 Commission? Any redirect?

9 MS. BAKER: No.

10 JUDGE JONES: Let's move to office  
11 rent/office utilities. Any cross from Staff?

12 MS. MOORE: No questions for this  
13 witness. Thank you.

14 JUDGE JONES: Any questions from  
15 Lincoln County?

16 MR. COOPER: Yes, your Honor. I need  
17 to mark an exhibit. This will be, I think, LCSW 6.  
18 It will be described as Lincoln County map.

19 (LCSW EXHIBIT NO. 6 WAS MARKED FOR  
20 IDENTIFICATION BY THE REPORTER.)

21 CROSS-EXAMINATION BY MR. COOPER:

22 Q. Do you have before you what's been  
23 marked as LCSW 6 for identification as well as a  
24 Missouri Department of Transportation general  
25 highway map for Lincoln County?

1 A. Right.

2 Q. And does LCSW 6, does it appear to be  
3 a copy of a portion of that MoDOT Lincoln County  
4 map?

5 A. (Witness nodded.)

6 Q. Would that be correct?

7 A. Yes. That's correct.

8 Q. Would you agree with me that the B on  
9 that map or on the Exhibit 6 is the approximate  
10 location of the Bennington subdivision?

11 A. Yes.

12 Q. And would you agree with me that the  
13 R on that map is the approximate location of the  
14 Rockport subdivision?

15 A. That's correct.

16 Q. And then is the O the approximate  
17 location of the company's office at 202 Sun Swept?

18 A. Yes.

19 Q. Do you have a pen with you?

20 A. Yes, I do.

21 Q. Can you take that pen and mark on  
22 LCSW 6 a P for the approximate location of the  
23 offices that Public Counsel is using for  
24 comparison? Have you been able to do that?

25 A. No.

1           **Q.     Okay. Why not?**

2           A.     I can't locate it.

3                   MR. COOPER: Okay. That's all the  
4 questions I have.

5                   JUDGE JONES: Any questions from the  
6 Commission? I have a question.

7 QUESTIONS BY JUDGE JONES:

8           **Q.     Are you unable to locate it because**  
9 **there were no comparisons made or because it's**  
10 **there and you just can't find it on the map?**

11           A.     I'm sorry. I think I can -- I can  
12 locate it. I think I can find it.

13           **Q.     So there were comparisons made?**

14           A.     Yes.

15                   JUDGE JONES: Now, Mr. Cooper, is  
16 that the point you were trying to make, whether  
17 there were comparisons or where specifically they  
18 were?

19                   MR. COOPER: I want to know where  
20 they are on the map.

21                   JUDGE JONES: Okay. Well, let's go  
22 back and see what we can do.

23                   MR. COOPER: Primarily in relation to  
24 the two subdivisions.

25                   JUDGE JONES: I see.

1 THE WITNESS: (Indicating.)

2 MR. COOPER: Let's mark them on the 6  
3 document. Can you do that? Your Honor, may I  
4 hover for a minute here?

5 JUDGE JONES: Sure. You can work  
6 together to make something that's actual.

7 THE WITNESS: What specifically do  
8 you want me to mark?

9 MR. COOPER: What's that?

10 THE WITNESS: What specifically do  
11 you want me to mark?

12 MR. COOPER: Well, I want you to --  
13 let me try to make this a little easier. The way I  
14 understood your testimony, the properties that  
15 maybe you were looking at would have been within  
16 the city of Troy; is that correct?

17 THE WITNESS: I was just doing  
18 comparison of office space in Troy area. That is  
19 what I was doing in my testimony. That is what I  
20 was getting at. I wasn't doing any comparison as  
21 to whether it was closer to any of the subdivisions  
22 or whatever the location is. Just to the addresses  
23 of office within the Troy and that is what I use in  
24 my analysis.

25 MR. COOPER: So it was just a general

1 analysis of Troy?

2 THE WITNESS: Of the Troy area.

3 MR. COOPER: Okay. That's all the  
4 questions I think I have, your Honor.

5 JUDGE JONES: Well, I do want to make  
6 be it clear, when you say Troy area, do you mean  
7 the city of Troy area or in the surrounding area  
8 also?

9 THE WITNESS: I mean the city of  
10 Troy.

11 JUDGE JONES: Okay. Any other  
12 questions from the Commission? All right. Any  
13 recross based on my questions?

14 (No response.)

15 JUDGE JONES: Any redirect?

16 REDIRECT EXAMINATION MS. BAKER:

17 **Q. I think everyone is a little bit**  
18 **confused from Mr. Cooper's demonstration here. Why**  
19 **don't you explain to the Commission how you came up**  
20 **with your position on this issue?**

21 A. I basically went online for listings,  
22 a set of listings that actually shows the rental  
23 rates of office building, office spaces in the Troy  
24 area. So what I did was to take an average of such  
25 listings. One was going for \$7 a year. Another

1 was going for \$9 a year, per square foot. I'm  
2 sorry. And then another was going for \$12 per  
3 square foot. So what I did was to take an average  
4 of the three listings being a representative of the  
5 market price of office rent in that location and  
6 averaged them to derive a square foot, price per  
7 square foot, and then multiplied by the total  
8 number of square foot that Lincoln County is using  
9 presently, you know.

10 Then I derived a total, because in my  
11 analysis I think 11,400 that Lincoln County is  
12 spending is too exorbitant. So that actually made  
13 me go to research as to what's the actual market  
14 prices of square foot cost in that area.

15 And then when I did the  
16 multiplication for total square foot, there's one  
17 particular room that Lincoln County is not using  
18 presently, so I made an adjustment to exclude that  
19 particular room, which was about 112 square  
20 footage, I believe, and then subtracted it from the  
21 total to actually derive what I think is reasonable  
22 for the customers to be paying for. That is what I  
23 did.

24 I've never made any consideration as  
25 to where the office is located or not. So that's

1 what I did.

2 Q. And so looking at this map, LCSW-6,  
3 Troy is basically in the middle of the map. There  
4 is some distance to the west to the B, which I  
5 assume is Bennington?

6 A. Bennington.

7 Q. And then there's some distance down  
8 to the R, which I assume is Rockport?

9 A. Yes.

10 Q. And so in your analysis, Troy is in  
11 the middle of this map?

12 A. Yes.

13 Q. And that's very close to both  
14 systems --

15 A. Yes.

16 Q. -- correct?

17 MS. BAKER: I have no further  
18 questions.

19 JUDGE JONES: Okay. Let's stay with  
20 the same witness. Move to salaries. Any  
21 cross-examination from Staff?

22 MS. MOORE: Yes.

23 CROSS-EXAMINATION BY MS. MOORE:

24 Q. Mr. Addo, just one question. For  
25 either the salary calculated for Mr. Kallash by the

1 company or for Mrs. Kallash, were you ever -- well,  
2 let me back up.

3 Let's just do Mr. Kallash. Were you  
4 ever provided sufficient documentation in order for  
5 you to see how the company came up with its  
6 proposed salary amount for Mr. Kallash?

7 A. No, I was not.

8 MS. MOORE: Thank you. I think  
9 that's all the questions I have. Thank you.

10 JUDGE JONES: Questions from Lincoln  
11 County?

12 MR. COOPER: Yes, your Honor.

13 CROSS-EXAMINATION BY MR. COOPER:

14 Q. I think on page 27 of your rebuttal  
15 you specifically say that the \$42.68 per hour wage  
16 rate quoted by Mr. Johansen is excessive and lacks  
17 support, don't you?

18 A. Yes, I did.

19 Q. Did you review the Missouri wage data  
20 provided by the Missouri Economic Research and  
21 Information Center, or MERIC, of the Missouri  
22 Department of Economic Development that was used by  
23 Mr. Johansen?

24 A. I did in my initial analysis, yes.

25 Q. And you would agree, wouldn't you,



1 that that information is available by region of  
2 Missouri as well as by occupation, year and  
3 experience level?

4 A. Yes.

5 Q. Did you review Mr. Johansen's work  
6 paper associated with this issue that was provided  
7 to OPC and identified the wage data, the specific  
8 wage data that he relied upon?

9 A. Yes, I did.

10 Q. Did you compare the \$42.68 hourly  
11 rate to what receivers are paid when they are  
12 appointed to run water and sewer companies that are  
13 in receivership?

14 A. I did not.

15 Q. If you didn't -- I take it that you  
16 don't believe that the economic development wage  
17 data is support then, correct?

18 A. It depends on the way you look at it  
19 and the way you use it in your analysis. My  
20 analysis has nothing to do with the MERIC. It  
21 doesn't mean that I do not value or I do not  
22 believe that those wage rates are not real. Based  
23 on my analysis -- I mean, it has nothing to do with  
24 it.

25 Q. So the fact that what Mr. Johansen

1     **replied upon has nothing to do with your analysis**  
2     **is how you determined that there was no support,**  
3     **correct?**

4             A.     In the first place, Mr. Johansen did  
5     not provide support as to how he arrived at the  
6     hours that he's trying to multiply.

7             Q.     We're just talking about the -- we're  
8     just talking about the hourly rate here. So I  
9     believe it was the hourly rate you said had no  
10    support, correct?

11            A.     Yes.

12            Q.     And again, I take it from that, then,  
13    that you don't believe that that MERIC wage data  
14    provides any support, correct?

15            A.     I do believe in it because I use it  
16    in my analysis with other companies.

17            Q.     So there is some support for the  
18    42.68 that Mr. Johansen recommends, correct? It  
19    just -- you don't agree with it, but there is  
20    support there, correct?

21            A.     Again, the MERIC is not like  
22    standard. I mean, it varies from area to area how  
23    much wage rate -- I mean, which wage rate in Jeff  
24    City would be different from wage rate in a city  
25    like St. Louis. So then I don't know where he

1 actually got his figure from, I mean, whether it's  
2 in Troy or in St. Louis or wherever. I don't know.

3 Q. Hold on just one second. But going  
4 back to my earlier question, you would agree that  
5 the MERIC wage data is available by area of the  
6 state of Missouri, correct?

7 A. Correct.

8 Q. And it's easy enough to take a look  
9 at that and determine which region that you're  
10 looking at, correct?

11 A. That's correct.

12 MR. COOPER: Okay. That's all the  
13 questions I have for right now.

14 JUDGE JONES: Questions from the  
15 Commission? Any redirect?

16 MS. BAKER: I do.

17 REDIRECT EXAMINATION BY MS. BAKER:

18 Q. Mr. Cooper had you look at the \$42.68  
19 per hour number, and looking at the company's  
20 recommendation for that, is it your understanding  
21 that that includes \$39.65 per hour plus an employee  
22 payroll tax?

23 A. Yes.

24 Q. Did you receive any documentation as  
25 to whether Lincoln County has employees?

1 A. No.

2 Q. Is Mr. Kallash an employee of Lincoln  
3 County?

4 A. No, he's not, to the best of my  
5 knowledge.

6 Q. Is Mrs. Kallash an employee of  
7 Lincoln County?

8 A. No, she's not.

9 Q. So you have no documentation as to  
10 the reasonableness of the employee payroll tax that  
11 went into that \$42.68?

12 A. That is correct.

13 Q. And you were also asked about  
14 receiver fees?

15 A. Yes.

16 Q. To the best of your knowledge, is  
17 Lincoln County in receivership?

18 A. No, they're not.

19 MS. BAKER: No further questions.

20 JUDGE JONES: Okay. Let's move on to

21 the issue of mileage. Cross-examination from

22 Staff?

23 MS. MOORE: Thank you, Judge.

24 CROSS-EXAMINATION BY MS. MOORE:

25 Q. Mr. Addo, kind of the same question

1 as I asked you for salaries, were you ever provided  
2 for the mileage issue sufficient documentation for  
3 you to verify the proposal from the company?

4 A. I did not receive sufficient detailed  
5 information.

6 MS. MOORE: Thank you.

7 JUDGE JONES: Cross-examination from  
8 Lincoln County?

9 MR. COOPER: No questions.

10 JUDGE JONES: Cross-examination -- or  
11 questions from the Commission? Any redirect?

12 MS. BAKER: No.

13 JUDGE JONES: Move on to water  
14 testing. Cross-examination from Staff?

15 MR. THOMPSON: No questions. Thank  
16 you, Judge.

17 JUDGE JONES: Cross-examination from  
18 Lincoln County?

19 MR. COOPER: No questions.

20 JUDGE JONES: Questions from the  
21 Commission? Sludge hauling, any cross-examination  
22 from Staff?

23 MR. THOMPSON: No, sir.

24 JUDGE JONES: Cross-examination from  
25 Lincoln County?

1 MR. COOPER: No.

2 JUDGE JONES: Office supplies and  
3 postage. Cross-examination from Staff?

4 MS. MOORE: No questions.

5 JUDGE JONES: From Lincoln County?

6 MR. COOPER: No.

7 JUDGE JONES: Late fees.

8 Cross-examination from Staff?

9 MS. MOORE: No questions.

10 JUDGE JONES: From Lincoln County?

11 MR. COOPER: No.

12 JUDGE JONES: Telephone and Internet  
13 expenses. Cross-examination from Staff?

14 MR. THOMPSON: No questions.

15 JUDGE JONES: Lincoln County?

16 MR. COOPER: No.

17 JUDGE JONES: Okay. And the last  
18 issue as we said -- by the way, we'll take a break  
19 about three, just so you-all have an idea.

20 Mr. Addo, we have no other questions.

21 Okay. Let's go back to rate case  
22 expense, finish that issue out with Staff's witness  
23 Hanneken.

24 MR. THOMPSON: Judge, I will tender  
25 the witness.

1 JUDGE JONES: Any cross-examination  
2 from Public Counsel?

3 MS. BAKER: I have one question.

4 LISA HANNEKEN testified as follows:

5 CROSS-EXAMINATION BY MS. BAKER:

6 Q. Throughout this case, were you aware  
7 that the company had two attorneys?

8 A. No. The first time I was aware of  
9 that was when we received a bill subsequent -- an  
10 invoice provided to Staff subsequent to the local  
11 public hearing where Mr. Burlison had appeared on  
12 behalf of the company. Other than that, I was not  
13 aware he was a party to the case.

14 Q. And you're aware that there was an  
15 entry of appearance that was filed just yesterday  
16 from Mr. Burlison?

17 A. I was made aware of that, yes.

18 Q. And that was a long time after the  
19 local public hearing, would you agree?

20 A. Yes.

21 MS. BAKER: No further questions.

22 CROSS-EXAMINATION BY MR. COOPER:

23 Q. Did Mr. Burlison appear at the local  
24 public hearing officially? Did he stand up and  
25 enter an appearance at the local public hearing?

1 A. No. I was not aware of his presence.

2 Q. Do you know what work he's performed  
3 or has billed for during the course of this case  
4 other than the one bill you've seen?

5 A. No, I'm not aware.

6 Q. And was that one bill limited in  
7 activity?

8 A. It was only regarding his appearance  
9 at the local public hearing.

10 Q. So to your knowledge, or as far as  
11 you know, it may be that Mr. Burlison only had  
12 other work associated specifically with preparing  
13 for today's hearing, correct?

14 A. It is possible.

15 Q. So there's no -- you have nothing in  
16 front of you that would lead you to believe that  
17 there have been two attorneys throughout the case,  
18 as Ms. Baker suggested?

19 A. No evidence to that fact, no.

20 MR. COOPER: Thank you. That's all  
21 the questions I have.

22 JUDGE JONES: Questions from the  
23 Commission? Any redirect?

24 MR. THOMPSON: No redirect. Thank  
25 you.



1 JUDGE JONES: Okay. Let's move on to  
2 certificate case expense. Questions from Public  
3 Counsel?

4 CROSS-EXAMINATION BY MS. BAKER:

5 Q. Up until today with Mr. Johansen's  
6 testimony, was Staff provided with an actual amount  
7 that the company was being -- was requesting for  
8 this issue?

9 A. If I recall correctly, I think there  
10 was something in testimony regarding an amount.  
11 Let me just check that. Actually, I don't believe  
12 there is anything in testimony regarding an amount  
13 for that.

14 Q. Thank you. And it is Staff's  
15 standard practice that normalized rate case expense  
16 not be included in calculating rates in subsequent  
17 rate cases; is that correct?

18 A. That's correct.

19 Q. And even though the certificate case  
20 did set certificates for Lincoln County, it also  
21 set rates, correct?

22 A. Yes.

23 Q. And so the amount of recovery for the  
24 certificate case is just and reasonable to be  
25 considered rate case expense in Staff's view?

1           A.     Yes.  I believe I stated in my  
2 testimony, we equated it to rate case expense given  
3 the circumstances of that case.

4           MS. BAKER:  No further questions.

5           JUDGE JONES:  Any questions from  
6 Lincoln County?

7           MR. COOPER:  Yes, your Honor.

8 CROSS-EXAMINATION BY MR. COOPER:

9           **Q.     Would you agree with me that every**  
10 **initial certificate case has to establish a rate**  
11 **for the company to charge going forward?**

12          A.     Yes.

13          **Q.     So there's nothing unique about that**  
14 **part of the certificate case having to establish a**  
15 **rate, correct?**

16          A.     Correct.

17          **Q.     And you were asked about the Staff's**  
18 **sort of normal treatment of rate case expense,**  
19 **correct?**

20          A.     Yes.

21          **Q.     And you talked about normalized rate**  
22 **case expense, correct?**

23          A.     Correct.

24          **Q.     You would agree with me, wouldn't**  
25 **you, that that is a common dispute amongst**

1     **companies and the Staff as to whether rate case**  
2     **expense either has been or should be normalized as**  
3     **opposed to amortized?**

4             A.     I'm not aware that it's a common  
5     dispute. In the cases I've been a party to, for  
6     the most part normalization is just a standard  
7     practice.

8             **Q.     But that issue comes before the**  
9     **Commission for decision from time to time, correct?**

10            A.     From time to time.

11            **Q.     And we can find some Commission cases**  
12     **where that issue's been discussed in the past,**  
13     **correct, or do you not --**

14            A.     I do not know that for sure.

15                    MR. COOPER: That's all the questions  
16     I have.

17                    JUDGE JONES: Questions from the  
18     Commission? Any redirect?

19                    MS. MOORE: Yes. Thank you, Judge.

20     REDIRECT EXAMINATION BY MS. MOORE:

21            **Q.     Ms. Hanneken, you had questions on**  
22     **normalization versus amortization and the company's**  
23     **proposed -- one of their proposals is that this**  
24     **expense be amortized. What kind of expenses have**  
25     **received that kind of treatment from the Commission**

1 **in the past that you're aware of?**

2 A. Typically what I'm aware of for  
3 amortization would be some extraordinary items,  
4 such as maybe like Y2K costs or Cold Weather Rule  
5 impact costs that are kind of a one-time deal,  
6 they're out of the ordinary.

7 And while we recognize that recovery  
8 should be given to these costs, to put them all in  
9 rates at one time would be kind of a rate shock to  
10 the customers. So we allow them to be amortized  
11 over a number of years so that it's not as much of  
12 a rate shock to the customers but yet those costs  
13 are recovered.

14 **Q. And so you believe that case expenses**  
15 **do not fit into that kind of extreme one-time event**  
16 **that you've described?**

17 A. No. A normalization is usually a way  
18 to treat rate case expense as well as other types  
19 of expenses that kind of have peaks and valleys  
20 that don't occur on an annual every-year basis. So  
21 that we use that method to say, well, your rate  
22 case may occur in this year, you're likely maybe  
23 not to incur another rate case for three, five, ten  
24 years, and therefore that cost is taken and divided  
25 over those number of years to say on an annual

1 basis this is what you would normally spend on rate  
2 case.

3 **Q. So would you say that amortization**  
4 **divides up a cost and spreads it over years, would**  
5 **that be a simplification of the idea?**

6 A. That is a simplification because, in  
7 addition to that, normally in general there is a  
8 tracking associated with that. In the recent  
9 Laclede case we had to reset some of those  
10 amortizations after we determined whether or not  
11 they'd been recovered or not.

12 **Q. And so, in general, what happens to**  
13 **normalized costs, costs that have been based on a**  
14 **past event and estimated for the future, what**  
15 **happens to those costs in the next case?**

16 A. Generally, they drop off and you use  
17 the new data to go forward.

18 **Q. Under that principle, would it matter**  
19 **if that past cost was a rate case cost or**  
20 **certificate cost or some other kind of cost, if**  
21 **it's just a normalized cost would it get the same**  
22 **treatment that you've described?**

23 A. In general, yes.

24 **Q. One other question. You heard**  
25 **Mr. Johansen's testimony earlier about how he**

1     **proposes that these costs be included as intangible**  
2     **plant, franchises and consents, correct?**

3             A.     Correct.

4             **Q.     Have you ever seen that kind of**  
5     **treatment before?**

6             A.     I cannot say for sure. It seems like  
7     I may have seen that in a very old case a long time  
8     ago, but I can't say that for sure.

9             MS. MOORE: Thank you. No further  
10     questions.

11            JUDGE JONES: Okay. Let's move on to  
12     the next issue of income taxes. Cross-examination  
13     from Public Counsel?

14            MR. COOPER: Your Honor, I'll just  
15     pose this question for Ms. Moore because she and I  
16     kind of had a conversation about income taxes  
17     previously. Ms. Ferguson has income tax testimony.  
18     I don't believe Ms. Hanneken specifically does.  
19     And I had questions for Ms. Ferguson and had told  
20     Ms. Moore that I be willing to ask those of  
21     Ms. Ferguson before Ms. Hanneken took the stand.

22            JUDGE JONES: So Hanneken and  
23     Ferguson have testimony on income taxes. You want  
24     to go with Ferguson first on the questions?

25            MR. COOPER: I don't care, but I just

1 want -- I had agreed to do that. I wanted to make  
2 sure that Ms. Moore had the opportunity to --

3 MS. MOORE: The reasoning behind that  
4 is that Ms. Hanneken was the Staff member in the  
5 division of labor who addressed this issue  
6 throughout the case. As of surrebuttal, she  
7 testified that that would be her issue. She's the  
8 one most familiar with this issue, just as the  
9 other auditors are more familiar with other issues.  
10 So Mr. Cooper was asking that he be able to cross  
11 Ms. Ferguson. We don't mind.

12 However, we would say it would be  
13 more reasonable in order to get the information  
14 that the Commission or the company's asking for if  
15 we go with Ms. Ferguson first in case she has any  
16 issues she needs to say you'll have to ask  
17 Ms. Hanneken, we might as well have the witness who  
18 is most familiar with the issue come second.

19 JUDGE JONES: Does Public Counsel  
20 have a view on this?

21 MS. BAKER: I have no objection  
22 either way.

23 JUDGE JONES: Okay. So you're saying  
24 if we ask anybody, ask Ferguson first?

25 MR. THOMPSON: Yes, sir.

1 JUDGE JONES: You-all are making my  
2 simple thing complicated. Let's just -- yeah.  
3 Let's go ahead and take a break now. We'll start  
4 on income taxes. Maybe you-all can solve a couple  
5 of issues before we get back.

6 (A BREAK WAS TAKEN.)

7 JUDGE JONES: We are on insuring  
8 taxes and, Ms. Ferguson, can you raise your right  
9 hand?

10 (Witness sworn.)

11 JUDGE JONES: Thank you. You may be  
12 seated. Cross-examination?

13 MR. THOMPSON: I need to do a little  
14 direct with Ms. Ferguson. It's her first time up.

15 JUDGE JONES: Oh, yeah.

16 MR. THOMPSON: Thank you, Judge.

17 LISA FERGUSON testified as follows:

18 DIRECT EXAMINATION BY MR. THOMPSON:

19 Q. State your name, please.

20 A. Lisa Ferguson.

21 Q. How are you employed?

22 A. I am a Utility Regulatory Auditor for  
23 the Missouri Public Service Commission.

24 Q. Are you the same Lisa Ferguson that  
25 prepared or caused to be prepared rebuttal



1 **testimony that has been marked as Staff Exhibit 3?**

2 A. Yes, I am.

3 **Q. And do you have any changes or**  
4 **corrections to that testimony?**

5 A. I do not.

6 **Q. If I was to ask you the same**  
7 **questions today, would your answers be the same?**

8 A. Yes, they would.

9 **Q. And would those answers be true and**  
10 **correct to the best of your knowledge and belief?**

11 A. Yes.

12 MR. THOMPSON: At this time, Judge, I  
13 will offer Staff's Exhibit 3 and tender  
14 Ms. Ferguson for cross-examination.

15 JUDGE JONES: Thank you. And  
16 cross-examination from Public Counsel?

17 MS. BAKER: No questions. Thank you.

18 JUDGE JONES: Cross-examination from  
19 Lincoln County?

20 MR. COOPER: Yes. Thank you, your  
21 Honor.

22 CROSS-EXAMINATION BY MR. COOPER:

23 **Q. Ms. Ferguson, I believe in your**  
24 **rebuttal you state that LCSW itself has no direct**  
25 **tax liability as it does not file an income tax**

1 return, correct?

2 A. Correct.

3 Q. However, you would acknowledge that  
4 any profit or loss of the company is recorded on  
5 the owner's personal tax return, correct?

6 A. Yes.

7 Q. And you allege that this profit or --  
8 excuse me. Yeah. And you would allege that this  
9 profit or loss will be offset by the tax results  
10 for any other businesses that would be owned by  
11 Mr. Kallash that may also be recorded on his  
12 personal tax return, correct?

13 A. That would be correct.

14 Q. And now, Staff certainly believes  
15 that there will be a profit for Lincoln County,  
16 doesn't it?

17 A. I don't know as that's the case.

18 Q. Staff wouldn't recommend a revenue  
19 requirement and a rate that it thought would result  
20 in a loss for the company, would it?

21 A. No.

22 Q. And if we were to only look at this  
23 regulated entity and assume that it has profit,  
24 there will be income tax owed by the owners,  
25 correct?

1 A. If there is taxable income, yes.

2 Q. Now, the Commission -- or the Staff  
3 makes provision for income taxes when it computes a  
4 revenue requirement for Missouri American Water  
5 Company, doesn't it?

6 A. It does.

7 Q. And to do that it grosses up the  
8 equity return for taxes, correct?

9 A. Yes, I believe so.

10 Q. And yet you'd agree with me, wouldn't  
11 you, that Missouri American doesn't file a separate  
12 federal tax return, does it?

13 A. Those are two -- these are two  
14 totally different companies, though.

15 Q. But Missouri American doesn't file a  
16 separate federal tax return, does it?

17 A. I have never worked on Missouri  
18 American, so I can't tell you.

19 Q. So you don't know one way or the  
20 other?

21 A. Not for Missouri American, no.

22 Q. Well, assume with me that Missouri  
23 American doesn't file a separate tax return and  
24 its -- its dollars are rolled up into an American  
25 Water tax return and perhaps offset by tax results

1 from other American Water subsidiaries. Doesn't  
2 that sound a lot like the situation with Lincoln  
3 County?

4 A. I wouldn't say that it is the same  
5 because they're all -- they would all be corporate  
6 entities versus a corporate -- an S corporation.

7 Q. But your point, I believe, was that  
8 because Lincoln County didn't file its own income  
9 tax, that it had no direct tax liability, correct?

10 A. I'm sorry. Say again.

11 Q. I believe in your testimony you say  
12 that Lincoln County itself has no direct tax  
13 liability as it does not file an income tax return,  
14 correct?

15 A. That is correct.

16 Q. Okay. But what if it's a corporation  
17 and it also doesn't file an income tax return --

18 A. If it --

19 Q. -- would the same situation result?

20 A. I guess I'm confused as to the  
21 question here.

22 Q. Well, is your point that Lincoln  
23 County should not get any income tax treatment  
24 because it doesn't file a tax return?

25 A. It's not that they don't file a tax

1 return. It's that it doesn't incur a tax  
2 liability. It does not actually pay a tax  
3 liability.

4 **Q. Okay. Then let's talk again about my**  
5 **example. If another utility is a corporation but**  
6 **it also does not file a federal tax return and does**  
7 **not pay a tax liability, wouldn't that situation be**  
8 **similar?**

9 A. If there were no tax liability for a  
10 C corporation, we wouldn't include that in the cost  
11 of service.

12 MR. COOPER: That's all the questions  
13 I have.

14 JUDGE JONES: Okay. Do you have a  
15 question?

16 COMMISSIONER STOLL: No questions.

17 JUDGE JONES: Any redirect?

18 MR. THOMPSON: Why, yes, Judge.

19 Thank you.

20 REDIRECT EXAMINATION BY MR. THOMPSON:

21 **Q. Let's go back to Mr. Cooper's**  
22 **example.**

23 A. Okay.

24 **Q. Who are the shareholders, if that's**  
25 **the appropriate word, of Lincoln County Sewer and**

1 **Water?**

2 A. The shareholders would be the members  
3 or the owners, which would be Toni and Dennis  
4 Kallash.

5 **Q. And who are the shareholders of**  
6 **American Water?**

7 A. I wouldn't know.

8 **Q. Does American Water have**  
9 **shareholders?**

10 A. Yes.

11 **Q. Now, Mr. Cooper asked you --**  
12 **attempted to compare the situation of Missouri**  
13 **American -- which is a subsidiary of American**  
14 **Water, correct?**

15 A. Correct.

16 **Q. -- to Lincoln County Sewer and Water,**  
17 **which is owned by Mr. and Mrs. Kallash, correct?**

18 A. Correct.

19 **Q. Would you agree with me that American**  
20 **Water pays taxes?**

21 A. Yes.

22 **Q. Files an income tax return?**

23 A. I would assume so. I don't know that  
24 for a fact.

25 **Q. Now, if it distributes any of its**

1 earnings to its shareholders, are those earnings  
2 taxed a second time to the shareholders?

3 A. Yes.

4 Q. So in the case of Lincoln County,  
5 there is no tax on Lincoln County's earnings at the  
6 Lincoln County level, are there?

7 A. No.

8 Q. But there is a tax at the level of  
9 the members; is that correct?

10 A. Yes.

11 Q. So those earnings are only taxed one  
12 time; isn't that right?

13 A. That is correct.

14 Q. Now, that S corporation election, is  
15 that, in fact, a choice that the members made?

16 A. It is. It is not required by the  
17 Commission to be an S corporation.

18 Q. And would you agree with me they made  
19 that choice in order to reduce their tax liability  
20 by being taxed only one time?

21 MR. COOPER: Objection. Any answer  
22 she'd have to that would be speculation as to why  
23 my clients made a decision or didn't make a  
24 decision.

25 JUDGE JONES: Objection sustained.

1 MR. THOMPSON: Thank you. No further  
2 questions.

3 JUDGE JONES: Okay. Let's go ahead  
4 and finish the questions -- do you have questions  
5 for Ms. Hanneken on this issue?

6 MR. COOPER: I do not, no.

7 JUDGE JONES: No one does. Okay.  
8 Well, in that case, Ms. Ferguson, while you're  
9 there, I believe you're relevant on some other  
10 issues. I believe office supplies and postage.

11 THE WITNESS: Yes.

12 JUDGE JONES: Let's go ahead and skip  
13 down to that. Does Public Counsel have any  
14 questions on this issue?

15 MS. BAKER: No questions. Thank you.

16 JUDGE JONES: Does Lincoln County  
17 have any questions?

18 MR. COOPER: No questions.

19 JUDGE JONES: And late fee, questions  
20 from Public Counsel?

21 MS. BAKER: No questions. Thank you.

22 MR. COOPER: No questions, your  
23 Honor.

24 JUDGE JONES: I believe that's it.  
25 You may step down.



1 MR. THOMPSON: I believe, Judge, we'd  
2 be back to Ms. Hanneken for income tax.

3 JUDGE JONES: Yeah. Well, there's no  
4 questions from that, so let's go ahead and go with  
5 salaries with Ms. Hanneken. Any questions on the  
6 issue of salaries from Public Counsel?

7 MS. BAKER: Just a couple.

8 LISA HANNEKEN testified as follows:

9 CROSS-EXAMINATION BY MS. BAKER:

10 Q. Just a quick question. Were you  
11 provided any detailed time sheets by -- or for  
12 Mr. Kallash or Ms. Kallash?

13 A. Not detailed in what Staff normally  
14 sees, no.

15 Q. And you are aware that within the  
16 company's request there is an employee payroll  
17 tax --

18 A. Yes.

19 Q. -- that they are requesting?

20 A. Yes.

21 Q. And are you aware of any employees  
22 with Lincoln County Sewer and Water?

23 A. No. In response to Staff's data  
24 request, it has been stated that there are no  
25 employees of Lincoln County.

1           **Q.     And it's your understanding that**  
2 **Mr. and Mrs. Kallash are members or owners of**  
3 **Lincoln County?**

4           A.     Correct.

5           **Q.     And so, therefore, Lincoln County**  
6 **pays no payroll tax?**

7           A.     That is my understanding, yes.

8           MS. BAKER: No further questions.

9           JUDGE JONES: Questions from Lincoln  
10 County?

11           MR. BURLISON: Yes, Judge. Thank  
12 you.

13 CROSS-EXAMINATION BY MR. BURLISON:

14           **Q.     Ms. Hanneken, you indicated, I think**  
15 **in response to a question from Public Counsel, that**  
16 **you did not have detailed time sheets; is that**  
17 **correct?**

18           A.     Yes.

19           **Q.     And, in fact, even back through the**  
20 **certificate cases, you were aware that no time**  
21 **sheets had been created either during that period**  
22 **of time prior to certification or back a number of**  
23 **months, even as much as at least a year back; would**  
24 **that be true?**

25           A.     Back from the time of certification?

1 Q. Yes, ma'am.

2 A. That is correct.

3 Q. Okay. Now, do you have before you  
4 your letter to Mr. Kallash dated December 19, 2012?

5 A. I do. I just have to find it. Yes,  
6 I do.

7 Q. And do you remember asking -- in your  
8 bullet point 32, asking for those materials from  
9 August 1st, 2011 through September 30, 2012?

10 A. Correct.

11 Q. I think that would be on page 4 of  
12 your document.

13 A. Yes. I have that, yes.

14 Q. So you knew at the time that you made  
15 this request that those items didn't even exist;  
16 wouldn't that be true?

17 A. Well, we wanted to ensure when we  
18 send out these standard letters that we capture  
19 everything during the test year that is necessary.  
20 We don't make assumptions. While I was told  
21 previously there were no time sheets, I wanted to  
22 give the company every opportunity, if for some  
23 reason they had come across something that would be  
24 adequate for that purpose, to provide it to Staff.

25 Q. You knew, didn't you, that those

1 things did not exist for this company and you still  
2 asked for it in this 32? You knew they didn't  
3 exist?

4 A. I believe I just stated that, while  
5 we had been told that those things did not exist,  
6 we gave the company every opportunity, in the event  
7 there was something that they had jotted down on a  
8 piece of paper or something that they had could be  
9 provided.

10 Q. Do you recall that you provided and  
11 do you have in front of you a bullet point sheet  
12 that I believe you prepared that was the list of  
13 requested items not provided to Staff by Lincoln  
14 County Sewer and Water? And unfortunately, I don't  
15 have a date on that document in front of me.

16 A. I made many such lists like that, so  
17 I don't know which one you're referring to.

18 MR. BURLISON: May I approach, your  
19 Honor?

20 JUDGE JONES: Yes, you may.

21 (LCSW EXHIBIT NO. 7 WAS MARKED FOR  
22 IDENTIFICATION BY THE REPORTER.)

23 BY MR. BURLISON:

24 Q. Ma'am, I'd like to show you what's  
25 been marked Lincoln County Sewer and Water No. 7.

1 Do you recognize that?

2 A. Yes.

3 Q. And you prepared that; would that be  
4 true?

5 A. I believe so, yes.

6 Q. Directing your attention down that  
7 page, approximately two-thirds of the way down,  
8 bullet point that begins detailed time sheets.

9 A. Yes.

10 Q. In there you don't make any reference  
11 that those items have never been available to you,  
12 you just state that items provided not sufficiently  
13 detailed and documented; isn't that true?

14 A. I believe it also states that it was  
15 only provided for three months of the test year and  
16 update period, so it was not for the entire time  
17 period that even Mr. Kallash would have had  
18 available to him.

19 Q. But the three months of the test year  
20 and update period are after this company became  
21 certificated, correct?

22 A. Yes.

23 Q. Okay. So they were required to have  
24 the information at that point in time, correct?

25 A. Correct.

1           **Q.**     And you make no reference here that  
2     those items weren't available to you before, you  
3     make this statement which makes it look like that  
4     they're not providing something to you that they  
5     have and should provide to you?

6           A.     I think the point was what was  
7     provided was not sufficiently detailed and  
8     documented for what was provided. That was the  
9     point of this. At this point in time we did  
10    recognize that the company had asserted that they  
11    did not have that documentation, and therefore,  
12    this bullet point was only concentrating on the  
13    data that was provided and the fact that it did not  
14    have sufficient information to determine at the  
15    time.

16           **Q.**     No. 9 in your letter, which is on  
17    page 2, where you request financial statements for  
18    the 12-month period ending December 31, 2011, do  
19    you see that?

20           A.     Yes.

21           **Q.**     Now, you requested that information  
22    back in the certificate cases; isn't that true?

23           A.     Not for that time period, I don't  
24    believe so, no.

25           **Q.**     Well, that was the time period prior

1 to and we're coming up to the certificate cases,  
2 correct?

3 A. Yes, but this is ending  
4 December 31st, 2011.

5 Q. Right.

6 A. In that prior certificate case, we  
7 would have likely asked for the last available  
8 documents, which would have been ending  
9 December 31st, 2010.

10 Q. And you have before you Lincoln  
11 County Sewer and Water's responses to these  
12 requests?

13 A. I have the one that was e-mailed on  
14 January 11 of 2013.

15 Q. And in regard to that No. 9, you  
16 stated there was none; is that correct?

17 A. Correct.

18 Q. Did you have any reason to believe  
19 that there was otherwise a financial statement in  
20 existence?

21 A. Other than I would think something  
22 would have been prepared on behalf of Lincoln  
23 County in order to determine the gains and losses  
24 to be placed on Lincoln County's personal tax  
25 record.

1           Q.     Ma'am, you knew how this company was  
2 being -- these companies were being operated prior  
3 to being certificated, that they were being  
4 operated by Mr. and Mrs. Kallash essentially  
5 assuming all expenses except for electricity and  
6 some engineering work? That was reflected on all  
7 of the check registers, wasn't it, that there  
8 really weren't any other expenses reflected in any  
9 of the records?

10           A.     I'm only aware of what was provided  
11 to Staff.

12           Q.     In regard to your question No. --  
13 your request No. 27, vehicle and equipment usage  
14 logs for the 12 months ended September 30, 2012  
15 with monthly updates through February 2013, is that  
16 a request that you made?

17           A.     Yes.

18           Q.     And what was Mr. Kallash's response  
19 to you?

20           A.     He -- let's look here. No. 27, he  
21 said he had made 8 trips from July 12 to December  
22 31st of '12. He does not say where these trips  
23 occurred, how many miles it incurred, what the  
24 trips were for. So from this information, all I  
25 know is he made 18 trips or I presume he made 18



1 trims. It could have been also that Ms. Kallash  
2 had made these trips. But I do not know what the  
3 starting point was, the ending point, how many  
4 miles were incurred. So this information was not  
5 of use to staff.

6 Q. Okay. And No. 29, your request 29,  
7 list of all current Lincoln County employees. You  
8 made that request and then subrequests A through D;  
9 is that correct?

10 A. Yes.

11 Q. And what did Mr. Kallash indicate to  
12 you in response?

13 A. None.

14 Q. Okay. And then in your supplemental  
15 or response to that, you indicate that these things  
16 were not provided to you. Well, it was provided to  
17 you, there just weren't any; isn't that true?

18 A. That is my understanding. However,  
19 we had a verbal discussion that the company may be  
20 able to provide job descriptions for what  
21 Mr. Kallash and Mrs. Kallash, what kind of duties  
22 they perform.

23 Q. But you yourself have said that they  
24 weren't employees, and that's what you requested in  
25 No. 29?

1           A.     Correct.

2           **Q.     Your request No. 32, again, this was**  
3 **detailed time sheets, and I think we talked about**  
4 **that at the very beginning. You knew that they**  
5 **didn't have any of that information up until the**  
6 **time that they became certificated; isn't that**  
7 **correct?**

8           A.     Again, I am only aware of what I was  
9 told, and Staff makes sure that it allows the  
10 company to provide any information that is relevant  
11 to the time periods being reviewed by Staff. If I  
12 had only put the time period that I believed was  
13 available and yet there were other records  
14 available that I was not aware of, then I would not  
15 be allowed -- I would not be allowing the company  
16 the opportunity to provide those records.

17           **Q.     No. 37, billing registers by month by**  
18 **individual tariff items, usage, late fees,**  
19 **disconnection fees, et cetera, on a separate basis**  
20 **for each water and sewer district or subdivision**  
21 **for the period covering January 1, 2007 through**  
22 **September 30th, 2012. Please include any**  
23 **supporting calculations and update the register**  
24 **through February 2013 as available.**

25                   And again, you knew from working

1 through the certification cases that those items  
2 didn't exist, so why would you come back and ask  
3 for them again in this case knowing that they  
4 didn't exist?

5 A. Again, this is a standardized letter  
6 sent out to all companies. In addition to that, we  
7 want to make sure that if there were any  
8 documentation that had been overlooked in the  
9 previous case, that the company had the opportunity  
10 to provide those documents to Staff for review and  
11 inclusion in this case.

12 Q. Okay. And you received Mr. Kallash's  
13 response?

14 A. Correct.

15 Q. Could you please read that?

16 A. Furnished during previous audit,  
17 August 2012 to November 2012. See attached.

18 Q. And then the document that you  
19 prepared after you received those responses, you  
20 indicate billing register by month by individual  
21 tariff items, customer charge, usage fees, late  
22 fees, disconnection fees, et cetera, missing over  
23 half of test year and two months of update period.

24 You knew that they weren't going to  
25 be available for the half of the test year because

1 they didn't become created until the case -- until  
2 Lincoln County Sewer and Water became a regulated  
3 utility. So you knew that there wasn't going to  
4 be, so why did you put that in there, other than --

5 A. There's two reasons. One, again, I  
6 did not know if there were documents that may have  
7 been overlooked in the previous case.

8 Second, this document was also to  
9 show the company what we were missing and what we  
10 may need to somehow supplement, estimate or in some  
11 cases disallow in the -- in the event we did not  
12 have that documentation.

13 Q. Ma'am, you knew that there was,  
14 unfortunately, a lot of friction between you and  
15 the principals or members of Lincoln County Sewer  
16 and Water; isn't that true?

17 A. Not from my perspective, no.

18 MR. BURLISON: No further questions.

19 JUDGE JONES: Questions from the  
20 Commission?

21 COMMISSIONER STOLL: No questions.

22 COMMISSIONER W. KENNEY: No.

23 JUDGE JONES: Any redirect?

24 MS. MOORE: Yes. Thank you.

25 REDIRECT EXAMINATION BY MS. MOORE:

1           Q.     Ms. Hanneken, there's been a lot of  
2     discussion about the level of detail provided to  
3     Staff particularly in this case on time sheets.

4           A.     Yes.

5           Q.     Can you describe for us an example or  
6     what kind of information you were provided from  
7     Mr. Kallash as a time sheet?

8           A.     Yes. I had been provided a couple of  
9     different formats from Mr. Kallash. One was simply  
10    where he had taken a notebook and jotted down items  
11    that he did for the company. Now, some of those do  
12    not have dates. Some of them do not have times.  
13    Some of them have no reference points at all other  
14    than he did X.

15                    But in order for me to determine how  
16    much time was spent on any particular system for  
17    any particular duty, I need to know at a minimum  
18    what date this occurred. Whether or not it was in  
19    the test year, outside the test year, ten years  
20    ago, I don't know. When -- either how many hours  
21    are spent on that task or at least a start and  
22    ending time where I can make that calculation  
23    myself.

24                    I have -- you know, I have some  
25    examples of where there's no date, no time, no

1 mileage, nothing on this paper that shows me  
2 anything that would be relevant to a time sheet or  
3 vehicle log other than a description of a task  
4 performed.

5 As an auditor, I can't sit here and  
6 say, you know, how long a phone call took for  
7 something I'm not familiar with. So it's hard for  
8 me to make determinations regarding time or vehicle  
9 mileage if I don't have that data.

10 You know, subsequently there was  
11 sheets provided that were, you know, had dates on  
12 them and tasks, but no hours and no mileage. So  
13 again, you know, I don't know how I would be able  
14 to determine the hours spent by Mr. Kallash on any  
15 given task.

16 **Q. So in absence of information that you**  
17 **could rely on to make calculations of an**  
18 **appropriate salary for Mr. Kallash, what did you do**  
19 **instead?**

20 A. Instead, I relied upon Staff's  
21 position in the last case since it had been so  
22 recent. What we had done was, it's typical when we  
23 do not have this type of information, say it's a  
24 brand-new company that has never, you know,  
25 actually been in business, then what we do is we

1 say, you know, for these tasks we look at other  
2 comparable companies and say, you know, an annual  
3 fee of X amount of dollars in general is a good  
4 representative number of how much compensation  
5 should be received for these tasks.

6 So I utilized that number, and as  
7 well I increased it for one additional duty I was  
8 aware that Mr. Kallash now performs.

9 **Q. Which was?**

10 A. Water testing.

11 **Q. Okay. And is it your personal**  
12 **preference that you would be provided the level of**  
13 **detail you're describing or is that level of detail**  
14 **actually necessary for producing a number you can**  
15 **add into your calculations?**

16 A. It is necessary for me to produce the  
17 number necessary to do a proper utilization of  
18 salary. In fact, Staff repeatedly recommends in  
19 these type of cases where adequate information is  
20 not available to recommend that the company do that  
21 on a going-forward basis.

22 And Staff actually -- in fact, in the  
23 last case Staff provided Lincoln County with  
24 template time sheets to give them an example of the  
25 type of information needed for regulatory purposes,

1 because not only do we need to know how many hours  
2 are spent but kind of what type of task is  
3 performed, because it happens to be a capital item,  
4 that labor actually gets capitalized and put into  
5 rate base.

6 So I would need to make a  
7 determination, you know, not just simple regular  
8 maintenance type of things that they performed,  
9 that they also performed installation of a pipe or  
10 something, labor that would actually be  
11 capitalized.

12 And in addition, because they do have  
13 different rates, we have to track each separate  
14 subdivision's costs specifically related to that  
15 subdivision. Otherwise, you're going to have  
16 cross-subsidization between the different systems.  
17 So as with any of the expenses, we have to allocate  
18 it to the four systems.

19 You know, if we have just one  
20 expense, say something that would be for all the  
21 systems, like pens and pencils in the office, we  
22 really can't say that they're going to go to this  
23 system or this system. So we just take the cost of  
24 those pens and pencils and we divide it out amongst  
25 the systems.



1           Q.     You said you provided examples of  
2 time sheets that you would find acceptable and be  
3 able to use in your review back when the company  
4 was certificated?

5           A.     Yes.

6           Q.     I see in your testimony that you were  
7 able to construct a salary for Mrs. Kallash; is  
8 that correct?

9           A.     Yes.

10          Q.     And did she use those example time  
11 sheets?

12          A.     No, she did not.

13          Q.     So what was it that she used that you  
14 were able to use for coming up with her salary?

15          A.     What she used is a -- just a simple  
16 monthly calendar page and then jots down, you know,  
17 like 11 to 3 or 10 to 2 or whatever. Now, while  
18 this was useful for determination of like the hours  
19 worked, it still didn't give Staff the entire  
20 detail to know what tasks she actually performed  
21 and for what system.

22                         So Staff was able to work with that  
23 data and just allocated it on a per-customer basis,  
24 knowing that in general the tasks performed by  
25 Mrs. Kallash are related to billing, collection,

1 customer service that would be allocated on a  
2 per-customer basis.

3 **Q. And just a couple more questions.**  
4 **You were asked about why would you seek information**  
5 **that you had been told in the past didn't exist,**  
6 **and you described that you needed information from**  
7 **a certain time period, correct?**

8 A. Correct.

9 **Q. Can you explain to us the concept of**  
10 **the test year, basically?**

11 A. A test year is a period of time  
12 agreed upon by all parties to determine annual  
13 amounts of cost and revenues associated with a  
14 company. Now, those costs and revenues and plant  
15 items could be updated to a certain point, but the  
16 test year needs to stay intact and needs to have  
17 all the data relevant for that point in time so  
18 that we can all see for one year this is the amount  
19 that is involved in running this business to  
20 provide safe and adequate service to the  
21 ratepayers.

22 **Q. So when this company filed its rate**  
23 **case, how was the original test year determined?**

24 A. Originally, we were going to go  
25 through September 30th of 2012, and that's based on

1 kind of the timeline of the case, when the company  
2 comes in for the case, what date that is. We  
3 usually try and set it on a quarterly basis. So  
4 for this particular case, it was determined that  
5 the September 30, 2012 ending date was appropriate  
6 given the timeline for this case.

7 **Q. So how did we end up having a**  
8 **different test year in this case that our**  
9 **calculations are now based on?**

10 A. When it was determined that the data  
11 was not going to be available for the entire test  
12 year, we discussed it with the other parties and we  
13 actually filed for an extension in the case, and we  
14 determined that if we were to extend that test year  
15 'til December 31st of 2012, that there would be  
16 more data available for the parties to review as  
17 part of the test year.

18 **Q. Did it turn out that way, that there**  
19 **was more data to review?**

20 A. In some instances there was, yes.  
21 For example, if we had stayed with the  
22 September 30th test year and updated maybe through  
23 December, we would have maybe had four, five months  
24 of revenue data with the new meters, but by  
25 extending it we had the chance to update through

1 March 31st and possibly, you know, get more months  
2 of that data. However, as it turned out, we only  
3 had the billing data through January, so we  
4 couldn't utilize all of that time period. So the  
5 revenues are stuck in December.

6 **Q. Would it have been possible, based on**  
7 **the timing of the rate case, to initially --**  
8 **initially start with the test year that we ended up**  
9 **with?**

10 A. Well, no, because Mr. Kallash filed  
11 before that time period. Now, our data requests  
12 actually went out on December 19th before the end  
13 of the test year, and generally it takes -- you  
14 generally don't want to set the test year that is  
15 subsequent to your data request. So it's just the  
16 data won't be available.

17 MS. MOORE: That's all my questions.  
18 Thank you.

19 JUDGE JONES: Okay. Let's move on to  
20 mileage with Ms. Hanneken. Cross-examination from  
21 Public Counsel?

22 MS. BAKER: I think we've discussed  
23 this one, so no questions.

24 JUDGE JONES: Any cross-examination  
25 from Lincoln County?

1 MR. COOPER: No questions.

2 JUDGE JONES: And water testing,  
3 questions from Public Counsel?

4 MS. BAKER: No questions. Thank you.

5 JUDGE JONES: Lincoln County?

6 MR. COOPER: No questions.

7 JUDGE JONES: Sludge hauling, any  
8 questions from Public Counsel?

9 CROSS-EXAMINATION BY MS. BAKER:

10 Q. Was Staff provided with any detailed  
11 documentation on sludge hauling?

12 A. The only thing we were provided was  
13 the check register.

14 Q. And was Staff given any detailed  
15 information about this new clarifier pumping  
16 program that the company is looking at putting into  
17 place?

18 A. What we were provided was a letter  
19 from the company's contract operator which is  
20 suggesting that such a program be put in place, and  
21 then as well there was some calculations from the  
22 company's consultant, Mr. Johansen, on how he  
23 arrived at the figures that he put in his  
24 testimony, but there was no support behind those  
25 numbers.

1           Q.     And was there any indication that  
2 this had been costs that were incurred during the  
3 test year or the update period?

4           A.     No, not to my knowledge.

5           MS. BAKER: No further questions.

6 Thank you.

7           JUDGE JONES: Any questions from the  
8 company?

9           MR. COOPER: No questions, your  
10 Honor.

11           JUDGE JONES: Okay. It looks like  
12 that's it, is everyone in agreement, for Hanneken?  
13 You may step down. Oh, is there any redirect on  
14 this last issue?

15           MR. THOMPSON: There is no redirect,  
16 but we do have the -- you recall at the opening of  
17 the case we mentioned there was yet another revised  
18 set of Staff Accounting Schedules that were not  
19 available immediately because of a printing  
20 problem. We now have those.

21           JUDGE JONES: They've been passed  
22 out.

23           MR. THOMPSON: And we'd like to offer  
24 those. I think they've been marked as Staff  
25 11A through D.

1 JUDGE JONES: Does the court reporter  
2 have those?

3 MR. THOMPSON: Yes, she does.

4 JUDGE JONES: She doesn't have the  
5 ones that they replaced also? Those haven't been  
6 presented to her, have they?

7 MS. MOORE: I believe they have. I  
8 believe that would be Staff 10A, B, C and D. They  
9 were the accounting schedules filed with  
10 surrebuttal. These replace those.

11 MR. THOMPSON: And also 2.

12 JUDGE JONES: Now, let's say it  
13 clearly for the record. I don't want to look at  
14 any accounting schedules, let alone two sets, one  
15 of which I don't need to.

16 MS. MOORE: You should look at the  
17 last set, which is the one we're replacing, which  
18 is Staff 11A through D.

19 JUDGE JONES: Now, maybe we should  
20 just strike the other ones out of the record. Do  
21 we need those in the record at all?

22 MS. BAKER: Yes, we do, because some  
23 of the issues for, like, the meter reading costs  
24 did come from Staff's direct accounting schedules.

25 JUDGE JONES: Oh, this is going to

1 get confusing.

2 MS. BAKER: I have that there's 2A,  
3 B, C and D, 6A, B, C and D, 10A, B, C and D, and  
4 11A, B, C and D.

5 MR. THOMPSON: That's correct. And 2  
6 and 10 have been offered and received, and now  
7 we've offered 11. No. 6 was never offered.

8 JUDGE JONES: Okay. Well, any  
9 objection to Staff -- the accounting schedules for  
10 Staff coming into evidence? Those exhibits are  
11 admitted.

12 (STAFF EXHIBIT NOS. 11A, 11B, 11C AND  
13 11D WERE RECEIVED INTO EVIDENCE.)

14 MR. THOMPSON: Thank you, Judge.

15 JUDGE JONES: I think we only have  
16 two witnesses left. Let's go with Boateng on  
17 office rent/office utilities.

18 (Witness sworn.)

19 JUDGE JONES: You may be seated.

20 I've been informed by the court  
21 reporter that there was an exhibit that was offered  
22 that wasn't admitted, Ferguson.

23 MR. COOPER: I had it checked off on  
24 my list.

25 MR. THOMPSON: I have it checked off



1 on my list.

2 JUDGE JONES: It's admitted then.

3 (STAFF EXHIBIT NO. 3 WAS RECEIVED  
4 INTO EVIDENCE.)

5 MR. THOMPSON: Thank you, Judge.

6 JUDGE JONES: Okay. You may present  
7 your witness.

8 KOFI BOATENG testified as follows:

9 DIRECT EXAMINATION BY MS. MOORE:

10 Q. Please state your full name for the  
11 record.

12 A. Kofi Agyenim Boateng.

13 Q. And where are you employed and in  
14 what capacity?

15 A. I'm employed by Missouri Public  
16 Service Commission as a Utility Regulatory Auditor.

17 Q. Are you the same Kofi Boateng who  
18 prepared or caused to be prepared the testimony  
19 that's been marked as Staff Exhibit No. 7?

20 A. Yes.

21 Q. Do you have anything you wish to  
22 correct in that testimony?

23 A. Not at this time.

24 Q. If asked the same questions today,  
25 would your answers be the same?

1 A. Yes, they will.

2 Q. And is the information in that  
3 document true and correct to the best of your  
4 knowledge and belief?

5 A. Yes.

6 MS. MOORE: Your Honor, Staff offers  
7 Exhibit 7 and tenders the witness for cross.

8 JUDGE JONES: Any objection to Staff  
9 Exhibit 7?

10 (No response.)

11 JUDGE JONES: Hearing none, Staff  
12 Exhibit 7 is admitted into the record.

13 (STAFF EXHIBIT NO. 7 WAS RECEIVED  
14 INTO EVIDENCE.)

15 JUDGE JONES: Is there any  
16 cross-examination from Public Counsel?

17 MS. BAKER: Just one question.

18 CROSS-EXAMINATION BY MS. BAKER:

19 Q. You reviewed the office lease that  
20 Lincoln County currently has, correct?

21 A. Yes, I did.

22 Q. And is it your understanding that the  
23 owner of the building is an affiliate or another  
24 organization that is controlled by Mr. Kallash?

25 A. Yes. Through the lease you will not

1 be able to determine that. Through other means, I  
2 do know that.

3 **Q. And so from your understanding, as**  
4 **the -- as the one who controls the building,**  
5 **Mr. Kallash is the one who set the lease amount?**

6 A. Yes, depending on what he -- and from  
7 the contract for deed that we've seen, that is  
8 showing he has bought it from them. So that would,  
9 you know, determine how much is paid by the  
10 company.

11 MS. BAKER: No further questions.

12 JUDGE JONES: Any question from  
13 Lincoln County?

14 MR. COOPER: Yes, your Honor.

15 CROSS-EXAMINATION BY MR. COOPER:

16 **Q. What is the name of the entity that**  
17 **is the lessor for the 202 Sun Swept property?**

18 A. We have ML -- let me get the name  
19 right. I have a copy of the -- it's Rockport, LLC  
20 (sic) and/or ML Real Estate. That's the lessor.

21 **Q. Tell me again. ML?**

22 A. It's Rockport, LLC and/or ML Real  
23 Estate.

24 **Q. Now, did you read Mr. Kallash's**  
25 **surrebuttal testimony?**

1 A. Yes, I did.

2 Q. And do you remember seeing in there a  
3 contract for deed between Mr. Kallash and a Mike  
4 Lordo?

5 A. Yes, I've seen it.

6 Q. Would -- does it seem reasonable that  
7 the ML is Mike Lordo as the lessor in that lease  
8 agreement?

9 A. Well, that is what it seems. I'm  
10 trying to locate the attachment to that. If you  
11 look at it as application for deed was even  
12 cancelled, and so -- well, not even being a lawyer,  
13 you can determine that something that was supposed  
14 to relieve control to another person, that session  
15 was canceled.

16 Q. But as I understand your testimony,  
17 you're saying that the lessor in this lease  
18 agreement is an affiliate of Lincoln County Sewer  
19 and Water, correct?

20 A. Well --

21 Q. Which would suggest that there's a --  
22 there's co-ownership between the lessor or the ML  
23 organization and Lincoln County, correct?

24 A. Well, when you say affiliate, we are  
25 also looking at related parties. When you relate

1 to the party --

2 Q. Okay. What's the relationship of the  
3 ML organization and Lincoln County Sewer and Water  
4 then?

5 A. We are looking at a property  
6 question. It was sold supposedly based on the  
7 contract for deed, sold to Mr. Mike Lordo, and then  
8 he in turn lease it back. So there's a related  
9 party.

10 Q. Okay. I didn't hear anything in  
11 there that suggests that Mike Lordo or his  
12 organization, the ML organization is an affiliate  
13 of Lincoln County Sewer and Water. What are you  
14 looking at to determine that?

15 A. Well, he's affiliated in the sense  
16 it's a colleague who has ownership or control over  
17 the property, has leased it. And if you look at  
18 the name as stated on the contract for deed, it's  
19 not -- you have his name selling it to Mike Lordo.  
20 So you by all means know that, okay, well, it's --  
21 he as a person selling the property, so he has a  
22 connection with him.

23 Q. Okay. So your use of the word  
24 affiliate is just that they kind of know one  
25 another, is that what you mean by that?

1           A.     Yes.  Affiliate is interpreted by  
2     that as related parties.  So when you look at my  
3     testimony, yes.

4           **Q.     They're acquaintances, so they're**  
5     **affiliates?**

6           A.     That is correct.

7           **Q.     In your surrebuttal, let's see, you**  
8     **were -- on page 6, you refer to appropriate**  
9     **ratemaking procedures regarding transactions with**  
10    **affiliates or related parties, correct?**

11          A.     Yes, I did.

12          **Q.     Now, you'd agree with me, wouldn't**  
13    **you, that while the Commission has affiliate**  
14    **transaction rules concerning natural gas and**  
15    **electric utilities, it has no such rules concerning**  
16    **water and sewer utilities?**

17          A.     Yes, and in that instance I wasn't  
18    referring to standards that apply to either gas or  
19    electric.  I was as a standard practice, yes.

20          **Q.     Yeah.  And not a rule, correct?**

21          A.     That is correct.

22          **Q.     And I think on page 7 of your**  
23    **surrebuttal you cite from the Financial Accounting**  
24    **Standards Board Accounting Standards Codifications,**  
25    **correct?**

1 A. That is correct.

2 Q. The Commission hasn't adopted  
3 wholesale FASB standards, has it?

4 A. No, they haven't, but we apply it in  
5 principle that we think are reasonable for  
6 companies as a business practice.

7 Q. But you'd agree with me that the  
8 Security and Exchange Commission doesn't regulate  
9 Lincoln County Sewer and Water, correct?

10 A. That is correct.

11 Q. So FASB standards are not applicable  
12 to Lincoln County Sewer and Water, are they?

13 A. Yes. Relating to that, they will not  
14 apply to the company.

15 MR. COOPER: That's all the questions  
16 I have.

17 JUDGE JONES: Any questions from the  
18 Commissioners?

19 COMMISSIONER W. KENNEY: Yes, I have  
20 a question. Thank you.

21 QUESTIONS BY COMMISSIONER W. KENNEY:

22 Q. Sir, on page 4 of your surrebuttal  
23 testimony, you made a statement when asked if you  
24 had any further comments, and you said that Staff  
25 made a number of unscheduled visits to the office

1 property, and each of the visits the office was  
2 closed, no personnel. Then you went on to say  
3 there's no signs on the building or drop box even  
4 though that's not required.

5 What is a number? There's got to be  
6 a number. I'm sure Staff knows whether they went  
7 three times, four times, five or six or twenty.

8 A. I think Staff made about six trips.

9 Q. About. So you're not sure how many  
10 trips?

11 A. I just said six.

12 Q. Six. Is that you personally or --

13 A. I was there once, and the other Staff  
14 members were there, and within the same day that  
15 they were there for these trips, they visited  
16 within maybe 15 minutes later, one hour later they  
17 will visit the office because they were doing  
18 something around to see if somebody was present at  
19 the office.

20 Q. Okay. But there's no corresponding  
21 time sheets or anything that would say they had to  
22 be there at those times or that they said they were  
23 there at those times and they weren't?

24 A. No.

25 COMMISSIONER W. KENNEY: Thank you,



1 sir.

2 THE WITNESS: Thank you.

3 JUDGE JONES: Any recross based on  
4 cross -- any recross based on questions from the  
5 Commission?

6 MR. COOPER: No, your Honor.

7 JUDGE JONES: Any redirect?

8 MS. MOORE: Yes, your Honor.

9 REDIRECT EXAMINATION BY MS. MOORE:

10 Q. I'll start with the most recent  
11 questions. He just asked you about your  
12 observations of how often someone was using the  
13 office space. Does the company keep office hours  
14 there?

15 A. No, we did not see that notice.

16 Q. In all of your review in this case,  
17 were you able to determine how often they were  
18 available to customers in that office?

19 A. No.

20 Q. Did you get any indication that they  
21 were there very often or not at all?

22 A. I did not get the impression that  
23 they were there most of the time.

24 Q. Okay. There's been discussion of  
25 this contract for deed. I'm not going to ask you

1 to interpret that document. However, to the best  
2 of your knowledge with your level of expertise, can  
3 you see anything in that document that shows Staff  
4 that ownership has ever transferred fully from  
5 Mr. Kallash or his trust to another individual?

6 A. No.

7 Q. Why would it be important in our  
8 evaluation of this office space to know whether or  
9 not Mr. Kallash has an interest in that space?

10 A. I think the first thing we should  
11 have even seen is if he had done a bid to see  
12 whether he did actually a comparison with others of  
13 level space. Then together with what he is  
14 charging, Mike Lordo is charging the company, then  
15 we can make a determination whether that is a  
16 competitive price at the time.

17 Here it is difficult to determine in  
18 the absence of that, and also knowing that they  
19 have a connection in some way. It's difficult.  
20 And so your judgment is that you can do it.

21 Q. So there was discussion of whether or  
22 not this was an affiliated transaction or related  
23 party transaction, but it seems to me you're  
24 describing whether or not it was an arm's length  
25 transaction?

1 A. That is correct.

2 Q. Is that a term that you use in your  
3 expertise?

4 A. Yes. And I even use in my testimony.

5 Q. And would that be a generally  
6 recommended business practice for a utility or is  
7 that just your preference?

8 A. It is just not only for utilities,  
9 but for any business transaction, it's required the  
10 best way to do it is to have a competitive price  
11 and to do so is to do it at arm's length where the  
12 parties involved in the transactions are unrelated,  
13 and even if they are related, then there should be  
14 a proof that at least they tried to seek a better  
15 free market value for whatever item is being  
16 discussed for sale or to be sold.

17 Q. Is there anything else about the  
18 terms of this lease that would make you think that  
19 this was not negotiated as an arm's length  
20 transaction or for fair market value?

21 A. I believe the first thing that I  
22 looked at is the competent what is called the term  
23 triple net. That brings into question what other  
24 costs the company will be paying besides the base  
25 amount, which is the 950. And even though

1 Ms. Johansen indicated that the company's not  
2 seeking for other expenses beside the rent and  
3 electricity, it calls into question what other  
4 costs that will be incurred because, as of the time  
5 that they filed the reports, some expenses has not  
6 been incurred. And so maybe down the road if those  
7 costs are incurred, how do you determine whether  
8 this cost is going to be, you know, passed on to  
9 ratepayers, or when they file the next rate case,  
10 are they going to include those costs?

11 And since some of the costs have not  
12 been included, we made a projection, and I think  
13 what we did is based on the actual experience that  
14 we have seen because during January 2000-- I think  
15 the date is '14, they have incurred some expenses  
16 on I think air conditioning that was about \$642.

17 And so if you look at it, it's beyond  
18 the period and we did not include it. Even if we  
19 had included it, I'm sure the company would not be  
20 disputing it, and those costs that we did not know  
21 about, when they come, are they going to reject,  
22 you know. And so I think that is a factor that the  
23 Commissioners needs to take into account in  
24 deciding this case.

25 Q. So you've said that the current state

1 of the ownership indicates to you it may not be an  
2 arm's length transaction and also that all these  
3 additional expenses, that it may not be negotiated  
4 as an arm's length transaction, but as for the cost  
5 itself, the monthly rent, does that seem in your  
6 experience to be an excessive cost for a small  
7 water and sewer utility's office space?

8 MR. COOPER: I'm going to object. I  
9 think this is beyond the scope of  
10 cross-examination.

11 JUDGE JONES: Objection sustained.

12 MS. MOORE: I don't have any other  
13 questions. Thank you.

14 JUDGE JONES: Okay. We can move on  
15 to telephone and Internet with witness Boateng. Is  
16 there any cross-examination from Public Counsel?

17 MS. BAKER: Yes.

18 CROSS-EXAMINATION BY MS. BAKER:

19 Q. For the telephone/Internet bundle  
20 that the company is requesting the actual cost of,  
21 were you provided any documentation as to what that  
22 bundle included?

23 A. I think Mr. Johansen's testimony had  
24 a two-page bill, but it doesn't show the rest of  
25 what the bundle service all entail.

1           **Q.     And so you went in and you looked at**  
2 **what, I believe it was CenturyLink offered as their**  
3 **basic rate plan; is that correct?**

4           A.     That is correct.

5           **Q.     And that's what you're basing your**  
6 **position on?**

7           A.     Yes. We -- I did look at that, and  
8 not only did I looked on the company's Internet  
9 website, I spoke with a person to be sure that I am  
10 getting the right information, and that is what my  
11 recommendation was based on.

12           **Q.     And the company's also asking for**  
13 **other related charges, surcharges, taxes and fees.**  
14 **Were you given documentation about those charges?**

15           A.     Yeah. If you look, what the company  
16 gave Staff or attached to Mr. Johansen's testimony  
17 just shows a summary, and so you see the summary  
18 chart, but you nay not be able to see the  
19 individual items that caused the tax to be levied.

20           MS. BAKER: No further questions.

21           Thank you.

22           JUDGE JONES: Any cross-examination  
23 from Lincoln County?

24           MR. COOPER: Real briefly.

25           CROSS-EXAMINATION BY MR. COOPER:

1           Q.     Sir, you weren't -- you weren't  
2 present with the Kallashes when they inquired of  
3 CenturyLink or contracted for this service, were  
4 you?

5           A.     No, I was not.

6           Q.     Okay. And I think you referenced it  
7 there, but you would agree with me that there is a  
8 bill for the service that is provided in the  
9 surrebuttal or Mr. Johansen's surrebuttal, correct?

10          A.     That is correct.

11          Q.     And it references the Core Connect  
12 Business primary line bundle, correct, as well  
13 as -- as well as a variety of services?

14          A.     That is correct.

15                 MR. COOPER: Okay. That's all the  
16 questions I have.

17                 JUDGE JONES: Okay. Did you-all come  
18 to a conclusion on electricity expense?

19                 MR. COOPER: Yes. It's no longer a  
20 live issue.

21                 JUDGE JONES: Okay. With that,  
22 Mr. Boateng, you can step -- oh, redirect?

23                 MR. THOMPSON: I'll forego it, Judge.  
24 Thank you.

25                 JUDGE JONES: You can step down,

1 Mr. Boateng. Our last witness for the day is

2 Mr. Kallash.

3 MS. BAKER: No. We still have

4 Mr. Merciel's testimony. So he's not the last

5 witness of the day.

6 JUDGE JONES: Oh, we've got to come

7 back tomorrow. He's not back from where he --

8 MS. MOORE: He is. He's back.

9 JUDGE JONES: Okay. Great.

10 MR. COOPER: Where do you want to go

11 next, your Honor? Do you want us to put

12 Mr. Kallash on the stand at this point in time?

13 JUDGE JONES: Does anyone have a

14 preference? Does anyone care if we take

15 Mr. Merciel or Mr. Kallash?

16 MS. MOORE: I don't think we've done

17 any testimony on capacity adjustments at all.

18 MR. COOPER: There will actually be,

19 I think, Johansen, Mr. Addo and Merciel, all three

20 on capacity adjustments when we get to that.

21 MS. MOORE: So maybe just save that

22 for last.

23 JUDGE JONES: Is that the only

24 remaining issue that Merciel is on?

25 MS. MOORE: Yes.



1 JUDGE JONES: Let's save that for  
2 last. Let's go ahead and go through Kallash  
3 starting with office rent/office utilities. Okay.  
4 Cross-examination from Staff?

5 MS. MOORE: No questions. Thank you.

6 JUDGE JONES: Cross-examination from  
7 Public Counsel?

8 MS. BAKER: No questions. Thank you.

9 JUDGE JONES: All right. Then we'll  
10 move on to -- do you have questions, Commissioner  
11 Hall?

12 COMMISSIONER HALL: We're on?

13 JUDGE JONES: We're on office rent/  
14 office utilities.

15 COMMISSIONER W. KENNEY: Yeah. Thank  
16 you very much.

17 QUESTIONS BY COMMISSIONER W. KENNEY:

18 Q. Mr. Kallash, I have a question for  
19 you.

20 A. Yes, sir.

21 Q. You filed a quit claim deed on  
22 February 15, 2012 to record a quit claim deed you  
23 signed on January 1st, 2009; is that correct? On  
24 your -- when I look at your surrebuttal testimony,  
25 it shows an affidavit. No. Let's see.

1 A. On my surrebuttal, sir?

2 Q. Yes.

3 A. Okay.

4 Q. A contract for deed. You did a  
5 contract for deed on January 1st, 2009.

6 A. Contract for deed.

7 Q. On January 1st, 2009.

8 A. Yes, sir.

9 Q. Now, I see that you filed a quit  
10 claim deed on the 15th of February 2012.

11 MR. COOPER: Commissioner, I hate to  
12 cut in. Those are two different pieces of property  
13 and two different issues, if that's helpful at all.

14 COMMISSIONER W. KENNEY: Okay. Which  
15 one involves the office?

16 MR. COOPER: Only the contract for  
17 deed.

18 COMMISSIONER W. KENNEY: Contract for  
19 deed. Okay. Thank you.

20 BY COMMISSIONER W. KENNEY:

21 Q. Contract for deed, does that still  
22 show up in your name in the Lincoln County records?

23 A. The contract for deed is not recorded  
24 in the courthouse, sir.

25 Q. It is not recorded?

1 A. No, it is not recorded.

2 Q. So it's still under your -- so the  
3 property is still legally under your name, correct?

4 A. In the courthouse, yes, sir.

5 Q. Okay. I'm just curious, because  
6 I'm -- I've been a property -- I'm a realtor --

7 A. Okay.

8 Q. -- in a former life. I've built a  
9 lot of houses, sold a lot of properties. And I had  
10 a piece of property just I'm closing on and I had a  
11 quit claim deed on it, but that doesn't mean  
12 anything because I'm still the owner of the  
13 property. It is. I'm just telling you, I have a  
14 piece of property I'm selling.

15 A. Okay.

16 Q. So you have a contract for deed?

17 A. That's correct.

18 Q. Has it been executed?

19 A. It's signed and -- yes.

20 Q. I mean, has he sold his condo?

21 A. No, he has not sold his condo. That  
22 was the thing. When we first did this, he had a  
23 buyer for his condo, and he was going to sell his  
24 condo and close pretty quick. Well, the market  
25 went caput.

1           **Q.**     To me, this looks a little iffy  
2 because I'm -- I mean, only because it's not  
3 recorded and you're paying someone a fee for a  
4 building that you still own. Technically you still  
5 own it, don't you?

6           **A.**     Well, I've talked to -- some lawyers  
7 say I do. Some don't. It's recorded in the  
8 courthouse that there's a contract for deed and he  
9 has possession of the building and I can't do --

10          **Q.**     But you have the deed?

11          **A.**     I have the deed, but if he come up --

12          **Q.**     No. I'm just -- I'm in real estate.  
13 That's what I do for a living. I've been doing it  
14 for 20-something years.

15          **A.**     And I understand.

16          **Q.**     And I'm just telling you, I don't  
17 know that -- I mean, if it was me, you own the  
18 property.

19          **A.**     Okay.

20          **Q.**     And so you're paying rent to someone  
21 else that you own the property on. To me, that's  
22 what it looks like. I could be wrong. I'm not an  
23 attorney. I've just been dealing in that stuff for  
24 a long time.

25          **A.**     Okay.

1 Q. That probably raises some eyebrows.

2 A. Okay.

3 Q. Thank you. That's all I have.

4 A. That's fine.

5 JUDGE JONES: Commissioner Stoll.

6 QUESTIONS BY COMMISSIONER STOLL:

7 Q. Thank you, Mr. Kallash. In previous  
8 testimony it was mentioned that there's no office  
9 hours, no -- I don't know if it was signage at the  
10 building. How often would you characterize the  
11 office as having somebody there?

12 A. Okay. My wife has a calendar there.  
13 She would write the hours. She usually goes there  
14 in the morning, starts at eight. She sometimes  
15 stays there 'til noon. Sometimes 'til three. She  
16 always writes her hours.

17 During the public hearing there was a  
18 statement made that some man said he was there 37  
19 times. So we was working on the rate case. My  
20 secretary went there from 8 in the morning 'til 12  
21 for three weeks straight and sat in that office and  
22 answered the phone and stuff like that. Even left  
23 the door open. People would pull up and never come  
24 in. They'd go to the drop box, some of the people  
25 that was saying that nobody was never there.

1                   The drop box has 2-- it has drop box  
2 wrote on it in big letters. I put them on there  
3 myself when we first put it up. The building and  
4 the mailbox has 202.

5                   So to answer your question, there's  
6 somebody there almost every day. Now, during the  
7 rate case, when me and Toni were answering all  
8 these questions, kicking off thousands of pages, we  
9 would send a secretary out there from my surveying  
10 company, because I have moved everything in to my  
11 surveying company except the plat map. We moved  
12 the file cabinets and this document in so we could  
13 answer the stuff and be on the phone and stuff like  
14 that.

15                   But I mean, yes, the office is very  
16 much used. There's somebody there three to four  
17 hours every day.

18                   **Q. Do people -- do your customers send,**  
19 **remit their payments for services to that office?**

20                   A. Yes. We have a post office and a  
21 drop box, and we probably get -- we've never  
22 counted them. Everybody's asked us how many go in  
23 the drop box. There's been as many as 30 payments  
24 out of 122 in the drop box of our customers, and  
25 then the rest are mail. I mean, yeah, they come,

1 and we do all the meetings for all the new  
2 customers. When a house sells, everything is set  
3 up by appointment because they're usually coming in  
4 from out of town. They always call. We set up an  
5 appointment and that's when we meet them out there.

6 **Q. Okay.**

7 A. But there's somebody there a lot.

8 COMMISSIONER STOLL: Thank you.

9 JUDGE JONES: Commissioner Hall.

10 QUESTIONS BY COMMISSIONER HALL:

11 **Q. Good afternoon. Mike Lordo is the**  
12 **individual that has control of the building per**  
13 **your testimony; is that correct?**

14 A. Yes, sir.

15 **Q. Are you involved in any other**  
16 **business activities with Mr. Lordo?**

17 A. No, sir.

18 **Q. What does -- what was the**  
19 **consideration for the deed of trust or for the deed**  
20 **of -- the contract for deed? Excuse me.**

21 A. Okay. What do you mean? Why did I  
22 do it?

23 **Q. No. What -- what amount of money was**  
24 **paid?**

25 A. He put \$100 down when he wrote it. A

1 lot of my contracts I take \$1 down. He put 100.

2 Q. And so what -- what has to occur for  
3 him to take ownership of the building? He needs to  
4 pay you, I assume, some amount of money?

5 A. On the contract for deed, he has to  
6 pay me 153 -- \$152,900. That's the price we agreed  
7 on when I sold it to him.

8 Q. And that contract for deed was dated  
9 what?

10 A. The 1st day of January of 2009.

11 Q. And has he made any other payments on  
12 that towards purchase of the property?

13 A. Yes, he has. The exact amount, it's  
14 7, \$8,000 he's paid through the years, but I don't  
15 have that with me.

16 Q. Is that in the record somewhere,  
17 those payments?

18 MS. BAKER: I don't believe so.

19 BY COMMISSIONER HALL:

20 Q. Looking at your direct testimony,  
21 you're a busy man. You're a farmer, surveyor,  
22 jeweler. Do you -- other than business related to  
23 Lincoln County Sewer and Water, are there any  
24 business activities that take place in this  
25 building?



1           A.     No, sir. They all take place in my  
2 Fitch & Associates building in Troy where I used to  
3 take care of all this. But we had customers coming  
4 in after the meters were put in that would sit  
5 there for an hour, two hours, make my secretary  
6 cry, aggravate if I wasn't there, I was out in the  
7 field surveying.

8                     And I called Public -- I called Staff  
9 and I said, I can't keep having people come in and  
10 ruin my surveying business because that's where I  
11 make a living. And they said, you know, rent an  
12 office. And I checked several offices around. I  
13 even checked on the ones that Staff recommended  
14 that Meyer & Company has for \$500. There's two  
15 Meyer & Companies in Troy. I know them both. I  
16 called the owners. They never had nothing like  
17 that.

18                    Now, in the Troy community, there's a  
19 big word because we have no zoning, and I do  
20 surveying and there's office buildings as far as  
21 ten miles outside of Troy, 15 miles outside of  
22 Troy, and then people rent a house, they rent a  
23 shed and stuff like that.

24                    Everywhere I checked in Troy --  
25 because I contacted the bank. There's a strip mall

1 across from us and we surveyed it. They all wanted  
2 1,250 to \$1,500. When I originally bought this  
3 building, I was renting -- there was a lease on it  
4 and I was getting 1,200 a month. When the lady  
5 moved out, then I sold it to him. That's why I got  
6 it for 950.

7 I believe -- and I will stand by  
8 this. They can go to Troy. They can check  
9 everything out. That is a reasonable rate to pay  
10 in Troy. In fact, it's below reasonable.

11 **Q. I assume that at your -- at your**  
12 **survey office you've got a landline phone?**

13 A. Yes, I have a landline phone.

14 **Q. And do you also have a cell phone**  
15 **that you use for that business?**

16 A. I have a personal cell phone, yes.

17 COMMISSIONER HALL: Thank you.

18 JUDGE JONES: Commissioner Kenney?

19 COMMISSIONER W. KENNEY: Thank you.

20 QUESTIONS BY COMMISSIONER W. KENNEY:

21 **Q. Mr. Kallash, going back to some of**  
22 **these same questions. Have you had some -- do you**  
23 **have any written amendments to this contract for**  
24 **deed or verbal? Because you said he's paid you**  
25 **some money, maybe 7 or 8,000, but there's nothing**

1 in here that calls for him to pay you anything.

2 It's very subjective, obviously.

3 A. Okay.

4 Q. This doesn't say -- doesn't say he  
5 has to pay you anything until his condo sells.

6 A. That is correct. But when I talked  
7 to him before and I said I'm going to have to have  
8 some money down, then he paid me more down.

9 Q. So it's just verbal?

10 A. Which is verbal.

11 Q. That's fine. Verbal contract, real  
12 estate law, it's law in the state of Missouri.

13 A. That's correct.

14 Q. Now, the next question is, I know on  
15 taxes it says that the -- taxes, it says that the  
16 buyer agrees to provide proof of taxes, agreed that  
17 the real estate tax assessment of said property for  
18 2010 shall be paid for by buyer.

19 Since -- has buyer been paying any  
20 taxes on that property since 2010 or have you paid  
21 the taxes?

22 A. I cannot answer that with a hundred  
23 percent certainty because I have a lot of property  
24 I pay taxes on.

25 Q. I understand. Been there.

1           A.     I'm not going to answer that right  
2 now 'til I check it out.

3           **Q.     Okay. That's -- okay. That's**  
4 **something I'd like to find out, who's paying taxes.**  
5 **All right. That's all I think I have. Thank you.**

6           JUDGE JONES: Commissioner Hall, did  
7 you have any further questions?

8           COMMISSIONER HALL: No.

9           JUDGE JONES: How long will it take  
10 you to get that answer?

11          THE WITNESS: When we get done with  
12 this, I'll have to go back home and --

13          JUDGE JONES: By the end of the week?

14          THE WITNESS: Yeah, or beginning of  
15 the next week. I've got some jobs I've got to get  
16 done on surveying. I'm going to get it pretty  
17 quick for you.

18          JUDGE JONES: Give us the time that  
19 you know --

20          THE WITNESS: You'll have it by next  
21 week. I just don't know when I'm going to get out  
22 of here.

23          JUDGE JONES: Let's say by the end of  
24 next week.

25          THE WITNESS: That's fine.

1 JUDGE JONES: We'll call that -- we  
2 spoke earlier of an exhaustive list of water  
3 companies using automated meters. That was  
4 Commission Exhibit 1. We'll mark this as  
5 Commission Exhibit 2. And just give it to your  
6 attorney. He'll file it in EFIS or give it to the  
7 data center and mark it.

8 THE WITNESS: On both of those or --

9 JUDGE JONES: You don't have to worry  
10 about the first. I was just reminding the parties  
11 of it. Okay. Let's go to income taxes. Oh, I'm  
12 sorry. Any recross on office rent and office  
13 utilities?

14 MS. MOORE: No, thank you, Judge.

15 JUDGE JONES: Any redirect?

16 MR. COOPER: Does Ms. Baker have  
17 recross?

18 MS. BAKER: No. I said I do not.

19 MR. COOPER: No, no redirect.

20 JUDGE JONES: Let's move on to income  
21 taxes. Any cross from Staff?

22 MR. THOMPSON: Thank you, Judge.

23 CROSS-EXAMINATION BY MR. THOMPSON:

24 **Q. Mr. Kallash, you made the S corp**  
25 **election in order to enjoy the beneficial tax**

1 **treatment; isn't that correct?**

2 A. I don't believe it's an S corp. I  
3 believe it's an LLC.

4 **Q. But for tax purposes, it's an S**  
5 **corporation; isn't that correct?**

6 A. I'm not a tax accountant, so I don't  
7 know that.

8 **Q. Who does your taxes?**

9 A. Lou's Accounting.

10 **Q. So the testimony before the**  
11 **Commission today suggests that Lincoln County Sewer**  
12 **and Water for tax purposes is an S corporation.**  
13 **Are you aware of that?**

14 A. Now that you're saying that and it's  
15 an LLC, I guess that's what you're saying.

16 MR. THOMPSON: No further questions.

17 JUDGE JONES: Any questions from  
18 Public Counsel?

19 MS. BAKER: No questions. Thank you.

20 JUDGE JONES: Questions from the  
21 Commission?

22 COMMISSIONER W. KENNEY: I have  
23 questions.

24 QUESTIONS BY COMMISSIONER W. KENNEY:

25 **Q. You said you have -- you have several**

1 **companies, a few?**

2 A. They're not -- when you say  
3 company --

4 **Q. Small companies?**

5 A. Very small.

6 **Q. Businesses?**

7 A. I'm a licensed surveyor.

8 **Q. Surveyor, farmer, raise elk. You've**  
9 **got a lot of friends, right?**

10 A. Yes, sir, I do.

11 **Q. How many of your friends have a**  
12 **corporation that's not an S corp or an LLC?**

13 A. I don't know anybody with a C corp.

14 **Q. Do you know why? It's usually**  
15 **because it's not the benefit. It's the fact of the**  
16 **way most of us pass it through because we're small**  
17 **companies. It's not trying to avoid taxes. It's**  
18 **not trying to avoid income taxes at all. It's just**  
19 **a beneficial way to do business, and that's why our**  
20 **government allows us to do it that way. I've got**  
21 **several LLCs and a couple S corps.**

22 A. Okay.

23 **Q. It would be stupid of me to have a**  
24 **corporation because I'd lose -- I'd have to have my**  
25 **board make decisions and I couldn't do them myself.**

1           A.     Okay. I just always thought that if  
2 I was an individual and owned something, then  
3 everything I've always owned has just been me. The  
4 only thing I have as an LLC is this company because  
5 they said liability, you need to have it as an LLC.

6           **Q.     Yeah, smart.**

7           A.     And my surveying company's not an  
8 LLC. It's privately owned by me. My farm's not an  
9 LLC. It's privately owned by me.

10          **Q.     All these attorneys would probably**  
11 **tell you you ought to put them all in LLCs.**

12                   MR. COOPER: Especially if you wanted  
13 to pay us to do it.

14                   JUDGE JONES: Any other questions?  
15 Recross? Redirect?

16                   MR. COOPER: No, thank you.

17                   JUDGE JONES: Move on to salaries.  
18 Questions from Staff?

19                   MS. MOORE: No, no questions. Thank  
20 you.

21                   JUDGE JONES: Questions from Public  
22 Counsel?

23                   MS. BAKER: No questions. Thank you.

24                   JUDGE JONES: Questions from the  
25 Commission? Mileage.



1 COMMISSIONER W. KENNEY: I will -- I  
2 do have one short question.

3 QUESTIONS BY COMMISSIONER W. KENNEY:

4 Q. Because I find it a little -- I was  
5 looking through the average minimum of 684 hours  
6 per year at 57 hours a month at 42.68. When you  
7 take 122 customers, they're paying right under 20  
8 bucks a month in their rates for that service.  
9 That's about 29,000 something divided by 122  
10 divided by 12 is 20 bucks a month.

11 Now, again, I think someone -- you  
12 have to run a business, but I would think for --  
13 that's just for one salary, for 57 hours per month  
14 at 42.68. That just seems to me a pretty --

15 A. Can I explain?

16 Q. Yes.

17 A. If I hire a contracted labor to run  
18 it, a contractor to run these treatment plants,  
19 it's going to cost a lot more. He visits them once  
20 a week. Okay. According to PSC regulations, Steve  
21 Loethen told me I'm supposed to visit my treatment  
22 plants every day. I try to visit -- I do visit  
23 them every other day, and I go to the water plant  
24 every other day in case a well goes down or  
25 something like that.

1                   On the stilling wells, and I don't  
2 know if you guys are familiar, but the sludge  
3 builds up in the stilling wells and gets in the  
4 clarifier. If you get over your limits, they go  
5 out on your suspected solids, you get a fine. You  
6 get charged by DNR. In 16 years, as I stated  
7 before, we've never had that happen.

8                   In these subdivisions, which I  
9 brought pictures to show you, there's 200 and  
10 \$300,000 houses. This ain't low income or anything  
11 like that. These people get very upset when  
12 there's an odor. A couple months ago we had a  
13 breaker throw and I -- it must have thrown the day  
14 I was there because the next day I didn't go and  
15 the next day it started to go septic and they  
16 started to get an odor.

17                   Well, I mean, they called out at the  
18 office one night at 11 o'clock and Toni was there  
19 working, you know, and the guy called and he's  
20 like, oh, you answered. She guess, yeah, what's  
21 wrong? He goes, well, there's a heck of an odor.  
22 Well, I didn't know who was out of their house at  
23 11:30 at night on a cold night, but then I  
24 addressed it the next morning.

25                   I realize it's expensive. It takes a

1 lot of time to run these plants the right way.  
2 Other than that, if we start getting fines by DNR,  
3 it's going to cost them a lot more if they come  
4 back into the rates.

5 I mean, I'd like to sit down and  
6 you-all tell me what you-all want me to do and how  
7 you-all want me to run it, but big companies go to  
8 them every day.

9 **Q. It's not my -- I don't want to tell**  
10 **you how to run your business. You're a**  
11 **businessman. I don't think anybody here should**  
12 **tell you how to run your business.**

13 A. Thank you.

14 **Q. We just make a decision what's the**  
15 **fair and reasonable rate of return.**

16 A. Well, I would like for -- I ran it  
17 for 16 years for \$55 a month, and when the  
18 Commission got involved and they said you have to  
19 do this, this and this and this and this, it cost  
20 more to send out bills, to read meters. It costs,  
21 and do the paperwork and everything else.

22 I tried to do this rate case without  
23 hiring a lawyer. I talked to Jim Russo. I sent  
24 him in just what the meters cost. And we'd had a  
25 rate case three months prior, and they come back

1 and lowered all the rates after I spent the money.  
2 And I didn't want to spend \$25,000 on a rate case  
3 or 30,000. I thought we could get this thing  
4 through, and here we are because some of the  
5 statements here have not been true, what they've  
6 said about it.

7                   You know, Lisa directly called me a  
8 liar in my office in front of my whole staff and  
9 everything, and I had to send Jim Busch -- I had to  
10 call Jim Russo on the phone to say that the stuff  
11 was in the office. I'd sent 72 pages to Jim Busch  
12 the day before because Lisa, when we would fax her  
13 stuff, she said she wouldn't get it. I had to pay  
14 my secretary to start keeping a log of this stuff.

15                   **Q. Okay. Well, we're going a little**  
16 **further. Thank you.**

17                   JUDGE JONES: Any recross on the  
18 questions involving salaries? Any redirect?

19                   MR. COOPER: No, your Honor.

20                   JUDGE JONES: Are there any questions  
21 on mileage from Staff?

22                   MS. MOORE: No questions. Thank you.

23                   JUDGE JONES: Public Counsel?

24                   MS. BAKER: No questions. Thank you.

25                   JUDGE JONES: Commissioners? Sludge

1 hauling, any cross from Staff?

2 MR. THOMPSON: No questions. Thank  
3 you.

4 JUDGE JONES: Public Counsel?

5 MS. BAKER: No questions. Thank you.

6 JUDGE JONES: Any questions from the  
7 Commission?

8 COMMISSIONER W. KENNEY: I do have  
9 one question. I'll be very brief on this.

10 QUESTIONS BY COMMISSIONER W. KENNEY:

11 Q. I guess my question is, what is the  
12 annual estimated amount that you guys, that you  
13 think it's going to cost? I know the Staff used  
14 the 2,958 average using that three-year average,  
15 and you've said that certain things -- I understand  
16 that letter and what was recommended, and I see --  
17 I'm just trying to get what the dollar amount would  
18 be.

19 A. Dale has that. I don't -- I told him  
20 to take the stilling well cleaning and what we've  
21 pumped because we've been using the other plant.

22 Q. You don't have that information?

23 A. I don't have that information.

24 Q. I'm sure I can find it, someone will  
25 get it to me.

1 COMMISSIONER W. KENNEY: All right.

2 Thank you.

3 JUDGE JONES: Office supplies and  
4 postage, any cross-examination from Staff?

5 MS. MOORE: No, thank you.

6 JUDGE JONES: Any cross-examination  
7 from Public Counsel?

8 MS. BAKER: No questions, thank you.

9 JUDGE JONES: Commissioners?

10 COMMISSIONER W. KENNEY: No.

11 COMMISSIONER STOLL: No, thank you.

12 JUDGE JONES: Looks like it,

13 Mr. Kallash.

14 THE WITNESS: Thank you, sir.

15 JUDGE JONES: Let's go back to the  
16 issue of capacity adjustments. Mr. Johansen, you  
17 remain under oath.

18 THE WITNESS: Yes, sir.

19 JUDGE JONES: Is there any  
20 cross-examination from Staff?

21 MS. MOORE: Yes. Thank you, Judge.

22 DALE JOHANSEN testified as follow:

23 CROSS-EXAMINATION BY MS. MOORE:

24 **Q. Mr. Johansen, are you ready?**

25 **A. Yes.**

1           **Q.**     Okay.  So you've made a  
2     **recommendation on how to account for excess**  
3     **capacity at the company's Rockport facilities,**  
4     **correct?**

5           A.     Yes.

6           **Q.**     And the treatment you propose is  
7     **different than what was used in the rate design the**  
8     **company agreed to in the certificate case, correct?**

9           A.     It's different -- what I'm proposing  
10    is different than the method the Staff used in the  
11    certificate case to develop the initial cost of  
12    service.

13          **Q.**     Okay.  Is it true that Rockport's  
14    **facilities have capacity that far exceeds not only**  
15    **the existing customer levels but also the levels in**  
16    **DNR's permit?**

17          A.     Which facilities?

18          **Q.**     The well pump, storage tank, sewer  
19    **treatment facility.**

20          A.     Altogether.  I didn't know if you  
21    were just talking --

22          **Q.**     Yeah, altogether.

23          A.     If you look at what I think I termed  
24    in one of my testimonies of now-known usage data,  
25    you can reach that conclusion.

1           Q.     So the actual capacity, it can serve  
2 more than the current customers and more than what  
3 the DNR permit says, correct?

4           A.     If you look at now-known usage data,  
5 that's correct.

6           Q.     Okay. I think you argued that it  
7 would be absurd for the company to be required by  
8 DNR to construct facilities and then not be allowed  
9 to recover the full cost of those facilities by the  
10 PSC, correct?

11          A.     That sounds familiar, yes.

12          Q.     Specifically, I think you made that  
13 argument regarding the possibility that DNR would  
14 require the company to build a second well before  
15 the PSC even allowed recovery of the first well; is  
16 that right?

17          A.     Yes. I found that reference, that's  
18 correct.

19          Q.     Okay. Are you familiar with DNR's  
20 water design guide?

21          A.     To some degree, yes.

22          Q.     Are you aware that the DNR water  
23 design guide explains that a second well be  
24 required for reliability purposes, not for capacity  
25 purposes?



1 A. Yes, ma'am. There is a distinction.

2 MS. MOORE: I think that's it. Thank  
3 you.

4 JUDGE JONES: Cross-examination from  
5 Public Counsel?

6 MS. BAKER: Thank you. Just a couple  
7 of questions.

8 CROSS-EXAMINATION BY MS. BAKER:

9 Q. You are aware that whenever a company  
10 goes in to the Department of Natural Resources to  
11 get a permit, it is the company who gives the size  
12 of the project to DNR, DNR does not dictate size to  
13 the company?

14 A. Well, the company proposes a design  
15 that has a capacity built into it based on the  
16 standards that DNR sets forth for that design.

17 Q. Okay.

18 A. So yes.

19 Q. All right.

20 A. So if Lincoln County went to them  
21 with Rockport's plat and said, we want to build a  
22 subdivision that has this many homes, that is what  
23 the DNR would take and that's what they would  
24 permit on?

25 A. Well, assuming the design was

1 consistent with the design standard for that number  
2 of -- let's say there's a hundred lots platted.  
3 You have certain design requirements that you have  
4 to meet.

5 **Q. So yes, it would be -- it is the**  
6 **company and their plat that dictates the size of**  
7 **what is permitted?**

8 A. Not really. It's the design  
9 standards that DNR requires the facilities to be  
10 built to --

11 **Q. Right.**

12 A. -- that dictate the size of the  
13 plant.

14 **Q. Right. But what I'm saying is, if**  
15 **the company goes in and says, we're going to build**  
16 **a subdivision for 1,000 homes, the design would be**  
17 **based on 1,000 homes?**

18 A. Yes.

19 MS. BAKER: No further questions.

20 JUDGE JONES: Any questions from the  
21 Commission? I just have one question.

22 QUESTIONS BY JUDGE JONES:

23 **Q. The plant capacity as it is now, is**  
24 **it designed -- Rockport and Bennington, are they**  
25 **built to serve the number of lots that are there?**

1 A. Yes.

2 Q. And do you know whether all of those  
3 lots have been sold and filled?

4 A. No, they have not. That's why for --  
5 and just so it's clear, this issue doesn't exist  
6 for the Bennington system.

7 Q. Oh, it doesn't?

8 A. No. This is just for Rockport.

9 Q. Okay.

10 A. And the reason it exists for -- the  
11 main reason it exists for Rockport is that there  
12 were two phases in that development that  
13 encompassed 210 residential lots, and currently  
14 there are 72 homes in the development. So what  
15 we're talking about are facilities that were  
16 designed to serve the 210 lots long-term, and we  
17 have capacity for that in the facilities, but we  
18 only have 72 customers.

19 Q. I understand.

20 A. So that's why there's an issue of  
21 these capacity adjustments. And it's really just a  
22 matter of how you do that adjustment, not whether  
23 there's an adjustment at all. The company agrees  
24 there's a capacity adjustment that's necessary. We  
25 simply disagree with how to calculate that.

1 JUDGE JONES: Any recross based on my  
2 question?

3 MS. MOORE: No.

4 MS. BAKER: No.

5 JUDGE JONES: Any redirect?

6 MR. COOPER: Yes, your Honor.

7 REDIRECT EXAMINATION BY MR. COOPER:

8 Q. Mr. Johansen, you were asked about  
9 some sort of design -- or capacity adjustment being  
10 agreed to in the certificate case. You're not  
11 aware of anything agreed to in the Stipulation &  
12 Agreement in the certificate case related to  
13 capacity adjustment, are you?

14 A. I don't recall that there's anything  
15 specific to that.

16 Q. You referenced that the Staff's  
17 adjustment is based on now-known usage data,  
18 correct?

19 A. Yes.

20 Q. Were these facilities based on the  
21 usage data as we know it to be today?

22 A. The original design? No, it was not.

23 Q. What was the original design based  
24 upon?

25 A. Well, the easiest example is the

1 sewage treatment plant. According to the DNR  
2 design standards, for a 210 lot subdivision you  
3 have to have a plant that's designed according to  
4 the standards at 78,000 gallons a day capacity.

5           It's a very straightforward  
6 calculation. You've got 210 lots. Design  
7 standards set out an assumed population of 3.7 per  
8 lot and an assumed usage of 100 gallons a day per  
9 population equivalent. And you multiply the  
10 numbers out and you come out with a 78,000 gallon  
11 plant, and that's what was designed and that's  
12 what's in place.

13           **Q. And that's what has to be in place on**  
14 **day one, correct?**

15           A. Correct

16           **Q. Now, you talked about or you were --**  
17 **as I say, you talked about the Staff adjustment**  
18 **being based upon now-known usage data. What is**  
19 **your adjustment based upon?**

20           A. Again, the best example is the  
21 treatment plant. It's the current sold lots,  
22 structures that are -- that have people living in  
23 them of 72 divided by 210.

24           **Q. So you look back to the design**  
25 **standards that were utilized in the first place to**

1     **construct the facility, correct?**

2             A.     Yes.  That's what the -- that's  
3     what -- my percentage of capacity adjustments is  
4     based on current customers versus design capacity.

5             **Q.     Now, there was a reference to the**  
6     **second well being for -- that you reference in your**  
7     **testimony being for reliability.  Do you remember**  
8     **that?**

9             A.     Yes.

10            **Q.     Does the fact that it's for**  
11     **reliability change your conclusion that the way**  
12     **we're headed another well will have to be**  
13     **constructed before Lincoln County is recovering its**  
14     **investment in the first well?**

15            A.     No.  That's still accurate.

16            **Q.     You were asked about whether the**  
17     **design is based upon the number of lots that are**  
18     **provided with the application for permit.  Let's go**  
19     **the other direction.  If a company shoots low and**  
20     **builds for 100 homes, what happens as you reach 100**  
21     **homes in that area?**

22            A.     You have to go back for a second  
23     permit to expand the capacity of your plant.

24            **Q.     And is there -- is there economy of**  
25     **scale in both the water and the sewer side when**

1     **you're talking about constructing plant?**

2             A.     Certainly to some degree there is,  
3     yes.

4             **Q.     Is it cheaper to build the plant**  
5     **that's appropriate for 200 lots up front than it is**  
6     **to build a plant for 100 lots and then go back and**  
7     **build another plant for another 100?**

8             A.     Well, certainly it is, because you've  
9     got certain costs associated with that second plant  
10    that are going to be separate and apart from if you  
11    did it all at once to start with.

12            MR. COOPER:   That's all the questions  
13    I have.

14            JUDGE JONES:   Commissioner Stoll.

15    QUESTIONS BY COMMISSIONER STOLL:

16            **Q.     Could you tell me or tell us in what**  
17     **year the system was designed?  When were the**  
18     **permits issued?  Was that -- approximately?  Was**  
19     **it --**

20            A.     Rockport, I don't know that offhand.

21            **Q.     I was just curious if it was, you**  
22     **know, before the economic downturn when, you know,**  
23     **the home construction was less --**

24            A.     Well, one of them was about 19-- in  
25    the mid 1990s, I'm thinking 1996 time frame, and

1 the other one was in the mid 2000s, and I'm  
2 thinking 2006 is what's coming to mind.

3 MR. COOPER: Commissioner, I think  
4 attached to Mr. Merciel's testimony is one of the  
5 DNR documents approving the plan, and it's dated  
6 December 27, 2007 if that kind of --

7 COMMISSIONER STOLL: Okay.

8 MR. COOPER: -- gives you some idea.

9 COMMISSIONER STOLL: Okay. Gives me  
10 an idea. It wasn't in the past three years or so.  
11 Okay. Thank you.

12 JUDGE JONES: Okay. You may step  
13 down, Mr. Johansen.

14 Mr. Addo. Cross-examination from  
15 Staff?

16 MS. MOORE: No questions.

17 JUDGE JONES: Cross-examination from  
18 Lincoln County?

19 MR. COOPER: No questions.

20 JUDGE JONES: You may step down.

21 Mr. Merciel. Cross-examination from Public  
22 Counsel?

23 JAMES MERCIEL testified as follows:

24 CROSS-EXAMINATION BY MS. BAKER:

25 Q. I think you've heard testimony today



1 and you would agree that the Rockport facilities  
2 were built to serve many more customers than are  
3 currently using those facilities today, correct?

4 A. That is correct.

5 Q. And in your estimation, is it -- is  
6 it appropriate for the current customers to pay for  
7 capacity that is not necessary to serve them?

8 A. I do not think it is appro-- no, I  
9 don't think it's appropriate for them to pay for  
10 the extra capacity.

11 MS. BAKER: No further questions.

12 JUDGE JONES: Cross-examination from  
13 Lincoln County?

14 MR. COOPER: Yes, your Honor.

15 CROSS-EXAMINATION BY MR. COOPER:

16 Q. Mr. Merciel, in your testimony you  
17 make a statement that the Staff takes the position  
18 that if capacity adjustments are not applied, the  
19 existing customers would overpay in rates for the  
20 excessive capital costs related to overbuilding of  
21 certain components of the Rockport water and sewer  
22 systems in anticipation of future growth.

23 First off, you would agree with me  
24 that the design of the systems was appropriate for  
25 the lots that are present in these subdivisions,

1     **correct?**

2             A.     Appropriate? I believe I think  
3 particularly the water system was -- is -- well, I  
4 should say the well pump is oversized for the lots  
5 that were planned.

6             **Q.     You have that opinion about the well**  
7 **pump?**

8             A.     Yes.

9             **Q.     But as to the other facilities, you**  
10 **would agree that they built what they had to build**  
11 **for the number of lots in the subdivision, correct?**

12            A.     I think the developer went forward  
13 for those -- for those lots, but I don't -- I don't  
14 agree that the capacity is sized just for those  
15 lots. I think there is more capacity than what's  
16 really needed there.

17            **Q.     Based upon the current usage levels;**  
18 **is that correct?**

19            A.     Based upon current usage levels,  
20 based upon the water design guide and the default  
21 values in it, and based upon -- I don't know about  
22 water usage in other subdivisions in the area, but  
23 I do know about Bennington, and I suspect it's  
24 typical of other subdivisions. And both the water  
25 and sewer design guides give the design engineers

1 some authority to use other water usages that can  
2 be demonstrated. You would have to get that  
3 through that DNR in the approval process, but  
4 it's -- it's not -- the default numbers are not  
5 necessarily hard and fast numbers.

6 **Q. But they built what was approved,**  
7 **correct, in their plan?**

8 A. To my knowledge, they built what was  
9 approved in Rockport, yeah.

10 **Q. The existing customers in Rockport**  
11 **are folks that have bought lots or homes in a**  
12 **fairly new subdivision with large lots in an**  
13 **unincorporated area of Lincoln County, correct?**

14 A. They're not particularly large lots.  
15 It's a -- oh, I would -- I would call it a normal  
16 subdivision, let's say, for lack of a better term.  
17 Not huge lots.

18 **Q. But they've been bought within the**  
19 **last several years, few years, correct?**

20 A. Correct. Since about '06 or '07,  
21 thereabouts.

22 **Q. And the size of the subdivision would**  
23 **have been obvious as you drove through the**  
24 **subdivision, correct?**

25 A. Right.

1           Q.     Now, your adjustment's not related to  
2 what you think should have been invested in the  
3 water storage tank, the well pump or the sewage  
4 treatment facility, correct?

5           A.     I'm sorry. Can you say that once  
6 more?

7           Q.     Yeah. Let me go at it a different  
8 way. I mean, for example, when you only allow  
9 30 percent of the cost of, let's see, what's that,  
10 the water storage tank, that doesn't mean that  
11 you're suggesting that a water storage tank that  
12 cost 30 percent of what was built should have been  
13 built, correct?

14          A.     That's correct.

15          Q.     I mean, construction of water and --  
16 well, let me ask you this: Would you agree with me  
17 that there are economies of scale in the  
18 construction of water and sewer plant?

19          A.     I would agree with that.

20          Q.     So we can't just say, well, this  
21 storage plant has X capacity, and so if you only  
22 needed 30 percent of that, your cost would have  
23 been 30 percent of the original cost of the water  
24 storage tank, correct?

25          A.     Right. Right. That's not the

1 approach. Rather, the approach is, here's what the  
2 company built, you know, certain amount. They do  
3 have the opportunity to grow into it, but there's  
4 only this portion of it being utilized today. So  
5 it's correct. We're taking -- we're taking that  
6 plant that does exist and using the portion that  
7 Staff believes is reasonable.

8 **Q. And it really has nothing to do with**  
9 **construction costs or what construction cost?**

10 A. It really has nothing to do with cost  
11 of a different facility. Maybe that's the best way  
12 to say that.

13 **Q. Now, and I think you just mentioned**  
14 **it here. You talked about the fact that you think**  
15 **the company has the opportunity to grow into it,**  
16 **and I think in your testimony you actually say that**  
17 **Staff's disallowance is fairer to the ratepayers**  
18 **and also allows Lincoln County to recover**  
19 **additional capital expense as customer growth**  
20 **occurs and more capacity is utilized, correct?**

21 A. That's correct. And I want to say  
22 that that goes beyond the 210 proposed lots in the  
23 Rockport development. There is additional service  
24 area in this area that the company requested.

25 **Q. Now, under the Staff's approach,**

1     **though, the company receives neither a return on or**  
2     **a return of that portion of its investment that the**  
3     **Staff believes represents excess capacity, correct?**

4             A.     That's correct.

5             **Q.     And yet there is also -- Staff does**  
6     **have depreciation accumulating on that plant that**  
7     **it's determined to be excess capacity, correct?**

8             A.     It's my understanding on the  
9     accounting, yes, that would be correct. It is  
10    depreciation -- depreciating. It would be  
11    accumulating on the books, just not included in  
12    rates.

13            **Q.     Right. So the depreciation reserve**  
14    **will continue to build related to that excess**  
15    **capacity plant until -- until when?**

16            A.     Well, as depreciation reserve  
17    normally would be, it's -- that gets into when  
18    certain plant components are retired, replaced with  
19    other components, then that affects that particular  
20    plant account and the depreciation reserve  
21    associated with it.

22            **Q.     So you would agree with me, wouldn't**  
23    **you, that for some part of the investment, we don't**  
24    **know what part yet, but for some part of the**  
25    **investment the company will never recover a return**

1 on or a return of that investment, correct?

2 A. I would agree with that.

3 Q. And that's even if there is customer  
4 growth in the future, correct?

5 A. Well, yes, because there's -- there's  
6 recovery that's not occurring today and yesterday  
7 that would never be recovered.

8 Q. And under staff's approach to this  
9 capacity adjustment, the only way a utility could  
10 receive a return on and of its entire investment is  
11 if the subdivision was essentially fully built out  
12 on day one, correct?

13 A. Or the utility constructed in phases.  
14 There are other ways to do it, not -- and I'm not  
15 saying it's necessarily practical for this  
16 particular subdivision, but there is such a thing  
17 as phase construction. And this gets into -- it's  
18 a decision the developer has to make.

19 You know, we deal with this in most  
20 certificate cases, you know, when you have -- I  
21 went through this in written testimony. Somebody  
22 has to build a utility system. Usually that falls  
23 with the developer. Not always. But you have some  
24 investment and even have operations costs, but you  
25 don't necessarily have enough customers to pay for

1 it. It's inherent with a growing subdivision.

2 MR. COOPER: That's all the questions  
3 I have.

4 JUDGE JONES: Any questions from the  
5 Commission? Any redirect?

6 MS. MOORE: Yes. Thank you.

7 REDIRECT EXAMINATION BY MS. MOORE:

8 Q. Mr. Merciel, Mr. Cooper asked you  
9 about whether or not the initial investment when  
10 the company -- when the developer built this, these  
11 facilities, whether or not that was appropriate.  
12 Do you remember that question?

13 A. Yes, I do.

14 Q. On the flip side, would it be  
15 appropriate now to give the customers the burden  
16 for that decision on what size facilities to build  
17 at the time?

18 A. Well, I -- I don't think it would be  
19 appropriate to include all of the costs. I don't  
20 think it would be appropriate to include the costs  
21 that the company proposes on these customers  
22 because of the excess capacity for growth and  
23 excess capacity beyond the planned subdivision  
24 which I think exists.

25 Q. So can you explain why the balance



1     **you found is the most appropriate treatment?**

2             A.     Well, yes. We did for the water  
3     plant, both the pump and the storage tank, we used  
4     existing -- let me back up.

5                     For the storage tank, we used  
6     existing water pump pumpage records from the master  
7     meter, that's the meter at the well, to determine  
8     the average day flow, and that's what was used to  
9     size the storage tank.

10                    For the well pump, we used an assumed  
11    maximum day, which I think is plenty high. We were  
12    conservative in favor of the company. It was 600  
13    gallons per day. I think these customers are  
14    probably only using more like 350 to 400, but we  
15    used 600 because we didn't know, and that's what --  
16    that's what was used to make our adjustment on the  
17    well pump.

18                    For the sewage treatment plant, we  
19    used another number on the DNR permit, and that's  
20    actual flow. DNR gives them -- you have the design  
21    capacity, but you also have an actual flow. DNR  
22    uses that number, that's how they base their permit  
23    fees. But we used that number for the  
24    then-existing customers back in the certificate  
25    case. So we thought it was reasonable to use

1 actual flow for existing customers.

2 **Q. Mr. Cooper also asked you about**  
3 **whether or not the company would ever earn a full**  
4 **return on its investment. I believe you said no,**  
5 **correct?**

6 A. I did. If there's disallowance, then  
7 there's money that's not realized and never will  
8 be.

9 **Q. So if the company has that detriment,**  
10 **why then do we propose our adjustments? Why are**  
11 **our adjustments fair still?**

12 A. Well, that gets back to what the  
13 customer needs to pay for. For the company to  
14 realize the full investment would require customers  
15 to pay for more plant than what they're using. So  
16 that's the primary reason. And again, it gets back  
17 to the developer. If a developer chooses to  
18 construct a larger facility for future growth,  
19 that's fine, but the customers shouldn't be  
20 expected to pay for it.

21 **Q. Is your approach to this capacity**  
22 **adjustment unusual?**

23 A. No, it is not. Of course, there are  
24 different methods to do a capacity adjustment, but  
25 this is not an unusual way to do it.

1           **Q.     I believe Mr. Cooper asked you about**  
2 **whether or not anything was stipulated to in the**  
3 **certificate case about capacity adjustments. Do**  
4 **you remember that question?**

5           A.     Yes, I do.

6           **Q.     Did you participate in the**  
7 **certificate case?**

8           A.     I did.

9           **Q.     What is the difference between your**  
10 **adjustment now and what was made as an adjustment**  
11 **in the certificate case?**

12          A.     Well, there's no difference. There's  
13 no difference. What the Staff is doing today in  
14 this case is the same as what the Staff did in the  
15 certificate case except updating for customer  
16 count. There are more customers at Rockport than  
17 there were then. That's the only difference.

18          **Q.     Other than your belief that your**  
19 **adjustment is the appropriate one, is there a**  
20 **reason to continue the same treatment in this case**  
21 **as we did in a previous case in general?**

22          A.     In --

23                   MR. COOPER: I'm going to object to  
24 the use of we. If we is the Staff only, I guess I  
25 don't have objection to it, but if we is trying to

1 indicate that there's something in the stipulation  
2 about this, I think, of course, the stipulation  
3 governs first, and second off, I think Mr. Merciel  
4 already stated he doesn't think any of this is in  
5 the stipulation.

6 MS. MOORE: I'll be more specific.  
7 Rephrase.

8 JUDGE JONES: Yes, please. I take it  
9 you withdraw your objection?

10 MR. COOPER: Yes.

11 BY MS. MOORE:

12 Q. I'll ask you a slightly different  
13 question. Other than your belief that your  
14 adjustment is the appropriate adjustment, is there  
15 any reason to -- for Staff to continue its  
16 treatment from one case to another to have it be  
17 the same approach?

18 A. If I understand your question  
19 correctly, I think my answer is it would be for  
20 consistency. What we did -- what Staff did in one  
21 case the Staff would prefer to continue in another  
22 case, unless other changes warrant some different  
23 treatment.

24 Q. Thank you. That's it.

25 A. I don't think that's the case here.

1 JUDGE JONES: Okay. Well, that  
2 concludes our testimony and evidence.

3 MS. BAKER: I just have some  
4 housekeeping things. We do have some testimony out  
5 there that witnesses were not called. Mainly  
6 Public Counsel has OPC-1 for the rebuttal of Ted  
7 Robertson. I would move for that to be admitted.

8 THE WITNESS: Judge, am I excused?

9 JUDGE JONES: Yes, you are,  
10 Mr. Merciel.

11 THE WITNESS: Thank you.

12 MR. THOMPSON: Judge, we would move  
13 for the admission of Staff Exhibit 5, rebuttal  
14 testimony of Tammy Vieth.

15 JUDGE JONES: Isn't that under an  
16 issue that we crossed out?

17 MR. THOMPSON: It is.

18 JUDGE JONES: Why do we want to read  
19 it?

20 MR. THOMPSON: I think it makes for a  
21 full record.

22 MS. BAKER: It has been prefiled.

23 JUDGE JONES: No. What about the Ted  
24 Robertson, is that under an issue that we're not  
25 going to look at?

1 MS. BAKER: He filed in an issue that  
2 was accepted by the parties. So it is very  
3 relevant.

4 JUDGE JONES: I don't understand that  
5 answer.

6 MS. BAKER: His testimony was on the  
7 rate of return, the capital structure, the cost of  
8 equity. All of that will go into the rates, and so  
9 that is relevant to the final rate determination.

10 MS. MOORE: Judge, I would say the  
11 same for the Staff No. 5. We made specific  
12 recommendations that the company would follow.  
13 They had objections to that or at least were  
14 opposing that by keeping it in the case. It's our  
15 understanding that by dropping that position  
16 they're accepting those recommendations, and we  
17 would like to have a record that those  
18 recommendations were made and agreed to.

19 MR. COOPER: Well, I'm not sure I  
20 agree with everything that Ms. Moore said there,  
21 but I don't object to Ms. Vieth's testimony coming  
22 in, and I don't think I object to Mr. Robertson's  
23 testimony coming in either.

24 JUDGE JONES: So nobody objects but  
25 me, so in that case, then, what's the exhibit

1 number again?

2 MS. BAKER: OPC-1 for Robertson.

3 JUDGE JONES: OPC-1, Robertson is  
4 admitted.

5 (OPC EXHIBIT NO. 1 WAS RECEIVED INTO  
6 EVIDENCE.)

7 JUDGE JONES: Vieth is what?

8 MR. THOMPSON: Staff 5.

9 JUDGE JONES: Staff 5 is admitted.

10 (STAFF EXHIBIT NO. 5 WAS RECEIVED  
11 INTO EVIDENCE.)

12 JUDGE JONES: Okay. And you-all know  
13 the post-hearing briefs are due November 22nd.

14 MR. COOPER: Your Honor, I've got one  
15 more here. LCSW 6, which was the Lincoln County  
16 map, I would offer.

17 JUDGE JONES: Now, you do realize  
18 that the map that you handed to the witness was  
19 marked on to show the areas that he got information  
20 from and that's not on the exhibit that we --

21 MR. COOPER: I think he ultimately  
22 did not mark on it.

23 JUDGE JONES: Oh, he didn't? I  
24 thought he did.

25 MS. BAKER: I do believe he made some

1 markings on his copy.

2 JUDGE JONES: Any objection to LCSW  
3 Exhibit 6?

4 MS. BAKER: Without the markings?

5 JUDGE JONES: Well, it doesn't matter  
6 to me whether they're on there or not to be honest  
7 with you. That's admitted into the record also.

8 (LCSW EXHIBIT NO. 6 WAS RECEIVED INTO  
9 EVIDENCE.)

10 JUDGE JONES: Okay. On your post-  
11 hearing briefs, in addition to all the issues that  
12 were litigated today, the Commission would like  
13 you-all to consider in particular what the rates  
14 would be consistent with your prospective stances  
15 on the issues, with and without the automated  
16 readers, in other words, consistent with your  
17 position on the issues with, consistent without.

18 Also, over what period of time, if  
19 the automated readers are paid for by the  
20 customers, would they be paid off or depreciated?  
21 I guess what's the life span of life expectancy of  
22 those meters?

23 COMMISSIONER STOLL: It's like if  
24 each meter cost \$300, over what period of time  
25 would the customers -- if the customers pay the



1 entire \$300, over what period of time would they be  
2 paying that? Would that be spread out, amortized  
3 over three years or a year?

4 JUDGE JONES: Do you all understand  
5 the question?

6 MR. THOMPSON: We do, and we'll  
7 provide that information.

8 JUDGE JONES: Great. And one last  
9 thing is how are the various parties, those parties  
10 in opposition to you, how are their positions  
11 inconsistent with the agreement from the  
12 certificate case? And that's it.

13 MS. BAKER: Say that one again,  
14 please.

15 JUDGE JONES: How are the opposing  
16 parties, meaning Staff and the company to you, how  
17 are their positions inconsistent with the agreement  
18 from the certificate case?

19 COMMISSIONER STOLL: As far as the  
20 meters?

21 JUDGE JONES: Every issue.

22 COMMISSIONER STOLL: Oh, every issue.  
23 Got you. Okay.

24 JUDGE JONES: And as you all know, we  
25 have two Commission exhibits, 1 and 2. 1 is who --

1 2 is who is paying the property taxes, and the  
2 other is an exhaustive list of water companies  
3 using automated meters. Anything else?

4 MR. COOPER: Your Honor, on the first  
5 item that you talk about for the briefing, the  
6 rates with and without --

7 JUDGE JONES: Yes.

8 MR. COOPER: -- is there a  
9 distinction -- I mean, revenue requirement is  
10 probably fairly easy to come up with those numbers.  
11 Rates may be a different matter. Is it really  
12 rates, customer rates that we're talking about  
13 there or is it the overall revenue requirement for  
14 the company that we're talking about?

15 JUDGE JONES: Well, if you have  
16 revenue requirement, don't you just divide it by  
17 the number of customers and get rates?

18 MR. COOPER: Except that on the water  
19 system you've got a commodity rate and so you've  
20 got --

21 MR. THOMPSON: If it were only that  
22 easy, Judge.

23 COMMISSIONER STOLL: How difficult  
24 would that be? I mean, is it -- I guess you have  
25 to assume what the rates --

1 MS. BAKER: I get the feeling that  
2 what you're asking for is a full rate design for  
3 each of the positions, both with the AMRs and each  
4 of the positions without the AMRs.

5 JUDGE JONES: That's correct.

6 MS. MOORE: I have some rate design  
7 people in the room, that if we can ask them how  
8 difficult that would be to do, particularly before  
9 whatever deadline you want that in.

10 JUDGE JONES: The 22nd. Well, ask  
11 them.

12 MS. MOORE: Either of the Jims.

13 MR. BUSCH: It will take some time.  
14 It'll take a few weeks to come up with those  
15 numbers.

16 MS. MOORE: You think it can be done  
17 in a few weeks?

18 MR. BUSCH: Sure, a few weeks.

19 MR. COOPER: Are you really looking  
20 for a reconciliation I guess? We've done those in  
21 some cases where we would do --

22 JUDGE JONES: No. We want to know  
23 how much the customer is going to pay with and  
24 without the automated meters.

25 MR. BUSCH: Do you want Staff to try

1 to -- one party to come up with --

2 COMMISSIONER W. KENNEY: How about  
3 just the difference? That would make it simpler.  
4 Just figure out the difference, with or without the  
5 meters.

6 COMMISSIONER HALL: That's exactly  
7 what I was looking for.

8 COMMISSIONER W. KENNEY: That's all  
9 we want. That shouldn't take a bunch of --

10 THE REPORTER: I'm sorry. Do you  
11 want all this on the record, Judge?

12 JUDGE JONES: No. As a matter of  
13 fact, let's go ahead and go off the record.

14 (WHEREUPON, the evidentiary hearing  
15 concluded at 5:18 p.m.)

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18

19

20

21

22

23

24

25

1	I N D E X	
2	Opening Statement by Mr. Cooper	50
3	Opening Statement by Ms. Moore	59
4	Opening Statement by Ms. Baker	63
5	ISSUE NO. 1 - METERS/METER READING	
6	LCSW'S EVIDENCE:	
7	DALE JOHANSEN	
8	Direct Examination by Mr. Cooper	74
9	Cross-Examination by Ms. Moore	76
10	Questions by Judge Jones	77
	Cross-Examination by Ms. Baker	79
11	Redirect Examination by Mr. Cooper	81
	Questions by Commissioner Hall	86
12	Further Redirect Examination by mr. Cooper	87
13	DENNIS KALLASH	
	Direct Examination by Mr. Cooper	88
14	Questions by Judge Jones	90
	Recross-Examination by Ms. Moore	92
15	Redirect Examination by Mr. Cooper	93
16	STAFF'S EVIDENCE:	
17	LISA HANNEKEN	
	Direct Examination by Ms. Moore	96
18	Cross-Examination by Ms. Baker	99
	Cross-Examination by Mr. Cooper	104
19	Questions by Commissioner W. Kenney	107
	Recross-Examination by Ms. Baker	111
20	Recross-Examination by Mr. Cooper	113
	Redirect Examination by Ms. Moore	115
21	Questions by Commissioner Hall	117
	Questions by Judge Jones	119
22	JAMES MERCIEL	
23	Direct Examination by Ms. Moore	120
	Cross-Examination by Ms. Baker	122
24	Cross-Examination by Mr. Cooper	127
	Redirect Examination by Ms. Moore	133
25		

1	OPC'S EVIDENCE:	
2		
3	WILLIAM ADDO	
4	Direct Examination by Ms. Baker	136
5	Cross-Examination by Mr. Cooper	139
6	Redirect Examination by Ms. Baker	142
7	ISSUE NO. 2 - BILLING PROGRAM & BILLING EXPENSES	
8	LCSW'S EVIDENCE:	
9	DALE JOHANSEN	
	Cross-Examination by Ms. Moore	146
10	Cross-Examination by Ms. Baker	147
	Redirect Examination by Mr. Cooper	147
11		
	STAFF'S EVIDENCE:	
12		
	LISA HANNEKEN	
13	Cross-Examination by Ms. Baker	149
	Cross-Examination by Mr. Cooper	150
14	Questions by Judge Jones	150
	Questions by Commissioner Hall	151
15	Redirect Examination by Ms. Moore	151
	Further Questions by Commissioner Hall	153
16		
	OPC'S EVIDENCE:	
17		
	WILLIAM ADDO	
18	Questions by Judge Jones	154
	Redirect Examination by Ms. Baker	155
19		
	ISSUE NO. 4 - RATE BASE	
20		
	LCSW'S EVIDENCE:	
21		
	DALE JOHANSEN	
22	Cross-Examination by Mr. Thompson	155
	Cross-Examination by Ms. Baker	158
23	Redirect Examination by Mr. Cooper	159
24	DENNIS KALLASH	
	Cross-Examination by Mr. Thompson	161
25	Questions by Commissioner W. Kenney	166

1	Redirect Examination by Mr. Cooper	171
2		
3	LISA HANNEKEN	
4	Cross-Examination by Ms. Baker	178
5	Cross-Examination by Mr. Cooper	179
6	Questions by Commissioner W. Kenney	180
7	Questions by Commissioner Hall	181
8	Recross-Examination by Mr. Cooper	183
9	Redirect Examination by Mr. Thompson	185
10		
11		
12	ISSUE NO. 5 - CAPACITY ADJUSTMENTS	
13	LCSW'S EVIDENCE:	
14	DALE JOHANSEN	
	Cross-Examination by Ms. Moore	335
15	Cross-Examination by Ms. Baker	338
	Questions by Judge Jones	339
16	Redirect Examination by Mr. Cooper	341
	Questions by Commissioner Stoll	344
17		
	OPC'S EVIDENCE:	
18		
	WILLIAM ADDO	345
19		
	STAFF'S EVIDENCE:	
20		
	JAMES MERCIEL	
21	Cross-Examination by Ms. Baker	345
	Cross-Examination by Mr. Cooper	346
22	Redirect Examination by Ms. Moore	353
23	ISSUE NO. 6 - PLANT HELD FOR FUTURE USE	
24	LCSW'S EVIDENCE:	
	DALE JOHANSEN	
25	Cross-Examination by Ms. Moore	189

1	OPC'S EVIDENCE:	
2	WILLIAM ADDO	190
3		
4	STAFF'S EVIDENCE:	
5		
	LISA HANNEKEN	
6	Questions by Judge Jones	191
7	ISSUE NO. 7 - DEPRECIATION RATES	
8	LCSW'S EVIDENCE:	
	DALE JOHANSEN	
9	Cross-Examination by Ms. Baker	193
10	STAFF'S EVIDENCE:	
11	ARTHUR RICE	
12	Direct Examination by Mr. Thompson	225
13	Cross-Examination by Ms. Baker	227
14	Cross-Examination by Mr. Cooper	236
15	Redirect Examination by Mr. Thompson	237
16	OPC'S EVIDENCE:	
17	WILLIAM ADDO	
	Cross-Examination by Mr. Thompson	239
18	Redirect Examination by Ms. Baker	240
19	ISSUE NO. 8 - RATE CASE EXPENSE	
20	LCSW'S EVIDENCE:	
	DALE JOHANSEN	
21	Cross-Examination by Ms. Baker	194
22	OPC'S EVIDENCE:	
23	WILLIAM ADDO	240
	STAFF'S EVIDENCE:	
24		
	LISA HANNEKEN	
25	Cross-Examination by Ms. Baker	256



1	Cross-Examination by Mr. Cooper	256
2		
3	ISSUE NO. 9 - CERTIFICATE CASE EXPENSE	
4	LCSW'S EVIDENCE:	
5	DALE JOHANSEN	
6	Cross-Examination by Ms. Moore	195
7	Cross-Examination by Ms. Baker	196
8	Redirect Examination by Mr. Cooper	197
9	OPC'S EVIDENCE:	
10	WILLIAM ADDO	
11	Cross-Examination by Mr. Cooper	241
12		
	STAFF'S EVIDENCE:	
13		
14	LISA HANNEKEN	
15	Cross-Examination by Ms. Baker	258
16	Cross-Examination by Mr. Cooper	259
17	Redirect Examination by Ms. Moore	260
18		
19		
20		
21		
22	ISSUE NO. 10 - CERTIFICATE CASE EXPENSE	
23	LCSW'S EVIDENCE:	
	DALE JOHANSEN	
24	Cross-Examination by Ms. Moore	198
	Cross-Examination by Ms. Baker	200
25	Questions by Commissioner Stoll	201

1	Questions by Commissioner W. Kenney	202
2	Recross-Examination by Ms. Moore	202
3	DENNIS KALLASH	
4	Questions by Commissioner W. Kenney	314
5	Questions by Commissioner Stoll	318
	Questions by Commissioner Hall	320
6	Questions by Commissioner W. Kenney	323
7	OPC'S EVIDENCE:	
8	WILLIAM ADDO	
9	Cross-Examination by Mr. Cooper	242
10	Questions by Judge Jones	244
11	Redirect Examination by Ms. Baker	246
12		
	STAFF'S EVIDENCE:	
13		
	KOFI AGYENIM BOATENG	
14	Direct Examination by Ms. Moore	298
15	Cross-Examination by Ms. Baker	299
16	Cross-Examination by Mr. Cooper	300
17	Questions by Commissioner W. Kenney	304
18	Redirect Examination by Ms. Moore	306
19	ISSUE NO. 12 - INCOME TAXES	
20	LCSW'S EVIDENCE:	
	DALE JOHANSEN	
21	Cross-Examination by Mr. Thompson	203
22	Redirect Examination by Mr. Cooper	204
23		
24	DENNIS KALLASH	
25	Cross-Examination by Mr. Thompson	326

1	Questions by Commissioner W. Kenney	327
2		
3	STAFF'S EVIDENCE	
4		
5	LISA FERGUSON	
6	Direct Examination by Mr. Thompson	265
7	Cross-Examination by Mr. Cooper	266
8	Redirect Examination by Mr. Thompson	270
9	ISSUE NO. 13 - SALARIES	
10	LCSW'S EVIDENCE:	
	DALE JOHANSEN	205
11		
12	DENNIS KALLASH	
13	Questions by Commissioner W. Kenney	330
14	OPC'S EVIDENCE:	
15	WILLIAM ADDO	
	Cross-Examination by Ms. Moore	248
16	Cross-Examination by Mr. Cooper	249
	Redirect Examination by Ms. Baker	252
17		
	STAFF'S EVIDENCE:	
18		
19	LISA HANNEKEN	
20	Cross-Examination by Ms. Baker	274
21	Cross-Examination by Mr. Burlison	275
22	Redirect Examination by Ms. Moore	285
23	ISSUE NO. 14 - MILEAGE	
24	LCSW'S EVIDENCE:	
	DALE JOHANSEN	205
25		
	DENNIS KALLASH	333

1		
2	OPC'S EVIDENCE:	
3		
4	WILLIAM ADDO	
5	Cross-Examination by Ms. Moore	253
6	STAFF'S EVIDENCE:	
7	LISA HANNEKEN	293
8	ISSUE NO. 15 - TESTING	
9	LCSW'S EVIDENCE:	
10	DALE JOHANSEN	
11	Cross-Examination by Mr. Thompson	206
12	Redirect Examination by Mr. Cooper	207
13		
14	OPC'S EVIDENCE:	
15		
16	WILLIAM ADDO	254
17		
18	STAFF'S EVIDENCE:	
19	LISA HANNEKEN	294
20	ISSUE NO. 16 - SLUDGE HAULING	
21	LCSW'S EVIDENCE:	
	DALE JOHANSEN	
22	Cross-Examination by Mr. Thompson	208
23	Cross-Examination by Ms. Baker	209
24	Redirect Examination by Mr. Cooper	210
25	DENNIS KALLASH	
	Questions by Commissioner W. Kenney	334

1

OPC'S EVIDENCE:

2

3 WILLIAM ADDO 254

4

5 STAFF'S EVIDENCE:

6

7 LISA HANNEKEN

8 Cross-Examination by Ms. Baker 294

9 ISSUE NO. 17 - OFFICE SUPPLIES AND POSTAGE

10 LCSW'S EVIDENCE:

11 DALE JOHANSEN

12 Cross-Examination by Ms. Moore 211

Cross-Examination by Ms. Baker 212

13 Redirect Examination by Mr. Cooper 213

14 DENNIS KALLASH 335

15 OPC'S EVIDENCE:

WILLIAM ADDO 255

16

STAFF'S EVIDENCE:

17

18 LISA FERGUSON 273

19

20 ISSUE NO. 18 - LATE FEES

21

LCSW'S EVIDENCE:

22 DALE JOHANSEN

Cross-Examination by Ms. Moore 214

23 Cross-Examination by Ms. Baker 216

24 Questions by Commissioner Stoll 216

25 Redirect Examination by Mr. Cooper 218

1	OPC'S EVIDENCE:	
2	WILLIAM ADDO	255
3	STAFF'S EVIDENCE:	
4	LISA FERGUSON	273
5	ISSUE NO. 19 - TELEPHONE AND INTERNET	
6	LCSW'S EVIDENCE:	
7	DALE JOHANSEN	
8	Cross-Examination by Mr. Thompson	220
9	Cross-Examination by Ms. Baker	223
10	Redirect Examination by Mr. Cooper	224
11	OPC'S EVIDENCE:	
12	WILLIAM ADDO	255
13	STAFF'S EVIDENCE:	
14	KOFI AGYENIM BOATENG	
	Cross-Examination by Ms. Baker	310
15	Cross-Examination by Mr. Cooper	311
16		
17		
18		
19		
20		
21		
22		
23		
24		
25		

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25

EXHIBITS INDEX  
LCSW'S EXHIBITS

MARKED REC'D

EXHIBIT NO. 1

Direct Testimony of Dale Johansen 44 76

EXHIBIT NO. 2

Surrebuttal Testimony of Dale  
Johansen 44 76

EXHIBIT NO. 3

Rebuttal Testimony of Dennis  
Kallash 44 89

EXHIBIT NO. 4

Surrebuttal Testimony of Dennis  
Kallash 44 89

EXHIBIT NO. 5

Staff's Response to DR1 from LCSW 130 132

EXHIBIT NO. 6

Lincoln County Map 242 361

OPC'S EXHIBITS

EXHIBIT NO. 1

Rebuttal Testimony of Ted  
Robertson 44 360

EXHIBIT NO. 2

Rebuttal Testimony of William Addo 44 139

EXHIBIT NO. 3

1	Surrebuttal Testimony of William		
2	Addo	44	139
3			
4	STAFF'S EXHIBITS		
5			
	EXHIBIT NO. 1		
6	Direct Testimony of Lisa K.		
	Hanneken	44	98
7			
8	EXHIBIT NO. 2A		
9	Staff Accounting Schedules -		
10	Bennington Sewer	44	98
11			
12	EXHIBIT NO. 2B		
13	Staff Accounting Schedules -		
14	Rockport Sewer	44	98
15	EXHIBIT NO. 2C		
	Staff Accounting Schedules -		
16	Bennington Water	44	98
17	EXHIBIT NO. 2D		
	Staff Accounting Schedules -		
18	Rockport Water	44	98
19	EXHIBIT NO. 3		
20	Rebuttal Testimony of Lisa M.		
21	Ferguson	44	298
22	EXHIBIT NO. 4		
23	Rebuttal Testimony of James A.		
24	Merciel, Jr.	44	121
25	EXHIBIT NO. 5		
	Rebuttal Testimony of Tammy Vieth	44	360



1			
	EXHIBIT NO. 6A		
2	Revised Staff Accounting		
	Schedules - Bennington Sewer	44	
3			
4	EXHIBIT NO. 6B		
5	Revised Staff Accounting Schedules		
6	- Rockport Sewer	44	
7			
	EXHIBIT NO. 6C		
8	Revised Staff Accounting Schedules		
9	- Bennington Water	44	
10			
11	EXHIBIT NO. 6D		
12	Revised Staff Accounting Schedules		
13	- Rockport Water	44	
14			
15	EXHIBIT NO. 7		
16	Surrebuttal Testimony of Kofi		
17	Agyenim Boateng	44	299
18			
	EXHIBIT NO. 8		
19	Surrebuttal Testimony of Lisa K.		
20	Hanneken	44	98
21			
22			
23	EXHIBIT NO. 9		
24	Surrebuttal Testimony of Arthur W.		
25	Rice, PE	44	227

1	EXHIBIT NO. 10A		
	Revised Surrebuttal Staff		
2	Accounting Schedules - Bennington		
	Sewer	44	98
3			
4	EXHIBIT NO. 10B		
	Revised Surrebuttal Staff		
5	Accounting Schedules - Rockport		
	Sewer	44	98
6	EXHIBIT NO. 10C		
	Revised Surrebuttal Staff		
7	Accounting Schedules - Bennington		
	Water	44	98
8			
	EXHIBIT NO. 10D		
9	Revised Surrebuttal Staff		
10	Accounting Schedules - Rockport		
	Water	44	98
11	EXHIBIT NO. 11A		
	Revised - Post Surrebuttal Staff		
12	Accounting Schedules - Bennington		
13	Sewer	144	297
14			
15	EXHIBIT NO. 11B		
16	Revised - Post Surrebuttal Staff		
17	Accounting Schedules - Rockport		
18	Sewer	144	297
19	EXHIBIT NO. 11C		
20	Revised - Post Surrebuttal Staff		
21	Accounting Schedules - Bennington		
22	EXHIBIT NO. 11D		
23	Revised - Post Surrebuttal Staff		
24	Accounting Schedules - Rockport		
25	Water	144	297

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25

C E R T I F I C A T E

STATE OF MISSOURI           )  
  ) ss.  
COUNTY OF COLE           )

I, Kellene K. Feddersen, Certified

Shorthand Reporter with the firm of Midwest

Litigation Services, do hereby certify that I was

personally present at the proceedings had in the

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forth in the caption sheet thereof; that I then and

there took down in Stenotype the proceedings had;

and that the foregoing is a full, true and correct

transcript of such Stenotype notes so made at such  
time and place.

Given at my office in the City of

Jefferson, County of Cole, State of Missouri.

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Kellene K. Feddersen, RPR, CSR, CCR

<p style="text-align: center;"><b>A</b></p> <p><b>ability</b> 50:12 53:14 66:15,16 66:17,18,19,22 125:16 129:11 133:22 210:18</p> <p><b>able</b> 57:24 61:22 83:21,24 109:25 122:25 124:20 131:8 145:17,20 169:3 197:23 210:15 215:22 216:10 217:9 219:8,15 243:24 264:10 282:20 287:13 290:3,7,14,22 300:1 306:17 311:18</p> <p><b>above-entitled</b> 380:8</p> <p><b>absence</b> 50:11 81:17 84:13,25 287:16 307:18</p> <p><b>absurd</b> 337:7</p> <p><b>accept</b> 176:9 177:2 181:17 182:22</p> <p><b>acceptable</b> 290:2</p> <p><b>accepted</b> 359:2</p> <p><b>accepting</b> 359:16</p> <p><b>accommodate</b> 48:8</p> <p><b>account</b> 54:5 67:24 80:12,15 80:16 100:16 103:9,10 110:23 117:3 118:2 119:4 149:20 150:4 152:9 171:8 175:9 180:20 182:11 193:20 195:25 196:12 228:2,3,15,21 228:23,25</p>	<p>229:3,5,8,9 230:17,19,20 231:10,16,18 231:23 232:3,6 232:11,19,20 233:3,4,9,13,16 234:6,13 235:10,18,19 235:22,25 236:6 237:10 240:7 309:23 336:2 351:20</p> <p><b>accountant</b> 136:15 139:25 189:4,9 239:10 239:11 327:6</p> <p><b>accounted</b> 207:19</p> <p><b>accounting</b> 97:7 97:11,17,24 98:7 117:11 143:17 239:15 295:18 296:9 296:14,24 297:9 303:23 303:24 327:9 351:9 377:9,13 377:15,17 378:2,5,8,12 379:2,5,7,10,12 379:17,21,24</p> <p><b>accounts</b> 54:1 169:11 170:1 219:4,6,13 229:19 231:2,5 240:6,8,8</p> <p><b>account-by-acc...</b> 219:11</p> <p><b>accrued</b> 233:5</p> <p><b>accumulated</b> 67:23 68:17 232:14</p> <p><b>accumulating</b> 171:7 351:6,11</p> <p><b>accurate</b> 132:24 138:21 202:23 343:15</p>	<p><b>accuse</b> 187:6</p> <p><b>accused</b> 177:18</p> <p><b>acknowledge</b> 267:3</p> <p><b>acquaintances</b> 303:4</p> <p><b>acquiring</b> 196:9 196:11</p> <p><b>activities</b> 199:25 207:9 320:16 321:24</p> <p><b>activity</b> 257:7</p> <p><b>actual</b> 52:16 64:17 82:1 86:18 103:3 105:11,15 106:11 118:24 133:3 140:23 184:7 212:20 220:24 245:6 247:13 258:6 309:13 310:20 337:1 354:20 354:21 355:1</p> <p><b>add</b> 48:25,25 87:18 112:21 145:18,20 157:19 187:25 288:15</p> <p><b>added</b> 56:12 67:2 69:23 72:9,21 101:3 117:6 156:1</p> <p><b>adding</b> 65:18</p> <p><b>addition</b> 50:24 62:8 116:3 169:1 199:7 218:10 262:7 284:6 289:12 361:11</p> <p><b>additional</b> 65:4 73:12 81:23 85:17 102:18 112:10 117:16 137:20 146:15 209:22 221:7 221:19,22</p>	<p>223:3 288:7 310:3 350:19 350:23</p> <p><b>Additionally</b> 53:21 54:3 65:7</p> <p><b>Addo</b> 135:23 136:2,4,8,8,16 139:5,5,19,25 143:25 153:24 153:25 169:2 189:24,25 238:20,21 239:2,4,6 241:5 248:24 253:25 255:20 313:19 345:14 367:3 367:17 368:18 369:2,17,23 370:10 371:8 372:15 373:4 373:16 374:3 374:15 375:2 375:12 376:24 377:2</p> <p><b>Addo's</b> 169:2</p> <p><b>address</b> 51:2 58:10 240:5</p> <p><b>addressed</b> 264:5 331:24</p> <p><b>addresses</b> 45:5 245:22</p> <p><b>add-on</b> 65:10</p> <p><b>adequate</b> 67:7 276:24 288:19 291:20</p> <p><b>adhere</b> 215:22 216:10</p> <p><b>adjust</b> 62:20</p> <p><b>adjusted</b> 62:14 221:3,12</p> <p><b>adjustment</b> 48:1 56:22 57:5,7,8 67:23 188:14 218:23 226:13 226:16 247:18 340:22,23,24 341:9,13,17</p>	<p>342:17,19 352:9 354:16 355:22,24 356:10,10,19 357:14,14</p> <p><b>adjustments</b> 47:10 165:2 187:18 238:15 313:17,20 335:16 340:21 343:3 346:18 355:10,11 356:3 368:12</p> <p><b>adjustment's</b> 349:1</p> <p><b>admission</b> 139:5 358:13</p> <p><b>admit</b> 202:8</p> <p><b>admitted</b> 76:13 89:17 98:23 121:23 132:6 139:12 227:9 297:11,22 298:2 299:12 358:7 360:4,9 361:7</p> <p><b>adopted</b> 141:7,9 304:2</p> <p><b>advantageous</b> 53:20</p> <p><b>advantages</b> 66:14 82:24 83:2,4</p> <p><b>adverse</b> 127:19</p> <p><b>advise</b> 82:9</p> <p><b>advised</b> 78:2</p> <p><b>advocating</b> 59:12 59:14 67:19,23 79:12 119:21 223:23</p> <p><b>affairs</b> 204:4,10</p> <p><b>affidavit</b> 314:25</p> <p><b>affiliate</b> 69:1,3 200:9 299:23 301:18,24 302:12,24 303:1,13</p>
--	---	---	--	--

<p><b>affiliated</b> 302:15 307:22</p> <p><b>affiliates</b> 303:5 303:10</p> <p><b>affordable</b> 61:4</p> <p><b>afternoon</b> 47:7 47:16 48:3 227:17 239:4,5 320:11</p> <p><b>age</b> 236:6,8</p> <p><b>agent</b> 165:21</p> <p><b>aggravate</b> 322:6</p> <p><b>ago</b> 52:24 110:11 110:16 162:1 175:22,23 184:15 238:5,6 263:8 286:20 331:12</p> <p><b>agree</b> 46:17 49:11 50:3,4 57:24 82:16 86:9 94:14 113:19 123:3 142:1 211:21 214:13,24 215:5 218:15 221:17 233:4 234:2,18 236:16 240:12 243:8,12 249:25 251:19 252:4 256:19 259:9,24 268:10 271:19 272:18 303:12 304:7 312:7 346:1,23 347:10,14 349:16,19 351:22 352:2 359:20</p> <p><b>agreed</b> 63:23 68:4 70:11 90:14 106:18 106:21 113:22 116:15,18 143:4 180:2</p>	<p>181:10 221:12 264:1 291:12 321:6 324:16 336:8 341:10 341:11 359:18</p> <p><b>agreeing</b> 123:7</p> <p><b>agreement</b> 46:11 52:9 63:24 64:20 71:17 78:13 90:14,25 91:5,8,14 92:19 99:12,21 105:5 106:18 113:17 113:20,23 114:2,8,10,16 115:14 140:16 142:25 150:13 150:19 158:17 158:21 159:6 160:16 162:3 162:12,21 163:3,24 167:24 168:2,3 171:20 175:12 180:3,16 181:7 187:22,23 241:6,21 242:3 295:12 301:8 301:18 341:12 362:11,17</p> <p><b>agreements</b> 167:3</p> <p><b>agrees</b> 46:19,20 324:16 340:23</p> <p><b>Agyenim</b> 298:12 371:13 375:14 378:17</p> <p><b>ahead</b> 52:12 79:1 93:3 100:8 113:8 137:17 155:2 164:24 168:8 178:4 187:15,18 203:20 265:3 273:3,12 274:4 314:2 365:13</p> <p><b>ain't</b> 331:10</p>	<p><b>air</b> 95:3 201:20 201:21 309:16</p> <p><b>allege</b> 267:7,8</p> <p><b>allocate</b> 289:17</p> <p><b>allocated</b> 290:23 291:1</p> <p><b>allow</b> 46:25 176:6,20 261:10 349:8</p> <p><b>allowed</b> 52:15 69:19 73:15 95:17 101:15 283:15 337:8 337:15</p> <p><b>allowing</b> 283:15</p> <p><b>allows</b> 283:9 328:20 350:18</p> <p><b>alter</b> 226:13,16</p> <p><b>alternative</b> 81:9 85:18 86:11 87:20 147:2 150:22 152:1,4 152:11,19</p> <p><b>altogether</b> 336:20,22</p> <p><b>amended</b> 75:25 76:3</p> <p><b>amendments</b> 323:23</p> <p><b>Ameren</b> 51:5 170:7 181:22 181:23,25 182:4,8,18 186:6,7</p> <p><b>AmerenUE</b> 181:22</p> <p><b>American</b> 51:6 131:17 134:15 134:16 135:3 151:18 268:4 268:11,15,18 268:21,23,24 269:1 271:6,8 271:13,13,19</p> <p><b>amortization</b> 260:22 261:3 262:3</p>	<p><b>amortizations</b> 262:10</p> <p><b>amortized</b> 260:3 260:24 261:10 362:2</p> <p><b>amount</b> 54:20 56:11 57:25,25 58:4,17 68:19 69:7 70:18 74:5 79:8 85:4,10,12 99:18 100:10 109:20 115:15 115:22 138:13 146:25 150:17 150:20 153:13 157:5 196:18 199:8 207:18 207:21 209:14 209:18 215:14 216:19 224:5,6 235:2 249:6 258:6,10,12,23 288:3 291:18 300:5 308:25 320:23 321:4 321:13 334:12 334:17 350:2</p> <p><b>amounts</b> 58:6 84:24 140:13 152:10 175:13 180:16 181:10 291:13</p> <p><b>AMR</b> 65:5,10,22 66:12 81:10 101:22 102:9 103:2 105:18 105:21 106:5 112:11,24 117:25 118:9 120:1 122:9 123:1,10 126:10,15,20 126:24 131:9 135:11 145:8 150:7 151:17</p> <p><b>AMRs</b> 65:19 66:24 101:15</p>	<p>101:24 103:19 133:17 135:6 364:3,4</p> <p><b>Amy</b> 43:19 45:8</p> <p><b>analysis</b> 51:1 80:24 86:22 103:4 108:6,7 109:21 111:12 112:8 117:13 125:9 154:18 166:20 245:24 246:1 247:11 248:10 249:24 250:19,20,23 251:1,16</p> <p><b>ancillary</b> 69:8</p> <p><b>and/or</b> 55:18 300:20,22</p> <p><b>annual</b> 52:11 101:19 109:19 112:16 261:20 261:25 288:2 291:12 334:12</p> <p><b>annualize</b> 182:6</p> <p><b>annualized</b> 69:20 71:2,3 214:17 219:9</p> <p><b>annually</b> 69:7</p> <p><b>answer</b> 75:3 88:19 91:21 92:5,16 109:23 123:6 126:1 127:13 134:5 167:6 177:23 272:21 319:5 319:13 324:22 325:1,10 357:19 359:5</p> <p><b>answered</b> 84:3 166:24 318:22 331:20</p> <p><b>answering</b> 61:5 125:19 319:7</p> <p><b>answers</b> 61:21 75:25 76:3 89:6 89:8 98:8 108:10 121:11</p>
--	---	--	--	---

<p>139:1 226:23 266:7,9 298:25 <b>anticipate</b> 47:18 49:16 <b>anticipated</b> 115:21 192:14 <b>anticipating</b> 168:8 <b>anticipation</b> 346:22 <b>anybody</b> 110:25 191:20 192:1 264:24 328:13 332:11 <b>anymore</b> 134:14 170:4 <b>apart</b> 53:13 148:21 344:10 <b>apologize</b> 145:11 <b>apparent</b> 83:15 <b>apparently</b> 71:16 72:19 <b>appear</b> 87:9 243:2 256:23 <b>appearance</b> 44:24 194:24 256:15,25 257:8 <b>APPEARANC...</b> 43:1 <b>appeared</b> 256:11 <b>appearing</b> 45:3,9 <b>appears</b> 48:2 171:24 <b>applicable</b> 304:11 <b>application</b> 42:12,15 301:11 343:18 <b>applied</b> 228:24 231:12,16 232:19 233:2 346:18 <b>applies</b> 217:12 217:12 236:22 <b>apply</b> 112:8 230:24 303:18</p>	<p>304:4,14 <b>applying</b> 231:19 <b>appointed</b> 148:2 250:12 <b>appointment</b> 320:3,5 <b>appro</b> 346:8 <b>approach</b> 116:10 208:18 277:18 350:1,1,25 352:8 355:21 357:17 <b>appropriate</b> 56:16,19 57:8 83:13 86:16,21 152:2 168:13 270:25 287:18 292:5 303:8 344:5 346:6,9 346:24 347:2 353:11,15,19 353:20 354:1 356:19 357:14 <b>approval</b> 42:13 42:16 348:3 <b>approved</b> 63:24 71:18 142:25 143:4 348:6,9 <b>approving</b> 187:22 345:5 <b>approximate</b> 232:2 243:9,13 243:16,22 <b>approximately</b> 51:23,25 53:4 101:2 118:14 148:3 199:20 200:1 232:14 278:7 344:18 <b>area</b> 202:10 222:13 245:18 246:2,6,7,7,24 247:14 251:22 251:22 252:5 343:21 347:22 348:13 350:24 350:24</p>	<p><b>areas</b> 360:19 <b>argue</b> 72:6 195:17 196:11 <b>argued</b> 214:4 337:6 <b>argument</b> 337:13 <b>arm's</b> 307:24 308:11,19 310:2,4 <b>arrive</b> 56:19 <b>arrived</b> 251:5 294:23 <b>Art</b> 225:8,22 <b>Arthur</b> 225:14 225:17 226:5 369:11 378:24 <b>aside</b> 235:7 <b>asked</b> 62:8 67:11 68:12 70:15 79:15,16 80:10 81:7 82:8 84:3 84:11 92:16 94:7 98:7 107:5 111:23 113:10 115:6 121:10 138:25 148:13 151:25 163:17 166:15,20,22 167:18 169:8 171:19 173:7 175:11,14 184:3 185:21 195:3 199:15 201:6 202:16 207:3 210:5 226:22 253:13 254:1 259:17 271:11 277:2 280:7 291:4 298:24 304:23 306:11 319:22 341:8 343:16 353:8 355:2 356:1 <b>asking</b> 60:15 62:6 104:21 116:13 122:7</p>	<p>125:24 221:21 264:10,14 276:7,8 311:12 364:2 <b>aspects</b> 198:13 <b>asserted</b> 279:10 <b>assessment</b> 62:22 324:17 <b>assist</b> 55:1 <b>assistance</b> 160:25 <b>Assistant</b> 43:13 <b>associated</b> 53:9 53:11 67:5 105:2 106:1 141:20 196:5 205:8 207:8 208:23 218:22 232:11 234:20 250:6 257:12 262:8 291:13 344:9 351:21 <b>Associates</b> 322:2 <b>association</b> 57:23 199:9 <b>assume</b> 82:4 84:12 87:17 102:20 158:19 241:12 248:5,8 267:23 268:22 271:23 321:4 323:11 363:25 <b>assumed</b> 169:22 342:7,8 354:10 <b>assuming</b> 96:5 109:3 281:5 338:25 <b>assumption</b> 153:18 <b>assumptions</b> 276:20 <b>attached</b> 187:23 224:9 230:11 284:17 311:16 345:4 <b>attachment</b> 301:10 <b>attempt</b> 54:16</p>	<p>58:19 66:11 186:12 <b>attempted</b> 271:12 <b>attempting</b> 58:17 <b>attendance</b> 44:14 <b>attended</b> 168:22 <b>attention</b> 278:6 <b>attorney</b> 43:3,9 72:1,2,10,11,20 73:23 74:1 94:20 165:22 165:23 317:23 326:6 <b>attorneys</b> 72:23 73:2,12 194:24 195:3 256:7 257:17 329:10 <b>ATVs</b> 111:8 <b>audit</b> 54:18,24 163:15 168:18 170:12 175:21 284:16 <b>audited</b> 115:25 116:3 <b>auditor</b> 96:24 107:6 265:22 287:5 298:16 <b>auditors</b> 172:23 264:9 <b>audits</b> 120:6 <b>August</b> 94:24 95:2 97:8 183:9 276:9 284:17 <b>authority</b> 48:21 348:1 <b>authorize</b> 67:13 <b>automated</b> 52:25 59:20,20 60:11 67:6 79:7 80:11 80:13,23 91:11 104:14 119:15 124:23 125:8 125:22 127:11 128:4 135:16 144:19 151:15 326:3 361:15</p>
---	--	---	--	--

<p>361:19 363:3 364:24 <b>automatic</b> 65:1 <b>availability</b> 212:16 <b>available</b> 47:15 58:7 60:22 78:8 83:19,24 85:18 92:6 108:19,24 114:19 130:11 130:12,17 181:24 211:16 221:4 222:1,13 222:22 223:3 250:1 252:5 278:11,18 279:2 280:7 283:13,14,24 284:25 288:20 292:11,16 293:16 295:19 306:18 <b>average</b> 103:23 208:16 209:16 209:19 210:6,7 210:12 246:24 247:3 330:5 334:14,14 354:8 <b>averaged</b> 247:6 <b>averaging</b> 152:16 <b>avoid</b> 328:17,18 <b>aware</b> 77:17 80:1 91:1,4,8 97:20 102:3 103:16 104:10 105:6 109:9,10,25 110:16 114:21 116:11 122:18 134:1,5 143:7 147:3 149:15 151:12,18 157:22 158:12 158:16 162:24 163:2,21 169:3 179:5 181:8,21 182:8 193:17</p>	<p>194:23 196:2 197:3 200:8 204:3 208:14 209:5 211:13 211:18 227:18 227:21,22 256:6,8,13,14 256:17 257:1,5 260:4 261:1,2 274:15,21 275:20 281:10 283:8,14 288:8 327:13 337:22 338:9 341:11 <b>A-d-d-o</b> 136:9 <b>a.m</b> 44:7</p> <hr/> <p style="text-align: center;"><b>B</b></p> <hr/> <p><b>B</b> 97:8,12 98:15 98:16,22,23 243:8 248:4 296:8 297:3,3,3 297:4 <b>back</b> 66:17 78:14 84:17 92:17 93:8 100:24 116:5 124:17 125:16 128:1 128:11 129:2 143:12 166:15 172:22 176:2 176:15 179:16 187:16 191:19 219:20 225:3,5 228:11 240:17 244:22 249:2 252:4 255:21 265:5 270:21 274:2 275:19 275:22,23,25 279:22 284:2 290:3 302:8 313:7,7,8 323:21 325:12 332:4,25 335:15 342:24 343:22 344:6</p>	<p>354:4,24 355:12,16 <b>backflow</b> 53:18 <b>backward</b> 62:15 <b>backwards</b> 49:22 <b>Baker</b> 43:13 45:14,15,20,21 45:22,25 46:2,8 46:15 47:19 48:5,9,23 49:11 50:3,4,14 63:17 78:4,19,23,25 79:2 80:5,8 81:1 84:4,11 90:8 94:5,12 99:4,6,23 100:5 100:6 104:16 104:21 106:8 111:21,22 113:3 115:6 122:3 125:18 125:20 127:3 127:15 135:22 136:3 139:4 142:15,18,19 143:24 144:4 147:8,9,13 148:13 149:12 149:14,23 153:24 155:1,3 155:9 158:10 158:11,20,24 166:9 178:16 178:23 185:2 187:20 188:4,8 189:12,24 190:20 192:9 192:17,20 193:9,13,16,23 194:10 195:6 196:17 197:17 200:5,24 203:10 204:16 205:19 206:2 206:23 209:12 209:25 212:4,5 213:6 216:17</p>	<p>216:22 223:9 223:10,25 227:16 230:1,2 236:10 240:3 240:14 242:9 246:16 248:17 252:16,17 253:19 254:12 256:3,5,21 257:18 258:4 259:4 264:21 266:17 273:15 273:21 274:7,9 275:8 293:22 294:4,9 295:5 296:22 297:2 299:17,18 300:11 310:17 310:18 311:20 313:3 314:8 321:18 326:16 326:18 327:19 329:23 333:24 334:5 335:8 338:6,8 339:19 341:4 345:24 346:11 358:3 358:22 359:1,6 360:2,25 361:4 362:13 364:1 366:4,10,18,19 366:23 367:4,6 367:10,13,18 367:22 368:4 368:15,21 369:9,13,18,21 369:25 370:7 370:15,24 371:11,15 372:16,20 373:23 374:8 374:12,23 375:9,14 <b>Baker's</b> 49:25 <b>balance</b> 59:8 61:2 62:23 68:18 231:25</p>	<p>232:10,14 353:25 <b>balances</b> 59:6 180:2,15 240:6 <b>balancing</b> 101:22 <b>ballgames</b> 93:11 <b>ban</b> 231:11 <b>bank</b> 43:10 95:15 169:11,25 172:24 173:1 175:24 176:8 177:5 183:8,11 183:13 322:25 <b>bare</b> 73:11 <b>barely</b> 85:14 <b>base</b> 48:15 54:17 54:22 55:6,8,12 56:23 58:20 63:22 64:11 71:15 81:10 84:13,25 94:11 114:12,14 137:16,22 142:3 153:15 154:14 155:14 156:2 157:5,8 157:19 159:7 160:17 161:19 163:8 164:16 165:2 175:15 178:19,20 180:2 185:11 234:24 289:5 308:24 354:22 367:19 <b>based</b> 48:23 56:17,25 57:7 58:6 60:21 68:5 69:9,15 70:22 73:19,22 77:7 78:11,18 86:25 87:7 92:9 106:13 111:11 116:2,24 120:9 124:5 138:13 140:12 146:18 146:22 147:24</p>
---	--	--	---	---

151:21 154:21 159:24 170:24 191:11 194:20 202:12 207:20 208:16 214:14 218:6 219:8 246:13 250:22 262:13 291:25 292:9 293:6 302:6 306:3,4 309:13 311:11 338:15 339:17 341:1,17,20,23 342:18,19 343:4,17 347:17,19,20 347:21 <b>basic</b> 81:20 141:14 199:25 221:3,12,25 222:1 311:3 <b>basically</b> 87:16 108:10 200:17 217:5,19 246:21 248:3 291:10 <b>basing</b> 48:22 311:5 <b>basis</b> 52:11 57:18 82:6 125:17,17 195:23 219:11 261:20 262:1 283:19 288:21 290:23 291:2 292:3 <b>bear</b> 67:11 69:13 <b>becoming</b> 72:8 100:15 <b>began</b> 44:7 174:2 <b>beginning</b> 44:24 50:19 63:22 89:21 136:23 283:4 325:14 <b>begins</b> 278:8 <b>behalf</b> 45:3,9 162:6,9 256:12 280:22	<b>belief</b> 76:5 89:9 98:12 121:15 138:22 227:1 266:10 299:4 356:18 357:13 <b>believe</b> 45:18,24 48:18 49:20 76:16,24 77:3 79:20,23 82:23 83:11 84:16 85:12 88:2 92:19 97:19 104:15 106:21 110:21 113:21 114:6 115:6 117:24 126:5 127:1 151:4 159:9 160:19 185:12 194:15 195:17 200:11 200:12 211:3 214:9 218:25 232:13 237:11 241:10 247:20 250:16,22 251:9,13,15 257:16 258:11 259:1 261:14 263:18 266:23 268:9 269:7,11 273:9,10,24 274:1 277:4,12 278:5,14 279:24 280:18 296:7,8 308:21 311:2 321:18 323:7 327:2,3 347:2 355:4 356:1 360:25 <b>believed</b> 283:12 <b>believes</b> 55:17 221:23 222:5 234:13 235:17 267:14 350:7 351:3 <b>Bench</b> 77:21 87:1 120:9 170:25	178:3 189:14 190:10,25 194:1 195:8 197:19 201:2 202:13 204:18 205:21 206:4 206:22 <b>beneficial</b> 326:25 328:19 <b>benefit</b> 103:4 104:13 108:17 112:4 117:11 128:21 148:10 328:15 <b>benefits</b> 60:11,12 66:1,7,13,15 83:3 103:8,10 103:14 107:6 117:7,10 122:8 123:1,3,8 133:15,16 213:15 <b>Bennington</b> 51:23,25 52:5 67:18 90:22 169:11,12 193:18 227:19 228:6,12,20,22 232:1 240:7,8 243:10 248:5,6 339:24 340:6 347:23 377:10 377:16 378:2,9 379:2,7,12,21 <b>best</b> 76:4 89:9 98:11 111:3 115:11 121:14 131:13 133:15 135:8 138:22 177:11 186:16 222:21 226:25 253:4,16 266:10 299:3 307:1 308:10 342:20 350:11 <b>better</b> 119:25 200:15 308:14	348:16 <b>beyond</b> 94:6 114:14 309:17 310:9 350:22 353:23 <b>bid</b> 77:7,10 79:18 80:3 110:5 114:19 307:11 <b>bids</b> 77:16 79:24 84:4,9 141:16 141:19 <b>big</b> 95:24 319:2 322:19 332:7 <b>biggest</b> 71:21 <b>bill</b> 44:14 52:15 72:4 79:16,17 79:18 103:23 104:2,10 122:20,25 124:1,2,8 125:24 126:3 129:21,22 133:25 154:16 173:4,6,11 223:20,22 224:10 256:9 257:4,6 310:24 312:8 <b>billed</b> 257:3 <b>billing</b> 53:22,23 53:23 54:4 55:7 65:9 70:6 81:25 102:2 104:5 124:7 128:3,23 129:5 145:25 146:1,15,16,23 147:2 148:9,17 148:20 149:16 149:20 150:4 150:12,15 151:16 152:1,5 152:8,8,11 153:9,12 154:13 155:6 173:12 212:22 212:23 283:17 284:20 290:25	293:3 367:7,7 <b>bills</b> 53:25 124:11 147:10 148:14,17 154:20 169:25 170:5,7,9 173:3 173:7,8 181:22 181:23 182:2 182:15 212:12 332:20 <b>bit</b> 126:22 155:4 240:4 246:17 <b>black</b> 114:4,6 <b>blank</b> 163:11 164:18 <b>blanks</b> 62:3 <b>blower</b> 156:16 <b>board</b> 303:24 328:25 <b>Boateng</b> 297:16 298:8,12,17 310:15 312:22 313:1 371:13 375:14 378:17 <b>Boateng's</b> 199:18 <b>bookkeeping</b> 174:18 <b>books</b> 229:15 351:11 <b>borne</b> 67:3 74:1 120:7 <b>borrowed</b> 177:5 <b>bottom</b> 164:22 <b>bought</b> 300:8 323:2 348:11 348:18 <b>box</b> 43:5,14,20 45:10,16 57:21 114:4,6 128:8 305:3 318:24 319:1,1,21,23 319:24 <b>boy</b> 175:20 <b>brand-new</b> 287:24 <b>break</b> 98:3 130:2 144:3,5,9 177:4
--	---	--	--	--



<p>187:12,14 238:25 255:18 265:3,6 <b>breaker</b> 233:15 331:13 <b>breakout</b> 113:18 <b>brief</b> 334:9 <b>briefing</b> 363:5 <b>briefings</b> 194:13 <b>briefly</b> 311:24 <b>briefs</b> 194:18 360:13 361:11 <b>bring</b> 177:6 <b>bringing</b> 193:2 <b>brings</b> 308:23 <b>broad</b> 94:11,12 182:4 217:15 <b>broke</b> 187:17 <b>brought</b> 169:14 187:21 331:9 <b>Brydon</b> 43:4 45:1 <b>bucks</b> 330:8,10 <b>build</b> 61:25 176:13 180:18 337:14 338:21 339:15 344:4,6 344:7 347:10 351:14 352:22 353:16 <b>building</b> 68:24 198:25 199:11 200:9 246:23 299:23 300:4 305:3 317:4,9 318:10 319:3 320:12 321:3 321:25 322:2 323:3 <b>buildings</b> 322:20 <b>builds</b> 331:3 343:20 <b>built</b> 316:8 338:15 339:10 339:25 346:2 347:10 348:6,8 349:12,13</p>	<p>350:2 352:11 353:10 <b>bullet</b> 276:8 277:11 278:8 279:12 <b>bunch</b> 365:9 <b>bundle</b> 223:13 310:19,22,25 312:12 <b>burden</b> 64:8,10 66:3,6,10 67:2 69:13 71:10,12 117:14 118:21 353:15 <b>burdensome</b> 144:24 <b>Burlison</b> 43:9 45:2 93:18,24 94:18 256:11 256:16,23 257:11 275:11 275:13 277:18 277:23 285:18 372:21 <b>Busch</b> 168:5 333:9,11 364:13,18,25 <b>business</b> 51:19 57:13 58:23 64:5 221:6,21 287:25 291:19 304:6 308:6,9 312:12 320:16 321:22,24 322:10 323:15 328:19 330:12 332:10,12 <b>businesses</b> 50:25 267:10 328:6 <b>businessman</b> 332:11 <b>bust</b> 177:12 <b>busy</b> 321:21 <b>buy</b> 175:8 <b>buyer</b> 316:23 324:16,18,19 <b>buys</b> 221:8</p>	<p style="text-align: center;"><b>C</b></p> <p><b>C</b> 44:1 97:8,12 98:15,16,22,23 270:10 296:8 297:3,3,3,4 328:13 380:1,1 <b>cabinets</b> 319:12 <b>calculate</b> 54:1 340:25 <b>calculated</b> 81:8 248:25 <b>calculating</b> 258:16 <b>calculation</b> 81:15 81:16 137:16 137:22 141:15 286:22 342:6 <b>calculations</b> 102:11,20 116:19 152:21 214:5,11 215:19 283:23 287:17 288:15 292:9 294:21 <b>calendar</b> 290:16 318:12 <b>call</b> 74:9,11 88:6 88:7 96:9 120:13 135:21 146:1,3 149:2 153:22,24 155:15,16 161:7,9 165:13 175:24 178:7 187:3 188:19 188:21 189:22 189:24 191:17 225:6,8 287:6 320:4 326:1 333:10 348:15 <b>Callaway</b> 131:15 134:23 <b>called</b> 94:25 128:5,13 167:9 168:4 170:6 177:18 230:20 308:22 322:8,8</p>	<p>322:16 331:17 331:19 333:7 358:5 <b>calling</b> 94:2,3,19 222:25 223:2 <b>calls</b> 56:5,22 96:11 120:14 135:23 149:4 190:12 309:3 324:1 <b>canceled</b> 170:1 179:2,5,8,12,14 179:14,20 301:15 <b>cancelled</b> 301:12 <b>capabilities</b> 148:22 <b>capability</b> 123:12 123:14,16 128:24 <b>capable</b> 129:9 <b>capacity</b> 47:10 48:1 56:22 74:21 96:22 120:24 165:2 187:18 188:13 298:14 313:17 313:20 335:16 336:3,14 337:1 337:24 338:15 339:23 340:17 340:21,24 341:9,13 342:4 343:3,4,23 346:7,10,18 347:14,15 349:21 350:20 351:3,7,15 352:9 353:22 353:23 354:21 355:21,24 356:3 368:12 <b>capital</b> 150:14 289:3 346:20 350:19 359:7 <b>capitalized</b> 289:4 289:11</p>	<p><b>Capitol</b> 43:5 <b>caption</b> 380:9 <b>capture</b> 276:18 <b>caput</b> 316:25 <b>car</b> 128:15 <b>care</b> 201:7 263:25 313:14 322:3 <b>carrying</b> 128:11 <b>case</b> 47:20 49:2,9 50:6,16 56:21 58:18 59:9,24 60:20 62:9 63:20,21 64:9 64:22,25 66:3 67:14 68:3,8 71:22,23 72:6,8 72:16,17 73:6 73:11,15,18 74:24 78:14 90:13 92:18 93:8 94:21,23 95:4,8 97:21 99:8,12,17,21 100:25 104:22 105:2,9,17 106:11,19,23 107:16 108:21 108:25 109:10 110:10,11 111:12 113:12 113:17 114:20 115:8 116:6 118:24 120:4 123:15 132:12 132:22 133:3 136:18 138:14 138:14 140:16 140:22 141:1,8 141:9 142:21 142:22 143:1,5 143:11,14,17 150:6,13,21 151:8 156:5,9 156:24 157:2 157:25 158:13 159:17,18</p>
---	---	--	--	---

160:12 161:18 162:15 163:10 171:11,14,20 172:20,21,22 173:20 174:2,7 175:13 179:17 179:25 180:1,3 181:9 182:25 183:3,4,10,13 183:15,23 185:15,21 186:22,24 187:16,24 192:18,20 194:5,11,13,17 194:20,25 195:13,18,19 196:3,4,6 197:8 197:8,11,12,13 197:24 198:5,9 198:13 201:12 202:24 203:18 204:24 210:7 225:24 226:14 226:17 240:16 240:24 241:7 241:16,24 255:21 256:6 256:13 257:3 257:17 258:2 258:15,19,24 258:25 259:2,3 259:10,14,18 259:22 260:1 261:14,18,22 261:23 262:2,9 262:15,19 263:7 264:6,15 267:17 272:4 273:8 280:6 284:3,9,11 285:1,7 286:3 287:21 288:23 291:23 292:1,2 292:4,6,8,13 293:7 295:17 306:16 309:9	309:24 318:19 319:7 330:24 332:22,25 333:2 336:8,11 341:10,12 354:25 356:3,7 356:11,14,15 356:20,21 357:16,21,22 357:25 359:14 359:25 362:12 362:18 369:19 370:3,22 <b>cases</b> 52:9 54:16 63:21,25 70:12 70:25 71:18 74:5 140:13 151:12 158:18 158:22 197:6 197:16 241:12 241:13 258:17 260:5,11 275:20 279:22 280:1 284:1 285:11 288:19 352:20 364:21 <b>case's</b> 241:17 <b>cause</b> 380:8 <b>caused</b> 53:16 75:1 88:17 97:1 121:4 210:10 225:23 265:25 298:18 311:19 <b>caveat</b> 102:1 <b>CCR</b> 42:25 380:25 <b>CCRs</b> 173:13 <b>cell</b> 220:18 223:4 323:14,16 <b>center</b> 249:21 326:7 <b>cents</b> 110:17,20 <b>CenturyLink</b> 220:16 221:4,8 221:24 222:11 311:2 312:3 <b>certain</b> 52:20,21	75:2 80:19 88:18 90:14 92:4 99:13,18 100:10 156:1 183:4,14 186:25 187:1 201:9 212:16 219:4 291:7,15 334:15 339:3 344:9 346:21 350:2 351:18 <b>certainly</b> 47:20 49:19 66:21 69:4 71:19 72:7 80:11,17 83:4 85:16 124:11 126:18 187:25 197:4 205:2 212:11 218:19 267:14 344:2,8 <b>certainty</b> 324:23 <b>certificate</b> 52:9 59:24 63:21 64:24 70:12 71:18 78:14 90:13 92:18 94:21,23 99:8 99:12,17 104:22 105:9 105:17 106:11 106:19,23 110:11 113:12 113:17 114:20 115:7 116:6 132:11,21 141:1 142:20 142:21 143:13 150:6,13 156:5 156:8,24 157:25 158:13 158:18,22 159:17,18 160:12 161:18 162:15 171:11 171:13,20 172:20,22 179:17 182:25	183:3,4,23 192:20 195:13 195:18,20 196:3,10,11 197:11,13,15 197:24 198:5,9 198:13 202:24 240:24 241:7 241:13 258:2 258:19,24 259:10,14 262:20 275:20 279:22 280:1,6 336:8,11 341:10,12 352:20 354:24 356:3,7,11,15 362:12,18 370:3,22 <b>certificated</b> 202:19 278:21 281:3 283:6 290:4 <b>certificates</b> 51:9 52:4 258:20 <b>certification</b> 168:24 171:9 275:22,25 284:1 <b>Certified</b> 380:4 <b>certify</b> 380:6 <b>cetera</b> 71:11 283:19 284:22 <b>chair</b> 202:25 203:4 <b>challenge</b> 59:10 <b>chance</b> 78:20 292:25 <b>change</b> 74:4 75:19,21 137:13 138:1 208:22,23 209:2 226:14 343:11 <b>changed</b> 74:2 75:16,19 137:18	<b>changes</b> 70:11,23 75:9 89:1 136:20 137:3,8 137:23 138:17 138:21,24 214:7,10,18,25 215:10,19,20 218:16 219:3 226:10,19,21 266:3 357:22 <b>changing</b> 71:17 167:11 <b>characterize</b> 318:10 <b>charge</b> 64:1 81:11 175:9 223:3 259:11 284:21 <b>charged</b> 50:10 58:1 173:9,21 331:6 <b>charges</b> 199:10 311:13,14 <b>charging</b> 307:14 307:14 <b>chart</b> 311:18 <b>cheaper</b> 344:4 <b>check</b> 79:20 102:19 169:17 169:18 170:15 173:1 174:12 176:7 179:12 194:16 258:11 281:7 294:13 323:8 325:2 <b>checkbook</b> 170:14 <b>checked</b> 297:23 297:25 322:12 322:13,24 <b>checking</b> 56:1 <b>checks</b> 169:17,20 169:20,21 170:2,16 173:2 174:1 175:23 175:25 179:3,5 179:9,14,20
--	---	--	---	--

<p><b>Chief</b> 43:18  <b>choice</b> 272:15,19  <b>choose</b> 212:9  <b>chooses</b> 197:7  211:19,22  355:17  <b>chose</b> 194:21  <b>chosen</b> 95:14  <b>Christina</b> 43:13  45:15  <b>CIAC</b> 180:21,24  <b>circumstances</b>  51:3 186:21  187:1 259:3  <b>cite</b> 303:23  <b>city</b> 42:9 43:6,15  43:21 45:11,17  238:10 245:16  246:7,9 251:24  251:24 380:18  <b>claim</b> 221:5,14  221:17 314:21  314:22 315:10  316:11  <b>claimed</b> 178:18  <b>claims</b> 222:3  <b>clarification</b>  92:14 155:5  240:5  <b>clarifier</b> 175:2  209:23 294:15  331:4  <b>clarify</b> 63:13  123:9 159:10  207:14  <b>clarifying</b> 175:1  <b>cleaning</b> 334:20  <b>clear</b> 65:19  207:13 246:6  340:5  <b>clearly</b> 296:13  <b>client</b> 145:12  <b>clients</b> 272:23  <b>close</b> 57:19  105:16 248:13  316:24  <b>closed</b> 305:2</p>	<p><b>closer</b> 245:21  <b>closing</b> 58:13  130:3 316:10  <b>Codifications</b>  303:24  <b>cold</b> 261:4  331:23  <b>Cole</b> 380:3,20  <b>colleague</b> 302:16  <b>collected</b> 234:19  <b>collecting</b> 100:21  232:25  <b>collection</b> 290:25  <b>column</b> 174:19  <b>combined</b> 219:1  <b>come</b> 71:7,21  72:13 86:20  87:20 95:3  99:11 110:7,22  113:19 124:22  134:2 151:17  177:1 182:15  192:5 204:25  225:2 238:4  240:16 264:18  276:23 284:2  296:24 309:21  312:17 313:6  317:11 318:23  319:25 322:9  332:3,25  342:10 363:10  364:14 365:1  <b>comes</b> 49:23  110:6 167:16  174:9 213:2  260:8 292:2  <b>coming</b> 116:6  167:20 198:12  207:7 208:4  280:1 290:14  297:10 320:3  322:3 345:2  359:21,23  <b>comments</b>  304:24  <b>Commission</b></p>	<p>42:2 43:19,23  45:7,10 49:13  50:10 54:15  56:6 58:22 59:3  59:5 60:16  63:18,24 64:3,3  67:12 71:19  72:3 73:7,7,10  73:16 90:10  91:17 94:19  96:24 119:24  121:1 135:9,14  142:25 143:4  145:23 151:22  154:6 158:21  159:2 177:19  177:22 180:7  187:25 194:21  196:25 210:2  213:8 216:24  218:7,12 224:2  225:21 236:18  237:22 239:24  242:8 244:6  246:12,19  252:15 254:11  254:21 257:23  260:9,11,18,25  264:14 265:23  268:2 272:17  285:20 298:16  303:13 304:2,8  306:5 326:4,5  327:11,21  329:25 332:18  334:7 339:21  353:5 361:12  362:25  <b>Commissioner</b>  44:15,16,18  86:3,24 91:18  92:1,7 107:20  107:21 111:15  111:17,19  117:20,21  119:11 133:9  142:11,12</p>	<p>147:16,17  150:23,24,25  151:20 153:2,4  153:20 154:7,9  166:11,12  170:22 180:8  180:10 181:11  181:12,13  183:17 188:6  189:15,17  191:1,3 201:3,4  202:1,3,11,16  216:25 218:4  239:25 270:16  285:21,22  304:19,21  305:25 314:10  314:12,15,17  315:11,14,18  315:20 318:5,6  320:8,9,10  321:19 323:17  323:18,19,20  325:6,8 327:22  327:24 330:1,3  334:8,10 335:1  335:10,11  344:14,15  345:3,7,9  361:23 362:19  362:22 363:23  365:2,6,8  366:11,19,21  367:14,15,25  368:6,7,16  370:25 371:1,4  371:5,5,6,17  372:1,13  373:25 374:24  <b>Commissioners</b>  42:21 44:14,21  59:1 81:4  135:20 147:15  150:10 166:10  304:18 309:23  333:25 335:9  <b>Commission's</b></p>	<p>58:18 135:14  <b>Commission-a...</b>  148:5  <b>Commission-o...</b>  236:18  <b>Commission-r...</b>  148:7  <b>commodity</b>  363:19  <b>common</b> 186:11  218:16 259:25  260:4  <b>community</b>  43:10 176:12  322:18  <b>companies</b> 61:18  69:10 106:14  110:17 111:8  124:7,13  128:13 131:19  134:11 135:11  144:17 145:2,3  145:6,8,15  148:7 153:15  174:16 177:11  186:12 231:7,8  236:23 238:2,8  238:9,14  250:12 251:16  260:1 268:14  281:2 284:6  288:2 304:6  322:15 326:3  328:1,4,17  332:7 363:2  <b>company</b> 44:10  44:11,24 50:19  51:4,7 52:15,25  53:22 54:14  55:17 56:1,14  57:15,17 58:21  59:6,12,18,19  60:13 61:3,8,15  61:17 62:2,5,11  62:22,23 63:6,9  64:9,11,16,19  65:3 66:4,6,9</p>
---	--	--	---	---

66:12,20 67:1,9 67:19,22 68:22 68:25 69:1,4 70:2 71:10,12 71:16,25 72:22 72:25 73:13,13 73:25 74:9 77:8 77:15 79:6,11 79:22,24 83:21 83:23 99:8,13 100:10,20 104:18 108:8 108:15 109:21 110:3,24 113:6 115:15,17,22 116:10,15 118:3 120:2,7 122:24 123:21 126:3,19 128:2 128:12 130:12 130:15,16,21 131:17 132:19 132:20 133:16 134:6,13,15,16 134:17 135:2 137:19 139:21 144:18 145:17 146:22 147:11 148:3,14 149:15,25 151:5,19 152:3 153:9,17 154:12,19 157:17 163:2 166:21 168:22 169:4,22 170:6 170:17 171:7 173:15 175:10 175:24 176:8 176:15,25 177:3,7 178:18 182:22 185:15 186:19,20,20 186:22 188:21 190:22 191:7 194:12 195:9 196:4 197:7	198:11 199:4,8 199:19 201:12 201:22,24 202:19 203:15 208:22 209:2 209:23 211:14 211:19,22 212:9,9,14 216:19 220:3 220:12,18,24 221:8,20,23 222:5,18 228:12 231:1 233:7,24 234:14,19 235:22 236:4,6 237:6,15 238:12 249:1,5 254:3 256:7,12 258:7 259:11 267:4,20 268:5 276:22 277:1,6 278:20 279:10 281:1 282:19 283:10,15 284:9 285:9 286:11 287:24 288:20 290:3 291:14,22 292:1 294:16 295:8 300:10 304:14 306:13 307:14 308:24 309:19 310:20 311:15 319:10 319:11 322:14 328:3 329:4 336:8 337:7,14 338:9,11,13,14 339:6,15 340:23 343:19 350:2,15,24 351:1,25 353:10,21 354:12 355:3,9 355:13 359:12 362:16 363:14	<b>company's</b> 53:24 54:21 55:15 57:22 59:21 60:1 61:9 69:13 70:8 108:5 128:18 134:9 145:19 152:18 195:20 198:14 198:25 203:1 213:12,21 214:16,19 215:11 241:11 243:17 252:19 260:22 264:14 274:16 294:19 294:22 309:1 311:8,12 329:7 336:3 <b>company-speci...</b> 237:8 <b>comparable</b> 288:2 <b>compare</b> 85:4,4 250:10 271:12 <b>compared</b> 67:4 <b>compares</b> 125:4 <b>comparing</b> 222:9 <b>comparison</b> 65:11 85:9 243:24 245:18 245:20 307:12 <b>comparisons</b> 244:9,13,17 <b>compatible</b> 150:7 <b>compensate</b> 152:17 <b>compensation</b> 55:23 56:13 233:8,10,11 288:4 <b>competent</b> 308:22 <b>competitive</b> 307:16 308:10 <b>complaint</b> 63:20 129:21 196:4,6 <b>complaints</b> 124:9	124:12,13,22 130:14 134:1 <b>completely</b> 196:10 227:20 227:23 <b>completion</b> 54:12 <b>complicated</b> 265:2 <b>components</b> 235:24 346:21 351:18,19 <b>compound</b> 229:24 <b>computer</b> 128:10 128:17 167:22 197:1 <b>computes</b> 268:3 <b>concentrating</b> 279:12 <b>concept</b> 291:9 <b>concern</b> 170:21 <b>concerned</b> 45:23 <b>concerning</b> 303:14,15 <b>concerns</b> 56:22 61:3 65:21 93:14 103:7 110:23 <b>concluded</b> 365:15 <b>concludes</b> 358:2 <b>conclusion</b> 146:21 150:5 312:18 336:25 343:11 <b>concrete</b> 178:20 <b>conditioning</b> 201:20,21 309:16 <b>condo</b> 316:20,21 316:23,24 324:5 <b>conducted</b> 238:8 239:6 <b>confer</b> 162:17 <b>confidence</b> 211:5 212:7 213:2,12	<b>confident</b> 47:11 <b>confidential</b> 211:15 <b>confidentiality</b> 186:7 <b>conflict</b> 47:7 <b>confused</b> 91:19 91:19 215:24 246:18 269:20 <b>confusing</b> 297:1 <b>conjunction</b> 75:17 83:18 <b>Connect</b> 312:11 <b>connected</b> 148:20 <b>connection</b> 88:14 302:22 307:19 <b>connections</b> 56:4 <b>consents</b> 195:25 263:2 <b>consequence</b> 204:9 219:19 <b>consequences</b> 204:4 <b>conservation</b> 52:17 <b>conservative</b> 354:12 <b>consider</b> 214:5 214:25 361:13 <b>consideration</b> 61:18 63:14 85:17 86:18 154:19 184:18 247:24 320:19 <b>considered</b> 117:17 215:2 258:25 <b>considering</b> 154:18 <b>consistency</b> 357:20 <b>consistent</b> 339:1 361:14,16,17 <b>construct</b> 290:7 337:8 343:1 355:18
--	---	---	--	--

<b>constructed</b> 57:3 343:13 352:13	219:6 232:23	46:3,21 47:23	245:2,9,12,25	<b>copies</b> 97:23
<b>constructing</b> 344:1	<b>continuous</b> 53:15	48:4 49:15,17	246:3 249:12	173:2,3 181:15
<b>construction</b> 120:6 344:23	<b>contract</b> 108:4	50:20,22 59:1	249:13 252:12	181:17 182:1
349:15,18	110:1 112:14	68:24 72:12,15	252:18 254:9	182:17 184:3
350:9,9 352:17	112:17 126:23	72:19 74:11,17	254:19 255:1,6	187:21
<b>consultant</b> 54:25	200:15,17	76:7 81:5,6	255:11,16	<b>copy</b> 75:13
72:12 294:22	294:19 300:7	85:25 87:2,4,6	256:22 257:20	114:24 157:10
<b>consulted</b> 54:13	301:3 302:7,18	87:10 88:3,6,7	259:7,8 260:15	163:7 164:5
<b>Consulting</b> 74:23	306:25 315:4,5	88:11 89:11	263:14,25	170:2 172:6
<b>consumer</b> 211:5	315:6,16,18,21	92:25 93:3,4,17	264:10 266:20	182:22 184:14
211:15 212:7	315:23 316:16	95:10,25 99:20	266:22 270:12	184:15 188:6
213:2	317:8 320:20	104:19,20	271:11 272:21	224:10 241:5
<b>consumers</b> 59:14	321:5,8 323:23	107:17 113:7,9	273:6,18,22	243:3 300:19
<b>consumption</b> 233:9 235:17	324:11	114:25 116:13	294:1,6 295:9	361:1
<b>contact</b> 54:5 56:5	<b>contracted</b>	127:7,8 129:10	297:23 300:14	<b>Core</b> 312:11
128:7 222:11	169:18 170:17	130:18,24	300:15 304:15	<b>corp</b> 326:24
<b>contacted</b> 93:8	173:20 312:3	132:2,10 133:6	306:6 310:8	327:2 328:12
322:25	330:17	139:22,24	311:24,25	328:13
<b>contacting</b> 145:3	<b>contractor</b> 173:4	142:7,16,20	312:15,19	<b>corporate</b> 269:5
<b>contained</b> 75:24	330:18	144:20 145:11	313:10,18	269:6
89:5 140:15	<b>contracts</b> 109:4	145:17 146:3,7	315:11,16	<b>corporation</b>
<b>contemplate</b> 91:11 165:2	109:11 111:24	147:21,22	326:16,19	269:6,16 270:5
<b>contemplated</b> 150:12,15,16	113:1 117:2	148:24 150:1,2	329:12,16	270:10 272:14
218:23 220:2	321:1	150:8 154:4	333:19 341:6,7	272:17 327:5
<b>contemplating</b> 208:22	<b>contrary</b> 191:8	155:16 159:3,4	344:12 345:3,8	327:12 328:12
<b>contemplation</b> 180:15 181:7	<b>contributed</b> 131:14	161:3,9 162:7,9	345:19 346:14	328:24
<b>context</b> 91:13	<b>control</b> 200:18	162:15 164:6	346:15 353:2,8	<b>corps</b> 328:21
<b>Continental</b> 109:18 151:2	200:19,21	166:1 171:1	355:2 356:1,23	<b>correct</b> 76:4 77:1
166:23	301:14 302:16	177:25 179:1	357:10 359:19	77:5 80:14
<b>continue</b> 47:13	320:12	180:4 183:19	360:14,21	81:12 82:7,10
68:10,12 94:15	<b>controlled</b> 299:24	183:20 184:24	363:4,8,18	82:14,15,21,22
127:13 137:15	<b>controls</b> 300:4	188:21 189:20	364:19 366:2,8	84:14,20,21
232:17 234:11	<b>convenience</b> 51:9	190:8,23 194:3	366:11,12,13	85:1,6 87:15,16
351:14 356:20	<b>convenient</b> 58:8	195:10 197:20	366:15,18,20	87:21 89:8
357:15,21	100:3	197:21 198:18	366:24 367:5	95:17 96:8
<b>continues</b> 55:11	<b>conveniently</b> 57:19	203:12 204:19	367:10,13,23	97:15 98:11
87:12	<b>conversation</b> 46:24 263:16	204:20 205:11	368:1,5,8,16,21	99:14 100:21
<b>continuing</b> 67:20	<b>conversations</b> 106:24 107:2	207:1,2 208:8	369:14 370:1,8	101:1,5,8,11,17
	144:7 222:19	210:3,4,22	370:11,16	102:5,10 103:6
	<b>cooling</b> 199:12	213:9,10,23	371:9,16,22	103:20 104:8,9
	<b>Cooper</b> 43:3	218:8,9 220:5	372:7,16	104:14,23,24
	44:25 45:1,25	224:3,4,14	373:12,24	105:2,3,11,12
		236:14,15	374:13,25	105:17 106:2,3
		237:19 239:22	375:10,15	106:12,20
		240:23 241:3,4	<b>Cooper's</b> 86:13	107:7,10,14
		242:5,16,21	246:18 270:21	111:14 112:1,6
		244:3,15,19,23	<b>copied</b> 173:1	112:7 113:13

HEARING 11/5/2013

113:23,24	227:20 228:17	337:3,5,10,18	199:25 208:24	262:13,15
114:4,13,17	228:18,25	341:18 342:14	211:22 220:25	263:1 289:14
115:9,10 119:1	229:1,10,16,18	342:15 343:1	221:12 222:21	291:14 295:2
119:2,10,17,18	230:5,6,8,9,11	346:3,4 347:1	226:13,16	296:23 308:24
119:19 121:8	231:6,8,12,13	347:11,18	235:3,24	309:4,7,10,11
121:14 122:9	232:7 234:21	348:7,13,19,20	241:17,20	309:20 332:20
123:2,23	235:1 236:24	348:24 349:4	247:14 261:24	344:9 346:20
124:24 125:6,7	237:17,18	349:13,14,24	262:4,19,19,20	350:9 352:24
125:11 126:4	241:13,14,17	350:5,20,21	262:20,21	353:19,20
126:12,16,17	241:18 242:4	351:3,4,7,9	270:10 289:23	<b>cost/benefit</b>
126:20,21,24	243:6,7,15	352:1,4,12	291:13 309:8	112:8
126:25 130:8,9	245:16 248:16	355:5 364:5	310:4,6,20	<b>counsel</b> 43:13,14
131:20,21,25	250:17 251:3	380:13	330:19 332:3	43:17,18 45:13
132:1,12 133:4	251:10,14,18	<b>corrected</b> 84:2	332:19,24	45:16 47:6
140:13,14,21	251:20 252:6,7	<b>correction</b>	334:13 336:11	48:11 54:25
142:5 143:6,9	252:10,11	226:18	337:9 349:9,12	55:11,18 58:2
143:10 146:13	253:12 257:13	<b>corrections</b>	349:22,23	59:13,18 63:16
146:24 147:11	258:17,18,21	136:20 138:25	350:9,10 359:7	64:4,15,16
148:12,14	259:15,16,19	226:10 266:4	361:24	67:16 74:2
149:16,21	259:22,23	<b>correctly</b> 258:9	<b>costing</b> 106:14	85:12,19 86:6,6
151:3 155:8	260:9,13 263:2	357:19	<b>costs</b> 55:19 60:19	86:16 90:7 91:8
156:2,6,22,24	263:3 266:10	<b>corresponding</b>	60:20,22 63:3,7	122:2 135:22
157:5,16,21	267:1,2,5,12,13	305:20	63:9 66:1,7,12	136:12,14
158:14,17	267:25 268:8	<b>cost</b> 53:4,8,10,23	67:1,2,5,5,13	137:20 138:11
161:1,20	269:9,14,15	65:12,12,18,20	69:10 71:13	147:7 149:11
162:13,14	271:14,15,17	69:6 71:11	73:5,14,22,25	153:22 158:9
165:7 171:25	271:18 272:9	72:14 76:25	74:3 79:7,10	158:13 166:8
172:1,4,17	272:13 275:4	77:3 78:10	81:23 84:18	167:5 178:14
179:9,10,15	275:17 276:2	79:16 80:13,16	85:19 100:11	185:1 189:11
183:25 184:2	276:10 278:21	80:18 81:20	100:17,21	189:22 190:19
185:17 193:18	278:24,25	82:1 85:13,14	101:13,14,22	203:9 204:15
194:15 195:21	280:2,16,17	85:17 86:7,8,11	101:22 102:8	205:18 206:1
195:25 197:2	282:9 283:1,7	86:13,15,15,15	103:2,5 106:6	209:11 212:3
197:14 198:16	284:14 290:8	86:18 87:13,19	109:9,14 112:2	216:16 223:8
198:17 199:1	291:7,8 297:5	87:20,24,25	112:3,7 113:11	227:15 243:23
200:11,13	298:22 299:3	90:19 95:1	116:3,22,23	256:2 258:3
205:9 207:4	299:20 301:19	99:18 101:7	117:15,16	263:13 264:19
208:25 209:6,7	301:23 303:6	102:2,10,24	118:11,13	266:16 273:13
211:6 212:12	303:10,20,21	103:3,8,11	120:7 126:8,9	273:20 274:6
213:4 214:7,19	303:25 304:1,9	106:9 108:18	126:14,18	275:15 293:21
215:16,23	304:10 308:1	112:20 115:25	138:12 140:12	294:3,8 299:16
216:11,12	311:3,4 312:9	117:25 118:20	149:20 178:18	310:16 314:7
219:18,24,25	312:10,12,14	118:24,25	178:22 180:18	327:18 329:22
220:4,14,17,22	314:23 316:3	119:5,20 120:2	186:17 195:24	333:23 334:4
220:23,25	316:17 320:13	133:3 137:20	196:2,3,8,10,12	335:7 338:5
223:24 224:13	324:6,13 327:1	142:2,4,4 152:2	221:3 261:4,5,8	345:22 358:6
226:20,25	327:5 336:4,8	154:16 195:3	261:12 262:13	<b>Counsel's</b> 73:17

<p><b>Counsel/Water</b> 43:19 <b>count</b> 356:16 <b>counted</b> 319:22 <b>Counting</b> 164:12 <b>counts</b> 70:13 214:11 <b>County</b> 42:12,15 43:12 44:10 45:4 48:13 51:8 51:14,20,22,22 52:3,12 53:7 54:11,23,23,24 55:19 57:6,11 57:12,14,20 58:14 63:19 64:25 65:7 68:2 69:2,7,16,19 71:1 72:9 74:24 84:18 87:14 88:1,15 127:6 132:12 134:12 134:23 138:11 138:14 142:2 146:1 148:11 154:3 155:14 161:7 165:18 165:19,23 171:2,5,21,23 172:15 176:12 178:25 182:12 183:25 188:19 190:7 191:17 200:7 201:12 204:6,22 205:1 223:17 224:7 236:13,17 239:21 240:22 241:2 242:15 242:18,25 243:3 247:8,11 247:17 249:11 252:25 253:3,7 253:17 254:8 254:18,25 255:5,10,15 258:20 259:6</p>	<p>266:19 267:15 269:3,8,12,23 270:25 271:16 272:4,6 273:16 274:22,25 275:3,5,10 277:14,25 280:11,23 282:7 285:2,15 288:23 293:25 294:5 299:20 300:13 301:18 301:23 302:3 302:13 304:9 304:12 311:23 315:22 321:23 327:11 338:20 343:13 345:18 346:13 348:13 350:18 360:15 376:19 380:3 380:20 <b>County's</b> 52:6 56:23 57:4,7 58:9 83:10 144:14 241:6 272:5 280:24 <b>couple</b> 48:12 75:11 76:22 77:21 90:11 115:5 128:5 133:12 146:12 151:23 153:10 265:4 274:7 286:8 291:3 328:21 331:12 338:6 <b>course</b> 47:12 59:7 68:25 124:6 257:3 355:23 357:2 <b>court</b> 45:4 47:6 136:7 148:1 296:1 297:20 <b>courthouse</b> 315:24 316:4 317:8</p>	<p><b>cover</b> 60:17 235:23 <b>covered</b> 85:14 207:16 <b>covering</b> 63:1 283:21 <b>co-ownership</b> 301:22 <b>create</b> 53:24 54:1 54:2,3 186:13 <b>created</b> 175:18 275:21 285:1 <b>Creek</b> 148:2 <b>cross</b> 98:17 99:3 104:17 121:18 122:2 127:5 139:17,20 147:6 149:9,24 158:8 178:13 178:24 188:24 189:10 190:3 190:17 194:6,7 194:9 196:16 200:4 203:21 204:14 205:14 205:17,24,25 208:11 216:15 223:7 236:12 240:21 242:11 264:10 299:7 306:4 326:21 334:1 <b>crossed</b> 358:16 <b>cross-examinat...</b> 76:9,17,19 79:2 89:13,20 99:4 104:20 122:3 127:8,16 139:7 139:24 146:8 146:11 147:9 149:14 150:2 155:17,19,22 158:11 161:13 161:16 178:12 178:16 179:1 188:22 189:2 190:6,18 192:5</p>	<p>192:7 193:16 194:10 195:14 195:16 196:17 198:22,23 200:5 203:25 205:22 206:10 208:13 209:12 211:1,2 212:5 214:3 216:17 220:8,11 223:10 227:13 227:14,16 236:15 239:1,3 239:20 240:10 240:18,25 241:4 242:21 248:21,23 249:13 253:21 253:24 254:7 254:10,14,17 254:21,24 255:3,8,13 256:1,5,22 258:4 259:8 263:12 265:12 266:14,16,18 266:22 274:9 275:13 293:20 293:24 294:9 299:16,18 300:15 310:10 310:16,18 311:22,25 314:4,6 326:23 335:4,6,20,23 338:4,8 345:14 345:17,21,24 346:12,15 366:9,10,18,18 366:23,24 367:5,9,10,13 367:13,22,22 367:24 368:4,5 368:14,15,21 368:21,25 369:9,13,14,17 369:21,25</p>	<p>370:1,6,7,11,15 370:16,24,24 371:9,15,16,21 371:25 372:7 372:15,16,20 372:21 373:5 373:11,22,23 374:8,12,12,22 374:23 375:8,9 375:14,15 <b>cross-subsidiza...</b> 289:16 <b>cry</b> 322:6 <b>CSR</b> 42:25 380:25 <b>Cuivre</b> 170:7 <b>curious</b> 316:5 344:21 <b>current</b> 56:25 69:6,15 70:12 100:9 106:14 150:20 282:7 309:25 337:2 342:21 343:4 346:6 347:17 347:19 <b>currently</b> 57:3 110:13 146:23 148:1 152:4 188:12 299:20 340:13 346:3 <b>customer</b> 53:16 53:19,25 54:1,4 56:4 66:16 70:13,24 83:15 83:25 103:22 103:25 104:9 117:13 118:14 119:7 122:20 124:3 129:3,14 129:22 131:15 134:22,25 145:9 165:5 168:9 213:16 214:6,11,18 215:10 284:21 291:1 336:15</p>
---	--	--	---	--

<p>350:19 352:3  355:13 356:15  363:12 364:23  <b>customers</b> 51:5,6  51:7,24,24 52:1  52:6,13,16,18  52:20 53:20  57:4,22 58:9  59:7 60:4,12,14  61:3 64:5 65:2  65:5,6,20 67:10  68:12 69:13  73:4,5,9 75:15  80:23 82:5  83:10,22  100:14,17  102:4,14,17,17  108:18 116:2  118:2,4,7,11,17  118:20,22  119:8 135:2,3,6  144:18 148:3  154:16 165:5  182:19 199:24  203:1 211:15  211:23 212:8  212:10 213:13  213:17,19  232:17,25  234:11 235:14  235:16 236:2  247:22 261:10  261:12 306:18  319:18,24  320:2 322:3  330:7 337:2  340:18 343:4  346:2,6,19  348:10 352:25  353:15,21  354:13,24  355:1,14,19  356:16 361:20  361:25,25  363:17  <b>customer's</b> 53:17  104:6 118:15</p>	<p>127:22 219:24  <b>cut</b> 66:5 183:4  315:12  <b>cycle</b> 212:22,23</p> <hr/> <p style="text-align: center;"><b>D</b></p> <hr/> <p><b>D</b> 43:9 44:1 97:9  97:12 98:15,16  98:22,23 282:8  295:25 296:8  296:18 297:3,3  297:3,4 366:1  <b>daily</b> 125:17  129:1  <b>Dale</b> 74:11,16,19  146:10 155:21  177:9 189:1  193:15 334:19  335:22 366:7  367:9,21  368:14,24  369:8,20 370:5  370:23 371:20  372:10,24  373:10,21  374:11,22  375:7 376:7,9  <b>Daniel</b> 42:21  44:16,17,19  <b>Darn</b> 78:22  <b>data</b> 56:16 61:21  62:13,16  103:17 108:15  122:7,11  123:24 128:10  130:21 134:9  144:14 182:25  183:22,23  184:21 210:9  234:1 237:1,5  249:19 250:7,8  250:17 251:13  252:5 262:17  274:23 279:13  287:9 290:23  291:17 292:10  292:16,19,24</p>	<p>293:2,3,11,15  293:16 326:7  336:24 337:4  341:17,21  342:18  <b>database</b> 54:4  237:12  <b>date</b> 54:7 73:21  108:12 168:24  194:21 201:17  232:12 277:15  286:18,25  292:2,5 309:15  <b>dated</b> 276:4  321:8 345:5  <b>dates</b> 286:12  287:11  <b>day</b> 72:3,10  129:5,17  161:25 167:7  198:16 305:14  313:1,5 319:6  319:17 321:10  330:22,23,24  331:13,14,15  332:8 333:12  342:4,8,14  352:12 354:8  354:11,13  <b>days</b> 66:18 129:3  129:4 167:23  167:25  <b>day-to-day</b> 55:25  <b>deadline</b> 364:9  <b>deal</b> 130:13  193:7 261:5  352:19  <b>dealing</b> 104:4  108:2 109:18  192:9,11  227:18 230:4  317:23  <b>dealt</b> 72:15 92:2  <b>Dean</b> 43:3 44:25  <b>Deanc@brydo...</b>  43:7  <b>decades</b> 238:5,6</p>	<p><b>December</b> 54:16  95:9 276:4  279:18 280:4,9  281:21 292:15  292:23 293:5  293:12 345:6  <b>decide</b> 119:24  167:3  <b>decided</b> 52:12  54:24 60:12  71:16 94:20  126:19 181:9  233:22  <b>deciding</b> 309:24  <b>decision</b> 65:25  94:8 215:5  260:9 272:23  272:24 332:14  352:18 353:16  <b>decisions</b> 60:18  118:5 328:25  <b>decision-making</b>  94:10  <b>decrease</b> 233:7  <b>deed</b> 200:16,17  300:7 301:3,11  302:7,18  306:25 314:21  314:22 315:4,5  315:6,10,17,19  315:21,23  316:11,16  317:8,10,11  320:19,19,20  321:5,8 323:24  <b>default</b> 347:20  348:4  <b>definitely</b> 144:22  <b>definition</b> 230:12  231:18 235:13  <b>degree</b> 337:21  344:2  <b>deja</b> 72:2  <b>deliver</b> 207:22,25  <b>delivery</b> 208:2  <b>demonstrated</b>  348:2</p>	<p><b>demonstration</b>  246:18  <b>Denise</b> 51:15  <b>Dennis</b> 51:17  55:25 56:7 70:4  88:10,13  161:15 271:3  366:13 367:24  371:3,24  372:12,25  373:25 374:14  376:12,14  <b>department</b>  56:17 107:4,15  114:23 116:20  208:1 242:24  249:22 338:10  <b>depending</b>  212:18 300:6  <b>depends</b> 78:7  186:21 203:6  250:18  <b>deposit</b> 173:2  <b>depreciated</b>  67:17,21,25  68:6,7,11,14,16  68:20 193:18  227:20,23  233:1 234:12  361:20  <b>depreciating</b>  351:10  <b>depreciation</b>  65:4,9,16 67:17  67:20,24 68:1,2  68:3,9,10,16,17  101:4,10,18  191:17 192:10  192:12,18  193:7,11,14  225:5 228:1,15  228:24 229:4,6  229:11,14,15  230:11,19,23  230:25 231:4  231:11,20,23  232:24 233:7</p>
---	---	---	---	--



233:22,23 234:24 235:4,7 236:18,22 238:1,8,11,19 239:7,9,14,15 239:17 351:6 351:10,13,16 351:20 369:7 <b>Deputy</b> 43:19 <b>derive</b> 247:6,21 <b>derived</b> 247:10 <b>describe</b> 286:5 <b>described</b> 54:9 202:21 242:18 261:16 262:22 291:6 <b>describing</b> 288:13 307:24 <b>description</b> 287:3 <b>descriptions</b> 282:20 <b>deserve</b> 64:6 <b>design</b> 105:12 106:23 107:3 110:10 116:7 116:21,24 336:7 337:20 337:23 338:14 338:16,25 339:1,3,8,16 341:9,22,23 342:2,6,24 343:4,17 346:24 347:20 347:25,25 354:20 364:2,6 <b>designed</b> 339:24 340:16 342:3 342:11 344:17 <b>designing</b> 140:5 <b>desired</b> 73:12 123:20 <b>desk</b> 213:20 <b>destroyed</b> 91:23 92:3 169:23 170:8 176:25	<b>detail</b> 63:1 219:15,16 286:2 288:13 288:13 290:20 <b>detailed</b> 70:14,23 71:8,9 254:4 274:11,13 275:16 278:8 278:13 279:7 283:3 294:10 294:14 <b>details</b> 94:7,8,11 94:13 153:16 <b>determination</b> 181:5 289:7 290:18 307:15 359:9 <b>determinations</b> 287:8 <b>determine</b> 53:15 66:16 131:8,19 159:14 217:24 219:17 252:9 279:14 280:23 286:15 287:14 291:12 300:1,9 301:13 302:14 306:17 307:17 309:7 354:7 <b>determined</b> 180:12 181:2 251:2 262:10 291:23 292:4 292:10,14 351:7 <b>determining</b> 117:24 119:4 135:11 <b>detriment</b> 60:13 355:9 <b>develop</b> 336:11 <b>developed</b> 51:2 238:7 <b>developer</b> 347:12 352:18,23 353:10 355:17 355:17	<b>development</b> 56:17 249:22 250:16 340:12 340:14 350:23 <b>device</b> 53:8,9 55:5 108:5 118:13,13,18 126:17 <b>dictate</b> 338:12 339:12 <b>dictates</b> 214:25 339:6 <b>difference</b> 81:20 105:20 117:15 197:12 209:15 209:21 356:9 356:12,13,17 365:3,4 <b>different</b> 86:19 115:13 127:10 134:4 210:10 220:21 222:12 229:19 233:17 251:24 268:14 286:9 289:13 289:16 292:8 315:12,13 336:7,9,10 349:7 350:11 355:24 357:12 357:22 363:11 <b>difficult</b> 61:1,8 61:15 64:16 307:17,19 363:23 364:8 <b>difficulties</b> 97:23 <b>difficulty</b> 59:16 <b>dig</b> 61:20 <b>direct</b> 54:19 74:17 75:2,12 88:11 96:17 120:19 127:16 136:3 143:18 182:23 213:12 225:15 265:14 265:18 266:24 269:9,12	296:24 298:9 321:20 366:8 366:13,17,23 367:4 369:12 371:14 372:6 376:7 377:6 <b>directed</b> 145:13 <b>Directing</b> 278:6 <b>direction</b> 343:19 <b>directly</b> 204:8 333:7 <b>disadvantage</b> 108:17 <b>disagree</b> 340:25 <b>disagreement</b> 106:25 132:20 132:24 <b>disallow</b> 285:11 <b>disallowance</b> 58:3 350:17 355:6 <b>disallowed</b> 146:16 <b>discharge</b> 228:7 <b>disconnect</b> 54:2,3 <b>disconnection</b> 283:19 284:22 <b>discontent</b> 67:16 <b>discovery</b> 108:13 108:21 109:25 111:25 <b>discretion</b> 73:8 <b>discuss</b> 162:20 162:22 <b>discussed</b> 81:19 83:6 91:13 117:8 133:17 142:20 160:19 162:22 182:24 188:13 260:12 292:12 293:22 308:16 <b>discusses</b> 168:14 <b>discussing</b> 133:14 <b>discussion</b> 87:13 132:14,25	144:13 282:19 286:2 306:24 307:21 <b>discussions</b> 208:6 224:19 <b>dispose</b> 169:6,9 170:19 <b>disposed</b> 168:20 169:4 170:8,20 <b>dispute</b> 46:21 227:24,25 259:25 260:5 <b>disputing</b> 309:20 <b>distance</b> 222:25 223:2 248:4,7 <b>distinction</b> 338:1 363:9 <b>distinguish</b> 57:12 127:21 <b>distributes</b> 271:25 <b>distribution</b> 228:8 <b>district</b> 134:22 283:20 <b>districts</b> 134:19 <b>divide</b> 289:24 363:16 <b>divided</b> 102:14 102:16,21 174:22 261:24 330:9,10 342:23 <b>divides</b> 262:4 <b>division</b> 264:5 <b>dizzy</b> 191:19 <b>DNR</b> 56:6 57:2,7 93:14 173:14 173:23 177:13 211:9,11,13 212:13 331:6 332:2 337:3,8 337:13,22 338:12,12,16 338:23 339:9 342:1 345:5 348:3 354:19
--	--	---	--	--

<p>354:20,21  <b>DNR's</b> 336:16  337:19  <b>document</b> 79:21  121:13 160:2,3  160:25 162:25  164:13 198:2,4  241:8 245:3  276:12 277:15  284:18 285:8  299:3 307:1,3  319:12  <b>documentation</b>  60:22 61:23  64:10,18,20,22  66:9,20,22,24  70:9 71:8,12  91:23 103:14  107:6 143:13  153:5 159:19  168:24 178:17  178:22 179:7  181:4 182:6  183:1,6 184:6,8  186:2,5,13,15  186:19,23,24  249:4 252:24  253:9 254:2  279:11 284:8  285:12 294:11  310:21 311:14  <b>documented</b>  278:13 279:8  <b>documents</b> 98:11  280:8 284:10  285:6 345:5  <b>dogged</b> 174:3  <b>doing</b> 46:23  52:15 64:4  86:10 96:6  129:9 149:16  155:6 163:14  172:5 174:1,4  174:18 177:7  192:15,17  209:23 245:17  245:19,20</p>	<p>305:17 317:13  356:13  <b>dollar</b> 334:17  <b>dollars</b> 160:10  176:24 177:5  196:5 229:9,9  232:1 235:18  237:10 268:24  288:3  <b>door</b> 172:24,25  318:23  <b>double</b> 65:20  <b>doubt</b> 213:22  <b>downs</b> 50:25  <b>downturn</b> 344:22  <b>DR</b> 79:22 83:14  <b>draft</b> 163:7,24  <b>drive</b> 128:15  <b>drop</b> 57:21  262:16 305:3  318:24 319:1,1  319:21,23,24  <b>dropped</b> 197:9  225:1  <b>dropping</b> 359:15  <b>drought</b> 93:13  <b>drove</b> 348:23  <b>DRs</b> 83:12  <b>DR1</b> 376:17  <b>due</b> 186:25  360:13  <b>duties</b> 153:11  206:15 239:15  282:21  <b>duty</b> 286:17  288:7  <b>DWJ-5</b> 224:11</p> <hr/> <p style="text-align: center;"><b>E</b></p> <hr/> <p><b>E</b> 44:1,1 366:1  380:1,1  <b>ear</b> 48:8  <b>earlier</b> 63:25  87:12 105:15  112:6 167:4  168:12 171:17  175:11 198:8</p>	<p>252:4 262:25  326:2  <b>early</b> 61:11  <b>earn</b> 355:3  <b>earnings</b> 272:1,1  272:5,11  <b>easier</b> 245:13  <b>easiest</b> 341:25  <b>easily</b> 60:10  <b>East</b> 43:5  <b>easy</b> 252:8  363:10,22  <b>eat</b> 120:3  <b>economic</b> 56:17  60:9 103:7,8  249:20,22  250:16 344:22  <b>economical</b>  211:24  <b>economics</b> 65:22  <b>economies</b>  118:10 349:17  <b>economy</b> 343:24  <b>educated</b> 153:18  <b>effect</b> 109:5  167:21  <b>effective</b> 51:12  110:13  <b>effects</b> 52:17  <b>effort</b> 57:12  <b>EFIS</b> 326:6  <b>eight</b> 318:14  <b>either</b> 44:21 52:5  63:13 106:1  127:22 129:1  134:18 207:25  248:25 260:2  264:22 275:21  286:20 303:18  359:23 364:12  <b>election</b> 272:14  326:25  <b>electric</b> 169:18  169:25 170:5,6  170:7,9,17  173:3 181:23  182:7,10</p>	<p>201:15 303:15  303:19  <b>electrical</b> 228:10  <b>electricity</b> 47:1  69:23 97:20  199:10 224:17  225:3 238:24  281:5 309:3  312:18  <b>electronic</b> 126:1  131:10  <b>electronically</b>  160:7  <b>elements</b> 114:15  <b>elephant</b> 71:21  <b>eliminated</b> 52:18  53:10  <b>elk</b> 328:8  <b>Emerald</b> 194:20  <b>employ</b> 118:9  <b>employed</b> 74:20  96:21,23  120:23,25  136:10,11  225:18,19  265:21 298:13  298:15  <b>employee</b> 70:18  70:21 252:21  253:2,6,10  274:16  <b>employees</b> 70:20  252:25 274:21  274:25 282:7  282:24  <b>EMS</b> 159:18  <b>EMSU</b> 46:10  <b>encompassed</b>  340:13  <b>ended</b> 105:16  281:14 293:8  <b>engineer</b> 121:2  140:3 225:19  239:9,16  <b>engineering</b>  156:10 178:19  225:20 281:6</p>	<p><b>engineers</b> 347:25  <b>England</b> 43:4  45:2  <b>enjoy</b> 326:25  <b>ensue</b> 104:12  <b>ensure</b> 276:17  <b>entail</b> 153:18  310:25  <b>enter</b> 128:2  152:14 167:3  168:1 256:25  <b>entered</b> 109:4,5  110:1 150:19  161:18 168:3  194:24  <b>entering</b> 163:3  <b>entire</b> 103:11  135:7 232:6  278:16 290:19  292:11 352:10  362:1  <b>entities</b> 269:6  <b>entity</b> 200:9  204:10 267:23  300:16  <b>entries</b> 44:24  <b>entry</b> 256:15  <b>enumerated</b>  157:8,13  <b>envelope</b> 173:15  <b>envelopes</b> 173:12  <b>envisions</b> 153:17  <b>equal</b> 86:15  <b>equated</b> 259:2  <b>equipment</b> 65:1  106:15 116:22  226:14,15  228:5,6,16,19  228:24 229:5,8  229:17,17  230:8,10,13,14  230:16,21  231:23,25  232:3,20 233:9  234:5 235:9  281:13  <b>equity</b> 268:8</p>
--	---	---	--	--

<p>359:8  <b>equivalent</b>                  235:17 342:9  <b>especially</b> 73:3                  329:12  <b>essentially</b> 139:1                  219:22 281:4                  352:11  <b>establish</b> 58:22                  198:13 218:1,3                  259:10,14  <b>established</b> 53:1  <b>estate</b> 300:20,23                  317:12 324:12                  324:17  <b>estimate</b> 60:20                  105:16 106:10                  106:16 110:5                  147:24 159:25                  285:10  <b>estimated</b> 116:1                  116:23 138:13                  140:13 141:9                  262:14 334:12  <b>estimates</b> 60:23                  105:1,4,8,8                  107:1 132:15                  132:21 134:25                  140:15 141:5,6                  207:7  <b>estimating</b> 63:8  <b>estimation</b> 202:5                  346:5  <b>et</b> 71:11 283:19                  284:22  <b>evaluate</b> 179:23  <b>evaluation</b> 78:10                  112:3 307:8  <b>event</b> 134:15                  261:15 262:14                  277:6 285:11  <b>events</b> 129:2  <b>eventual</b> 200:21  <b>Eventually</b>                  210:19  <b>Everybody</b> 46:20  <b>Everybody's</b></p>	<p>319:22  <b>every-year</b>                  261:20  <b>evidence</b> 65:2,11                  65:19 67:18                  69:5,14,21                  70:19,22 76:8                  76:15 89:12,19                  99:1 121:25                  132:9 139:15                  227:11 257:19                  297:10,13                  298:4 299:14                  358:2 360:6,11                  361:9 366:6,16                  367:1,8,11,16                  367:20 368:13                  368:17,19,24                  369:1,4,8,10,16                  369:20,22,23                  370:4,9,12,23                  371:7,12,20                  372:3,10,14,17                  372:24 373:2,6                  373:9,14,18,21                  374:1,5,10,15                  374:16,21                  375:1,3,6,11,13  <b>evidentiary</b> 42:7                  44:6,9 50:8                  71:24 72:10,24                  73:19,21                  100:20 365:14  <b>exact</b> 79:13                  196:18 219:12                  321:13  <b>exactly</b> 130:6                  181:20 365:6  <b>Examination</b>                  74:17 81:6 87:4                  88:11 93:4                  96:17 115:4                  120:19 133:13                  136:3 142:19                  147:22 151:24                  155:3 159:4                  171:1 185:5</p>	<p>197:21 204:20                  207:2 210:4                  213:10 218:9                  224:4 225:15                  237:24 240:3                  246:16 252:17                  260:20 265:18                  270:20 285:25                  298:9 306:9                  341:7 353:7                  366:8,11,12,13                  366:15,17,20                  367:4,6,10,15                  367:18,23                  368:1,9,16,22                  369:12,15,18                  370:8,17                  371:11,14,18                  371:22 372:6,8                  372:16,22                  373:12,24                  374:13,25                  375:10  <b>examined</b> 133:3  <b>example</b> 59:10                  64:23 103:16                  103:22 112:17                  122:19 126:2                  126:11 183:7                  218:3 270:5,22                  286:5 288:24                  290:10 292:21                  341:25 342:20                  349:8  <b>examples</b> 83:9,14                  83:22 286:25                  290:1  <b>exceeded</b> 229:6                  231:15 232:18  <b>exceeds</b> 240:10                  336:14  <b>exception</b> 238:23  <b>excess</b> 336:2                  351:3,7,14                  353:22,23  <b>excessive</b> 67:5</p>	<p>249:16 310:6                  346:20  <b>Exchange</b> 304:8  <b>exclude</b> 247:18  <b>excluded</b> 157:12  <b>excluding</b> 160:20  <b>exclusive</b> 131:24  <b>exclusively</b> 135:5  <b>excuse</b> 267:8                  320:20  <b>excused</b> 358:8  <b>executed</b> 109:11                  162:5 316:18  <b>execution</b> 163:23  <b>exhaustive</b>                  144:16 145:7                  145:21,21                  326:2 363:2  <b>exhibit</b> 44:2,3,3                  76:14 89:18                  97:2 98:21,22                  98:22,24 121:5                  121:18,20,23                  121:24 130:19                  130:22 132:8                  139:6,12,12,14                  144:10,15                  145:24 188:1                  225:24 226:1                  227:4,6,8,10                  242:17,19                  243:9 266:1,13                  277:21 297:12                  297:21 298:3                  298:19 299:7,9                  299:12,13                  326:4,5 358:13                  359:25 360:5                  360:10,20                  361:3,8 376:6,8                  376:11,14,16                  376:18,21,24                  376:25 377:5,8                  377:12,15,17                  377:19,22,25                  378:1,4,7,11,15                  378:18,23</p>	<p>379:1,4,6,8,11                  379:15,19,22  <b>exhibits</b> 75:6,24                  76:8,12 88:23                  89:5,12 98:15                  98:19,23 139:9                  297:10 362:25                  376:3,4,20                  377:4  <b>exist</b> 58:7 134:14                  170:4 276:15                  277:1,3,5 284:2                  284:4 291:5                  340:5 350:6  <b>existed</b> 156:4  <b>existence</b> 280:20  <b>existing</b> 336:15                  346:19 348:10                  354:4,6 355:1  <b>exists</b> 159:22                  340:10,11                  353:24  <b>exorbitant</b>                  247:12  <b>expand</b> 343:23  <b>expect</b> 72:25 73:4                  224:19 237:9  <b>expectancy</b>                  361:21  <b>expected</b> 72:16                  233:17 235:13                  355:20  <b>expecting</b> 71:25                  194:18  <b>expediency's</b>                  47:19 48:11  <b>expedient</b> 49:2                  50:5  <b>expense</b> 47:1,20                  60:1,4,7 65:9                  70:6 71:22,25                  72:7,17 73:6,11                  73:15,19 81:8                  81:16 97:20,21                  101:4,10,19                  147:1 154:13                  174:11,20,20</p>
---	--	--	--	---

174:21 182:7 182:10 192:18 192:21 194:5 194:11,14,17 195:13 197:8 197:11,12,24 198:6 201:13 207:7,14,16 208:19 217:8 217:15,17,18 224:17 225:3 238:24 240:16 240:25 241:16 255:22 258:2 258:15,25 259:2,18,22 260:2,24 261:18 289:20 312:18 350:19 369:19 370:3 370:22 <b>expenses</b> 69:8,14 69:24,24,25 138:8 146:1 150:15 195:18 195:19 196:3 199:9 201:10 201:16,25 217:6,10 255:13 260:24 261:14,19 281:5,8 289:17 309:2,5,15 310:3 367:7 <b>expensive</b> 64:21 72:9 221:25 222:6 331:25 <b>experience</b> 56:18 80:2 104:4 106:13 107:13 111:2 140:5,8 141:23 146:18 147:24,25 151:11 153:12 153:14 199:23 207:4,6,21 208:3 209:17	250:3 309:13 310:6 <b>experienced</b> 111:7 112:18 219:4 <b>experiencing</b> 152:7 <b>expert</b> 72:1 73:23 <b>expertise</b> 60:21 307:2 308:3 <b>explain</b> 61:24 63:12 81:15 115:11 118:6 127:10 198:10 200:14 217:3 246:19 291:9 330:15 353:25 <b>explained</b> 82:12 95:1 <b>explaining</b> 62:4 135:10 <b>explains</b> 337:23 <b>explanation</b> 70:10 <b>extend</b> 292:14 <b>extending</b> 292:25 <b>extension</b> 62:9 292:13 <b>extent</b> 105:7 106:6 <b>extra</b> 117:14 236:1 346:10 <b>extraordinary</b> 261:3 <b>extravagance</b> 73:2 <b>extravagant</b> 66:12 67:8 73:25 <b>extreme</b> 261:15 <b>extremely</b> 125:5 144:23 <b>eye</b> 64:2 <b>eyebrows</b> 318:1 <b>e-mail</b> 46:4 <b>e-mailed</b> 280:13	<b>F</b>	331:2 337:11 337:19 <b>far</b> 45:22 133:18 153:12 156:9 157:20 164:13 192:22 195:5 201:19 209:22 221:7 222:23 257:10 322:20 336:14 362:19 <b>farmer</b> 321:21 328:8 <b>farming</b> 176:12 <b>farm's</b> 329:8 <b>FASB</b> 304:3,11 <b>fast</b> 348:5 <b>favor</b> 354:12 <b>fax</b> 333:12 <b>features</b> 53:19 148:20 224:10 <b>February</b> 281:15 283:24 314:22 315:10 <b>Feddersen</b> 42:25 380:4,25 <b>federal</b> 268:12,16 270:6 <b>fee</b> 56:11 214:6 214:17,19 216:8 218:25 219:20,22 220:1 273:19 288:3 317:3 <b>feeling</b> 61:8 364:1 <b>fees</b> 54:2 156:10 178:19 199:9 214:1 215:12 217:13,18 218:22 219:5 253:14 255:7 283:18,19 284:21,22,22 311:13 354:23 374:20 <b>feet</b> 69:15 <b>felt</b> 71:16	<b>fences</b> 111:5 <b>Ferguson</b> 263:17 263:19,21,23 263:24 264:11 264:15,24 265:8,14,17,20 265:24 266:14 266:23 273:8 297:22 372:5 374:18 375:4 377:21 <b>fewer</b> 95:14 <b>field</b> 146:19 322:7 <b>figure</b> 56:19 130:7 153:6 161:21,22,23 208:15 252:1 365:4 <b>figures</b> 294:23 <b>file</b> 42:13,15 197:7 266:25 268:11,15,23 269:8,13,17,24 269:25 270:6 309:9 319:12 326:6 <b>filed</b> 49:9 63:20 136:17 163:21 238:23 256:15 291:22 292:13 293:10 296:9 309:5 314:21 315:9 359:1 <b>Files</b> 271:22 <b>filing</b> 61:9 <b>fill</b> 62:3 <b>filled</b> 340:3 <b>final</b> 224:20,23 359:9 <b>finally</b> 135:8 <b>financial</b> 69:12 279:17 280:19 303:23 <b>find</b> 55:2 59:15 61:20,23 63:11 70:9 83:12
--	--	----------	--	--

99:23 103:19 110:24 169:14 176:23 186:13 244:10,12 260:11 276:5 290:2 325:4 330:4 334:24 <b>finding</b> 59:7 <b>fine</b> 50:14 80:7 144:7 145:23 318:4 324:11 325:25 331:5 355:19 <b>finer</b> 332:2 <b>finish</b> 201:7 203:21 255:22 273:4 <b>firm</b> 45:1,2 380:5 <b>first</b> 59:17,23,23 72:11 74:10 81:20 91:2,3,12 93:7,16 96:10 108:1 137:1 155:15 174:18 175:20,21 185:14 188:20 191:18 209:15 215:7 226:9 236:17 251:4 256:8 263:24 264:15,24 265:14 307:10 308:21 316:22 319:3 326:10 337:15 342:25 343:14 346:23 357:3 363:4 <b>firsthand</b> 134:6 <b>fit</b> 261:15 <b>Fitch</b> 322:2 <b>five</b> 90:22 95:20 144:6 169:25 174:2 219:12 261:23 292:23 305:7 <b>five-year</b> 74:3 <b>fixed</b> 103:25	118:11 <b>flat</b> 56:11 134:3 173:9 <b>flip</b> 353:14 <b>flow</b> 66:17 123:12 228:8 233:14 354:8 354:20,21 355:1 <b>focus</b> 107:9 <b>folded</b> 155:7 <b>folks</b> 348:11 <b>follow</b> 155:4 193:8 335:22 359:12 <b>following</b> 87:5,11 <b>follows</b> 74:16 88:10 96:16 120:18 136:2 146:10 149:13 155:21 161:15 178:15 189:1 191:4 193:15 225:14 239:2 256:4 265:17 274:8 298:8 345:23 <b>follow-up</b> 153:2 <b>foot</b> 69:17 247:1 247:3,6,7,8,14 247:16 <b>footage</b> 247:20 <b>forego</b> 312:23 <b>foregoing</b> 380:13 <b>form</b> 75:3 88:20 <b>formats</b> 286:9 <b>former</b> 316:8 <b>forms</b> 231:6 <b>forth</b> 132:19,20 191:19 338:16 380:9 <b>forward</b> 52:12 58:15 112:18 172:16 177:6 178:4 183:11 183:16 259:11 262:17 347:12	<b>for-profit</b> 64:1 <b>found</b> 55:13 58:11 103:5 109:13 162:7 163:14 337:17 354:1 <b>four</b> 52:1 167:25 169:10 170:1 174:2,16,16,22 175:3 192:1 219:1 289:18 292:23 305:7 319:16 <b>frame</b> 129:16 130:1 212:17 212:21 217:24 344:25 <b>franchises</b> 195:24 263:2 <b>fraud</b> 177:18 187:6 <b>free</b> 308:15 <b>frequently</b> 124:12 <b>fresh</b> 184:15 <b>friction</b> 285:14 <b>friendly</b> 127:18 <b>friends</b> 328:9,11 <b>front</b> 49:13 59:11 93:21 109:12 111:4 131:1 157:11 164:12 177:22 257:16 277:11,15 333:8 344:5 <b>frustrating</b> 175:10 <b>frustration</b> 172:18 176:18 <b>full</b> 54:20 71:24 96:18 120:20 298:10 337:9 355:3,14 358:21 364:2 380:13 <b>fully</b> 59:12,13 67:17,21,24	68:6,11,13,14 68:19 115:25 193:18 234:11 307:4 352:11 <b>functioning</b> 58:15 <b>functions</b> 51:18 56:10 <b>Furnished</b> 284:16 <b>further</b> 81:1 87:4 104:16 113:3 127:3 143:24 147:13 149:23 153:4 158:6,24 166:7 187:8 193:4 195:6 197:17 200:24 204:13 206:19 209:8,25 213:6 216:22 223:6 223:25 226:3 236:10 238:17 239:18 248:17 253:19 256:21 259:4 263:9 273:1 275:8 285:18 295:5 300:11 304:24 311:20 325:7 327:16 333:16 339:19 346:11 366:12 367:15 <b>future</b> 165:4 176:21,22 188:19 201:18 201:20 213:4 218:12 235:8 262:14 346:22 352:4 355:18 368:23	<b>gallon</b> 342:10 <b>gallons</b> 342:4,8 354:13 <b>gap</b> 62:11 183:21 <b>gaps</b> 186:19,25 <b>gas</b> 51:4 169:19 303:14,18 <b>gather</b> 127:11,12 <b>geared</b> 151:15 <b>general</b> 55:16 67:25 68:3,9 94:20 186:21 216:2 236:22 242:24 245:25 262:7,12,23 288:3 290:24 356:21 <b>generally</b> 133:5 215:8 237:9 262:16 293:13 293:14 308:5 <b>generates</b> 230:23 <b>generic</b> 231:6,11 231:15 <b>getting</b> 72:7 245:20 311:10 323:4 332:2 <b>get-go</b> 91:3 <b>give</b> 47:14 61:18 62:7,12,14 108:15 134:25 145:14 176:24 185:9,14 186:8 196:25 276:22 288:24 290:19 325:18 326:5,6 347:25 353:15 <b>given</b> 62:6,9 66:8 70:10 73:24 74:4 85:17 86:18 122:19 126:3 155:6 178:17 229:5 259:2 261:8 287:15 292:6 294:14 311:14 380:18
<b>G</b>				
<b>G</b> 44:1				
<b>gain</b> 204:21,22 205:1,3,4				
<b>gains</b> 280:23				

<p><b>gives</b> 338:11 345:8,9 354:20 <b>glad</b> 169:8 <b>go</b> 49:14 52:12 61:19 62:25 72:11,17 74:9 79:1 93:2 95:20 95:21,23,23 100:8 109:5 111:8 112:2 113:8 124:7 125:16 127:22 128:25 129:2 130:16 137:17 141:10 155:2 160:11 164:24 174:23 176:7,8 177:10,21 178:4,4,5 179:16,23 184:13 186:9 187:15,15,18 192:22 194:18 203:20 212:11 225:5 244:21 247:13 255:21 262:17 263:24 264:15 265:3 270:21 273:3 273:12 274:4,4 289:22 291:24 297:16 313:10 314:2,2 318:24 319:22 323:8 325:12 326:11 330:23 331:4 331:14,15 332:7 335:15 343:18,22 344:6 349:7 359:8 365:13 365:13 <b>goal</b> 50:13 217:5 <b>goes</b> 124:17 125:2,3 128:8 128:11,17 167:22 228:10</p>	<p>318:13 330:24 331:21 338:10 339:15 350:22 <b>going</b> 47:18 48:2 52:11 60:24 62:25 64:1 75:13 87:25 91:1 93:10 94:6 94:12 95:2,15 100:24 104:11 109:11,13 110:1 112:18 117:13 118:15 118:17 145:1 152:11 160:11 160:21 162:25 166:15 167:10 168:8 172:16 175:17,18 176:6 177:9 183:10,16 191:21 192:12 198:20 212:19 212:19 226:3 229:23 234:22 234:23,23,25 246:25 247:1,2 252:3 259:11 284:24 285:3 289:15,22 291:24 292:11 296:25 306:25 309:8,10,21 310:8 316:23 323:21 324:7 325:1,16,21 330:19 332:3 333:15 334:13 339:15 344:10 356:23 358:25 364:23 <b>going-forward</b> 288:21 <b>gold</b> 67:9 73:2 <b>good</b> 50:2,20,21 59:10 60:5 64:23 76:20,21</p>	<p>79:3,4 86:4,5 89:22,24 93:23 99:5,6 107:23 117:22,23 122:4,5 136:4,5 155:23,24 177:13 179:20 184:16 227:17 239:4,5 288:3 320:11 <b>gotten</b> 133:25 166:25 <b>governed</b> 176:2 <b>government</b> 328:20 <b>governs</b> 357:3 <b>granted</b> 51:9 <b>grave</b> 103:3 <b>great</b> 117:15 176:22 313:9 362:8 <b>grosses</b> 268:7 <b>ground</b> 59:15 <b>group</b> 60:4,7 118:12 <b>grow</b> 350:3,15 <b>growing</b> 353:1 <b>growth</b> 346:22 350:19 352:4 353:22 355:18 <b>guarantee</b> 167:24 <b>guess</b> 49:17,21 87:7 102:18 113:15 130:19 134:5 168:12 183:21 269:20 327:15 331:20 334:11 356:24 361:21 363:24 364:20 <b>guesses</b> 63:4 <b>guide</b> 50:9 337:20,23 347:20 <b>guides</b> 347:25 <b>guy</b> 331:19</p>	<p><b>guys</b> 177:22 331:2 334:12</p> <hr/> <p style="text-align: center;"><b>H</b></p> <hr/> <p><b>half</b> 53:4,5 86:8 87:13,25 102:12 135:3 284:23,25 <b>Hall</b> 42:21 44:16 44:16,17,18,19 86:3,24 111:17 111:19 117:20 117:21 119:11 133:9 142:12 150:23,24,25 151:20 153:2,4 153:20 181:12 181:13 183:17 188:6 189:17 314:11,12 320:9,10 321:19 323:17 325:6,8 365:6 366:11,21 367:14,15 368:7 371:5 <b>hamper</b> 50:12 <b>hand</b> 56:15 72:4 72:7 84:19 197:22 225:10 265:9 <b>handed</b> 160:15 241:5 360:18 <b>handheld</b> 101:6 108:5 118:13 167:11,15 <b>handle</b> 72:20 <b>handling</b> 169:19 <b>Hanneken</b> 91:22 92:5 96:12,16 96:20,25 99:5 107:22 115:5 120:12 122:20 132:15 149:5,6 149:13 151:25 166:16 178:8 178:15 187:11</p>	<p>190:13,14 191:4,7,14 240:17 255:23 256:4 260:21 263:18,21,22 264:4,17 273:5 274:2,5,8 275:14 286:1 293:20 295:12 366:17 367:12 368:3 369:5,24 370:14 372:19 373:7,19 374:7 377:6 378:20 <b>Hanneken's</b> 168:14 <b>happen</b> 124:12 164:5 331:7 <b>happened</b> 72:18 124:14,18 129:17,17,19 129:23,25 130:2 <b>happens</b> 167:21 213:1,1 262:12 262:15 289:3 343:20 <b>happy</b> 55:2 <b>hard</b> 70:9 177:14 287:7 348:5 <b>hate</b> 315:11 <b>haul</b> 210:17 <b>hailed</b> 210:20,20 <b>hauling</b> 71:11 208:11,15,23 210:13 254:21 294:7,11 334:1 373:20 <b>headed</b> 343:12 <b>heads</b> 47:14 <b>health</b> 207:25 <b>hear</b> 60:24 185:9 185:13 187:2,5 302:10 <b>heard</b> 99:10 122:6 151:7 262:24 345:25</p>
---	--	--	---	--

<p><b>hearing</b> 42:7 44:6,8,9 48:3 58:12 71:24 72:4,11,24 73:19,21 76:12 100:20 154:24 160:5 256:11 256:19,24,25 257:9,13 299:11 318:17 361:11 365:14 <b>heart</b> 50:24 60:25 <b>heating</b> 199:12 201:21 <b>heck</b> 331:21 <b>heels</b> 63:20 <b>held</b> 165:4 188:19 368:23 <b>Hello</b> 107:22 166:13,14 <b>help</b> 61:20 63:12 83:10,25 124:20 129:18 186:5 187:24 <b>helpful</b> 130:5,6 160:15 315:13 <b>helps</b> 58:22 <b>hey</b> 184:14 <b>He'll</b> 326:6 <b>high</b> 83:16,22 103:19 124:8 124:11 125:5 125:24 126:3 129:21,22 133:25 354:11 <b>higher</b> 124:16 <b>highway</b> 242:25 <b>hilly</b> 111:9 <b>hire</b> 54:25 72:23 330:17 <b>hired</b> 173:20 203:15,17 <b>hiring</b> 138:9 332:23 <b>historical</b> 169:4,9 182:25 214:14</p>	<p>215:11 218:17 <b>history</b> 54:5,5 237:11 <b>hold</b> 136:13 144:7 171:18 172:9 210:18 224:22 252:3 <b>holding</b> 201:22 210:16 <b>home</b> 325:12 344:23 <b>homeowners</b> 199:9 <b>homes</b> 338:22 339:16,17 340:14 343:20 343:21 348:11 <b>honest</b> 193:19 361:6 <b>honestly</b> 219:7 219:15 <b>Honor</b> 44:25 45:14 46:22 76:7 81:5 86:1 87:2 89:11 92:25 94:5 98:14 99:20 104:19 107:18 121:17 125:18 127:7,15 130:18 132:2 133:7 139:22 145:11 146:7 147:21 149:4 158:10,20 159:3 183:19 187:20 189:20 194:3 195:10 204:19 207:1 210:3 213:9 224:3 227:4 236:14 239:22 240:23 241:3 242:16 245:3 246:4 249:12 259:7 263:14 266:21 273:23</p>	<p>277:19 295:10 299:6 300:14 306:6,8 313:11 333:19 341:6 346:14 360:14 363:4 <b>hope</b> 47:20,24 217:9 <b>hopefully</b> 62:16 <b>hour</b> 203:17,19 249:15 252:19 252:21 305:16 322:5 <b>hourly</b> 56:16 125:17 129:1,1 250:10 251:8,9 <b>hours</b> 56:9,9,15 124:19 146:15 152:20 153:13 153:17,17 207:18 251:6 286:20 287:12 287:14 289:1 290:18 306:13 318:9,13,16 319:17 322:5 330:5,6,13 <b>house</b> 156:16 176:5 320:2 322:22 331:22 <b>housekeeping</b> 46:23 358:4 <b>houses</b> 156:13,16 316:9 331:10 <b>hover</b> 245:4 <b>huge</b> 348:17 <b>human</b> 175:2 <b>hundred</b> 112:19 324:22 339:2 <b>hydrants</b> 93:12 <b>hypothetical</b> 58:6</p>	<p>345:8,10 <b>ideal</b> 93:23 <b>identification</b> 44:4 75:7 88:24 130:23 131:1 144:11 242:20 242:23 277:22 <b>identified</b> 49:18 83:16 160:1 196:6,9,13 250:7 <b>identify</b> 53:17 66:17,18 83:21 83:25 130:20 134:10 160:3 219:10 226:4 <b>identifying</b> 129:13 <b>iffy</b> 317:1 <b>ignore</b> 55:19 <b>illustrated</b> 59:17 <b>immediately</b> 182:14 295:19 <b>impact</b> 118:21 119:7 261:5 <b>impacts</b> 55:15 118:5 <b>implement</b> 135:11 <b>implemented</b> 209:2 <b>important</b> 66:2 93:5 307:7 <b>impossible</b> 64:21 <b>impression</b> 306:22 <b>improve</b> 53:22 <b>inappropriate</b> 69:12 <b>incident</b> 195:20 196:9 <b>include</b> 56:19 63:3,11 66:15 70:17 84:24 99:18 100:10 146:14 152:3 179:2,5 183:24</p>	<p>214:16 222:24 228:3 270:10 283:22 309:10 309:18 353:19 353:20 <b>included</b> 54:21 55:8 69:8 76:24 76:25 79:8,10 84:12 85:11,14 95:12 100:13 103:11 106:4 106:17 110:11 112:20 113:12 113:21 114:2 114:15 116:4 120:1 152:4 157:13 159:7 159:11,12,14 175:13,14,19 178:19 180:15 195:18 196:3,7 196:10,12 210:12 223:12 223:21 224:5 241:16,20 242:1 258:16 263:1 309:12 309:19 310:22 351:11 <b>includes</b> 102:2 142:3 224:10 228:4,5,6 252:21 <b>including</b> 55:4 195:23 199:12 228:8 <b>inclusion</b> 55:11 81:9 284:11 <b>income</b> 71:10 203:21 263:12 263:16,17,23 265:4 266:25 267:24 268:1,3 269:8,13,17,23 271:22 274:2 326:11,20 328:18 331:10</p>
--	--	--	--	---

**I**

**idea** 124:18  
129:25 235:20  
255:19 262:5

371:19 <b>incomplete</b> 163:24 <b>inconsistent</b> 362:11,17 <b>increase</b> 42:13,16 44:10 59:22 70:24 182:9 186:3 197:7 <b>increased</b> 288:7 <b>incremental</b> 207:15,18 <b>incur</b> 63:10,10 211:22 261:23 270:1 <b>incurred</b> 60:19 63:9 84:19 85:6 87:13 88:1 126:9 201:17 201:18 281:23 282:4 295:2 309:4,6,7,15 <b>incurring</b> 60:3 <b>incurs</b> 55:19 <b>INDEX</b> 376:3 <b>indicate</b> 282:11 282:15 284:20 357:1 <b>indicated</b> 133:2 168:23 181:17 198:8 275:14 309:1 <b>indicates</b> 185:10 310:1 <b>Indicating</b> 245:1 <b>indication</b> 295:1 306:20 <b>individual</b> 159:6 223:12,16 228:2,3 229:2,8 231:5 233:16 233:17,20 235:3 236:8 238:14 283:18 284:20 307:5 311:19 320:12 329:2	<b>info</b> 54:5 167:4 <b>information</b> 54:6 54:8 61:25 76:4 78:8 83:5,19,20 83:23 89:9 91:22,24 92:3 98:10 109:1 112:5 117:1 121:13 122:8 124:5 127:10 130:4,11,16 144:25 160:22 181:25 186:8 186:10 213:17 215:18 216:6 249:21 250:1 254:5 264:13 278:24 279:14 279:21 281:24 282:4 283:5,10 286:6 287:16 287:23 288:19 288:25 291:4,6 294:15 299:2 311:10 334:22 334:23 360:19 362:7 <b>informed</b> 297:20 <b>inherent</b> 353:1 <b>initial</b> 54:18,24 198:14 249:24 259:10 336:11 353:9 <b>initially</b> 52:6 293:7,8 <b>initiating</b> 54:15 <b>inquire</b> 49:23 108:16 222:12 223:11,15,19 <b>inquired</b> 312:2 <b>inspecting</b> 56:3 <b>install</b> 52:13 54:7 87:18 90:14 <b>installation</b> 52:7 52:21 53:6 79:9 84:20 85:6,21 87:14,20 105:1	105:4,11,13,15 105:15,20 106:11 116:22 138:12,16 140:12,23 141:21,24 142:5 289:9 <b>installations</b> 52:23 53:3 54:12 55:5 85:15 86:14 95:12 100:11 100:21,22 105:9 132:16 133:4 <b>installed</b> 52:11 52:25 54:20 86:20 95:6 119:15 141:3 <b>installing</b> 52:18 118:25 <b>instance</b> 61:21 303:17 <b>instances</b> 179:22 292:20 <b>insufficient</b> 233:25,25 237:1,5 <b>insurance</b> 46:7 <b>insuring</b> 265:7 <b>intact</b> 291:16 <b>intangible</b> 83:3 195:24 263:1 <b>intention</b> 63:5 92:20 238:21 <b>interest</b> 61:4 307:9 <b>interested</b> 61:5 <b>interests</b> 57:13 59:7,13,14 <b>interim</b> 148:5 <b>intermittent</b> 53:15 <b>Internet</b> 141:12 141:14 220:8 221:4 255:12 310:15 311:8	375:5 <b>interpret</b> 307:1 <b>interpreted</b> 303:1 <b>invested</b> 349:2 <b>investigation</b> 104:11 <b>investment</b> 54:10 54:17 63:8 67:8 67:10 115:18 150:15 343:14 351:2,23,25 352:1,10,24 353:9 355:4,14 <b>investments</b> 58:14,19 59:19 <b>invoice</b> 108:3,12 166:19,23 167:8,9,10 184:5,10 256:10 <b>invoices</b> 105:23 106:4 109:3 178:21 179:2 184:4,5,15 185:21 <b>involved</b> 92:17 93:17 100:17 109:15 116:23 157:1 206:12 291:19 308:12 320:15 332:18 <b>involves</b> 315:15 <b>involving</b> 333:18 <b>IRS</b> 176:4 <b>issue</b> 46:5,6,9,14 46:16,22 47:1 47:11 48:9,13 48:14,15,15,16 48:20,25,25 49:5,8,10,22,23 56:21 57:10 58:22 59:17,25 60:16 64:24 67:16,17 68:21 70:1,7 73:18 79:6,12 90:4,9	96:6,7,7 101:13 120:5 132:19 134:4 135:13 148:17 155:13 184:19,21 185:7 187:18 188:14 191:8 191:21 192:15 192:15,24 196:19 205:14 205:21 206:5 208:11 209:13 210:25 211:4 216:20 219:2,5 224:19,24 227:18,21 238:19 246:20 250:6 253:21 254:2 255:18 255:22 258:8 260:8 263:12 264:5,7,8,18 273:5,14 274:6 295:14 312:20 313:24 335:16 340:5,20 358:16,24 359:1 362:21 362:22 366:5 367:7,19 368:12,23 369:7,19 370:3 370:22 371:19 372:9,23 373:8 373:20 374:9 374:20 375:5 <b>issued</b> 135:9,15 228:1 344:18 <b>issues</b> 45:23,24 46:1,5,9 49:19 49:20 52:19 55:10,13,14,14 55:17,22 58:10 58:11 59:11 60:17 61:10 63:1 64:19 71:5 71:7,15 84:1
--	---	--	--	---



191:20,21,24 192:1,1,24 193:1,4 225:1 238:22 264:9 264:16 265:5 273:10 296:23 315:13 361:11 361:15,17 <b>issue's</b> 156:20 260:12 <b>item</b> 108:13 118:16 228:2 228:21 231:18 232:7,8 233:17 235:3 289:3 308:15 363:5 <b>items</b> 54:9,21 105:23 106:1,5 114:9 156:1,4 157:8,19,23 160:1,19 174:15 179:6 179:11,15 180:20,24 185:10,16,22 201:21 233:20 261:3 276:15 277:13 278:11 278:12 279:2 283:18 284:1 284:21 286:10 291:15 311:19 <b>It'll</b> 364:14	43:6,15,21 45:11,17 380:20 <b>jeweler</b> 321:22 <b>Jim</b> 45:2 47:7 93:18 95:6 120:14 163:12 176:19 188:12 332:23 333:9 333:10,11 <b>Jims</b> 364:12 <b>Jim_burlison...</b> 43:11 <b>job</b> 282:20 <b>jobs</b> 325:15 <b>Johansen</b> 54:25 57:6 72:12,15 72:19 74:12,16 74:19,22 76:9 76:20 77:23 79:3 87:5,11 146:4,5,10,13 147:23 149:2 155:17,18,21 155:23,25 159:5 161:6 185:7,9 188:22 188:23 189:1,3 189:22 191:23 191:23,24 192:4 193:1,15 194:5 195:13 195:17 197:22 198:21,24 200:6 203:14 204:1 206:11 208:14 211:3 214:1,4 217:1 220:12 225:3 249:16,23 250:25 251:4 251:18 294:22 309:1 313:19 335:16,22,24 341:8 345:13 366:7 367:9,21 368:14,24	369:8,20 370:5 370:23 371:20 372:10,24 373:10,21 374:11,22 375:7 376:7,10 <b>Johansen's</b> 250:5 258:5 262:25 310:23 311:16 312:9 <b>Jones</b> 42:18 44:8 44:12,17,19 45:6,12,18,21 46:13,17,20 47:3,17,25 48:7 48:21 49:7,15 50:2,7,17,21 58:25 63:15 74:8,14 76:10 76:12,16 77:20 77:22 78:12,16 78:21 79:1 80:7 81:3 82:8 86:2 86:25 87:9 88:5 89:14,16,20 90:3,6,10,12 91:16,25 92:9 92:24 93:2 94:9 94:14 96:2,5,9 96:14 98:2,18 98:21 99:2 100:1 104:17 107:19 111:17 111:20 113:5,8 115:2 117:20 119:12,14 120:8,11,16 121:19,22 122:1 127:5,18 132:4,6 133:8 133:10 135:19 135:25 139:8 139:11,16,20 139:23 142:9 142:13 143:25 144:6,13,22 145:10,14,19	146:5,9 147:6 147:14,19 149:1,6,10,24 150:9,11,23 151:21 152:25 153:21,25 154:3,5,10,11 154:21,24 155:2,10,18 158:8,23 159:1 161:5,11,13 166:8,10 170:24 178:2,9 178:13,24 180:6 181:12 183:18 185:1,3 187:10,15 188:2,5,7,9,15 188:18,23 189:7,10,13,18 189:21,25 190:3,6,9,14,18 190:21,24 191:5,10,13,16 192:4,7,11,19 192:22 193:6 193:11,25 194:4,9 195:7 195:12 196:16 197:18 198:20 200:4 201:1 202:12 203:8 203:11,13,17 203:20 204:14 204:17 205:13 205:17,20,25 206:3,9,21,24 208:10 209:10 210:1,24 212:2 213:7,25 216:15,23 218:6 220:7 223:7 224:1,16 224:22 225:2,9 225:12 227:5,8 227:14 229:25 236:12 237:21	238:18 239:20 239:23 240:2 240:12,15,21 240:24 241:2 242:7,10,14 244:5,7,15,21 244:25 245:5 246:5,11,15 248:19 249:10 252:14 253:20 254:7,10,13,17 254:20,24 255:2,5,7,10,12 255:15,17 256:1 257:22 258:1 259:5 260:17 263:11 263:22 264:19 264:23 265:1,7 265:11,15 266:15,18 270:14,17 272:25 273:3,7 273:12,16,19 273:24 274:3 275:9 277:20 285:19,23 293:19,24 294:2,5,7 295:7 295:11,21 296:1,4,12,19 296:25 297:8 297:15,19 298:2,6 299:8 299:11,15 300:12 304:17 306:3,7 310:11 310:14 311:22 312:17,21,25 313:6,9,13,23 314:1,6,9,13 318:5 320:9 323:18 325:6,9 325:13,18,23 326:1,9,15,20 327:17,20 329:14,17,21
<b>J</b>				
<b>James</b> 43:9 120:18,22 121:3 345:23 366:22 368:20 377:23 <b>January</b> 167:21 168:21 280:14 283:21 293:3 309:14 314:23 315:5,7 321:10 <b>Jeff</b> 251:23 <b>Jefferson</b> 42:9				

HEARING 11/5/2013

329:24 333:17 333:20,23,25 334:4,6 335:3,6 335:9,12,15,19 338:4 339:20 339:22 341:1,5 344:14 345:12 345:17,20 346:12 353:4 357:8 358:1,9 358:15,18,23 359:4,24 360:3 360:7,9,12,17 360:23 361:2,5 361:10 362:4,8 362:15,21,24 363:7,15 364:5 364:10,22 365:12 366:10 366:14,21 367:14,18 368:15 369:6 371:10 <b>Joseph</b> 238:10 <b>jots</b> 290:16 <b>jotted</b> 277:7 286:10 <b>Jr</b> 377:24 <b>judge</b> 42:18 44:8 44:13,17,19 45:6,12,18,21 46:3,13,17,20 47:3,17,21,25 48:7,21 49:7,15 50:2,7,17,21 58:25 63:15 74:8,14 76:10 76:12,16,18 77:20,22 78:12 78:16,21 79:1 80:7 81:3 82:8 86:2,25 87:9 88:5,7 89:14,16 89:20 90:2,3,6 90:10,12 91:16 91:20,25 92:9 92:11,16,24	93:2 94:9,14 96:2,5,8,9,14 97:22 98:2,4,18 98:21 99:2 100:1 104:17 107:19 111:17 111:20 113:5,8 115:2,3 117:20 119:12,14 120:8,11,16 121:19,22 122:1 127:5,18 132:4,6 133:8 133:10 135:19 135:25 139:8 139:11,16,20 139:23 142:9 142:13 143:25 144:6,13,22 145:10,14,19 146:5,9 147:6 147:14,19 149:1,6,10,24 150:9,11,23 151:21 152:25 153:21,25 154:3,5,10,11 154:21,24 155:2,10,18,20 158:8,23 159:1 161:5,11,13 166:8,10 170:24 178:2,9 178:12,13,24 180:6 181:12 183:18 185:1,3 185:4 187:10 187:15 188:2,5 188:7,9,15,17 188:18,23,25 189:7,10,13,18 189:21,25 190:3,6,9,14,18 190:21,24 191:5,10,13,16 192:4,7,11,19 192:22 193:3,6	193:11,25 194:4,9 195:7 195:11,12 196:16 197:18 198:20 200:4 201:1 202:12 202:14 203:8 203:11,13,17 203:20,24 204:14,17 205:13,17,20 205:25 206:3,7 206:9,20,21,24 208:10,12 209:10 210:1 210:24 212:2 213:7,25 216:15,23 218:6 220:7 223:7 224:1,16 224:18,22 225:2,7,9,12 227:5,8,14 229:25 236:12 237:21,23 238:18 239:20 239:23 240:2,9 240:12,15,21 240:24 241:2 242:7,10,14 244:5,7,15,21 244:25 245:5 246:5,11,15 248:19 249:10 252:14 253:20 253:23 254:7 254:10,13,16 254:17,20,24 255:2,5,7,10,12 255:15,17,24 256:1 257:22 258:1 259:5 260:17,19 263:11,22 264:19,23 265:1,7,11,15 265:16 266:12	266:15,18 270:14,17,18 272:25 273:3,7 273:12,16,19 273:24 274:1,3 275:9,11 277:20 285:19 285:23 293:19 293:24 294:2,5 294:7 295:7,11 295:21 296:1,4 296:12,19,25 297:8,14,15,19 298:2,5,6 299:8 299:11,15 300:12 304:17 306:3,7 310:11 310:14 311:22 312:17,21,23 312:25 313:6,9 313:13,23 314:1,6,9,13 318:5 320:9 323:18 325:6,9 325:13,18,23 326:1,9,14,15 326:20,22 327:17,20 329:14,17,21 329:24 333:17 333:20,23,25 334:4,6 335:3,6 335:9,12,15,19 335:21 338:4 339:20,22 341:1,5 344:14 345:12,17,20 346:12 353:4 357:8 358:1,8,9 358:12,15,18 358:23 359:4 359:10,24 360:3,7,9,12,17 360:23 361:2,5 361:10 362:4,8 362:15,21,24 363:7,15,22	364:5,10,22 365:11,12 366:10,14,21 367:14,18 368:15 369:6 371:10 <b>judgment</b> 307:20 <b>July</b> 51:13 52:24 141:17,19 168:25 171:3 183:8 184:1 236:19 281:21 <b>jump</b> 80:5 <b>June</b> 51:11 <b>Junior</b> 120:22 <b>justify</b> 66:11 67:1 <hr/> <b>K</b> <b>K</b> 42:25 377:6 378:19 380:4 380:25 <b>Kallash</b> 48:14 49:20,24 51:15 51:15 55:25 57:24 69:2,10 70:5,7,19 71:3 71:4 77:24 78:17 82:9,13 88:8,10,13 89:23 90:11 93:1 94:16 156:9 158:12 158:16 159:19 161:10,11,15 161:17 168:19 178:10 185:24 186:1,6 187:3,6 200:10,14 208:7 209:3 222:19 248:25 249:1,3,6 253:2 253:6 267:11 271:4,17 274:12,12 275:2 276:4 278:17 281:4
--	--	---	---	--

282:1,11,21,21 286:7,9 287:14 287:18 288:8 290:7,25 293:10 299:24 300:5 301:3 307:5,9 313:2 313:12,15 314:2,18 318:7 323:21 326:24 335:13 366:13 367:24 371:3 371:24 372:12 372:25 373:25 374:14 376:13 376:15 <b>Kallashes</b> 312:2 <b>Kallash's</b> 56:18 57:13 62:19 281:18 284:12 300:24 <b>Kansas</b> 238:10 <b>keep</b> 74:6 167:18 171:10 174:9 174:17,24 175:3 176:3,14 176:15 177:8 177:12 191:23 191:25 192:15 193:2 198:20 217:10,10 306:13 322:9 <b>keeping</b> 171:9 173:18 333:14 359:14 <b>Kellene</b> 42:25 380:4,25 <b>Kennard</b> 42:18 44:12 <b>Kenney</b> 42:20 44:15 91:18 92:1,7 107:20 107:21 111:15 142:11 147:17 154:7 166:11 166:12 170:22 180:8,10	181:11 189:15 191:1 202:3,11 202:16 239:25 285:22 304:19 304:21 305:25 314:15,17 315:14,18,20 323:18,19,20 327:22,24 330:1,3 334:8 334:10 335:1 335:10 365:2,8 366:19 367:25 368:6 371:1,4,6 371:17 372:1 372:13 373:25 <b>kept</b> 73:11 173:23 <b>Kevin</b> 43:18 45:8 <b>kicking</b> 319:8 <b>kind</b> 46:23 78:10 109:14 118:9 166:24 208:19 253:25 260:24 260:25 261:5,9 261:15,19 262:20 263:4 263:16 282:21 286:6 289:2 292:1 302:24 345:6 <b>knew</b> 57:25 156:23 276:14 276:25 277:2 281:1 283:4,25 284:24 285:3 285:13 <b>know</b> 46:21 47:21,24,24 59:4 61:9 63:9 78:7,9,23 79:21 80:19 84:8 91:9 91:22,25 92:5 93:19 105:19 105:22 106:4,6 108:11,18,20 111:5 114:5,23	117:12,15 119:21 120:5 124:14,14,15 124:20 125:22 129:23,24,24 130:3,11 140:17 144:15 145:7 151:9 152:6,7,10,12 153:8,13 156:9 157:15 158:4,5 168:6 179:10 181:3 184:7,13 184:20 188:12 192:13,14 193:21 195:5 200:23 203:2 204:6 209:1 213:1 215:14 217:7,15 218:21 219:5 221:7,15,16 222:4,23 223:5 223:15 238:21 239:16 240:16 244:19 247:9 251:25 252:2 257:2,11 260:14 267:17 268:19 271:7 271:23 277:17 281:25 282:2 285:6 286:17 286:20,24 287:6,10,11,13 287:13,24 288:1,2 289:1,7 289:19 290:16 290:20 293:1 300:2,9 302:20 302:24 307:8 309:8,20,22 317:17 318:9 322:11,15 324:14 325:19 325:21 327:7 328:13,14	331:2,19,22 333:7 334:13 336:20 340:2 341:21 344:20 344:22,22 347:21,23 350:2 351:24 352:19,20 354:15 360:12 362:24 364:22 <b>knowing</b> 284:3 290:24 307:18 <b>knowledge</b> 60:21 76:4 89:9 98:12 106:17 115:12 117:9 121:14 131:12,13,16 131:21 133:16 133:19 134:21 135:9,13 138:22 187:4,7 213:11 227:1 253:5,16 257:10 266:10 295:4 299:4 307:2 348:8 <b>known</b> 57:14 68:25,25 69:4 124:3 156:10 156:12,15 213:3 218:16 <b>knows</b> 305:6 <b>Kofi</b> 199:18 298:8,12,17 371:13 375:14 378:16 <b>K-a-l-l-a-s-h</b> 88:13	330:17 <b>lack</b> 70:23 71:8 348:16 <b>lacks</b> 249:16 <b>Laclede</b> 51:4 262:9 <b>lady</b> 323:4 <b>land</b> 46:5 155:12 156:20 160:20 <b>landline</b> 221:24 222:5,24 223:13 323:12 323:13 <b>landline/Intern...</b> 220:13 <b>large</b> 60:4 115:18 117:17 348:12 348:14 <b>largely</b> 49:10 51:1 85:23 <b>larger</b> 50:12 122:21 123:1 238:8 355:18 <b>largest</b> 65:13,14 <b>late</b> 54:1,2 108:20 109:2 167:1 214:1,5 214:17,19 215:12 216:8 217:13,18 218:22,25 219:5,13,20,22 220:1 255:7 273:19 283:18 284:21 374:20 <b>law</b> 42:18 43:3,9 44:13 45:1,2 64:6 324:12,12 <b>lawn</b> 201:19 <b>lawyer</b> 90:20 93:17 171:23 301:12 332:23 <b>lawyers</b> 317:6 <b>LCSW</b> 44:2 75:6 75:7,24,24 76:8 76:8,13,13,14 88:23,24 89:5,5
--	--	---	--	---

89:12,12,16,16 89:18 130:20 130:22 131:1 132:3,6,8 134:8 242:17,19,23 243:2,22 266:24 277:21 360:15 361:2,8 376:17 <b>LCSW's</b> 140:13 366:6 367:8,20 368:13,24 369:8,20 370:4 370:23 371:20 372:10,24 373:9,21 374:10,21 375:6 376:4 <b>LCSW-6</b> 248:2 <b>lead</b> 193:8 257:16 <b>leak</b> 53:16 104:6 124:18 125:6 125:23 129:4 129:13 <b>leakage</b> 84:1 104:1 <b>leaking</b> 130:3 <b>lease</b> 69:6 198:25 199:3,13,19 200:7 201:10 201:18 299:19 299:25 300:5 301:7,17 302:8 308:18 323:3 <b>leased</b> 302:17 <b>leaves</b> 175:1 <b>leaving</b> 93:10 <b>ledger</b> 169:14 <b>leeway</b> 95:14 152:15 <b>left</b> 62:6 185:10 297:16 318:22 <b>legally</b> 316:3 <b>length</b> 307:24 308:11,19 310:2,4	<b>lessor</b> 300:17,20 301:7,17,22 <b>letter</b> 54:14 93:25 94:18 276:4 279:16 284:5 294:18 334:16 <b>letters</b> 54:3 62:2 62:3 276:18 319:2 <b>let's</b> 44:23 45:19 50:18 74:9 78:17 131:8 144:6 145:25 178:4,5 187:12 187:13,15,18 188:18 190:11 191:18 194:4 195:12 198:20 203:20 205:13 205:21 206:4 208:10 210:24 212:18 213:25 220:7 224:16 224:22 240:15 242:10 244:21 245:2 248:19 249:3 253:20 255:21 258:1 263:11 265:2,3 270:4,21 273:3 273:12 274:4 281:20 293:19 296:12 297:16 303:7 314:1,2 314:25 325:23 326:11,20 335:15 339:2 343:18 348:16 349:9 365:13 <b>level</b> 62:20 104:3 111:6 131:9 165:5 182:4 250:3 272:6,8 286:2 288:12 288:13 307:2 307:13	<b>levels</b> 83:16 214:18 336:15 336:15 347:17 347:19 <b>levied</b> 311:19 <b>liability</b> 266:25 269:9,13 270:2 270:3,7,9 272:19 329:5 <b>liar</b> 177:18 187:3 333:8 <b>licensed</b> 51:17 328:7 <b>lid</b> 127:23 128:6 <b>life</b> 177:17 229:4 229:6 231:15 231:15,17 232:5,18 233:2 233:6,12,12 234:6,13 235:1 235:13 316:8 361:21,21 <b>limited</b> 117:9 257:6 <b>limits</b> 331:4 <b>Lincoln</b> 42:12,15 43:12 44:10 45:3 48:13 51:8 51:14,20,21,22 52:3,5,12 53:7 54:11,13,22,23 54:24 55:19 56:23 57:4,6,7 57:11,12,14,20 58:8,14 63:19 64:25 65:7 68:1 69:2,6,16,19 71:1 72:9 74:24 83:10 84:18 87:14 88:1,14 127:5 132:12 134:12 138:11 138:13 142:2 144:14 146:1 148:10 154:3 155:14 161:7 165:17,19,23	171:2,5,21,23 172:15 176:11 178:24 182:12 183:25 188:19 190:7 191:17 200:7 201:11 204:6,22 205:1 223:17 224:7 231:24 232:3 236:12,17 239:21 240:21 241:2,6 242:15 242:18,25 243:3 247:8,11 247:17 249:10 252:25 253:2,7 253:17 254:8 254:18,25 255:5,10,15 258:20 259:6 266:19 267:15 269:2,8,12,22 270:25 271:16 272:4,5,6 273:16 274:22 274:25 275:3,5 275:9 277:13 277:25 280:10 280:22,24 282:7 285:2,15 288:23 293:25 294:5 299:20 300:13 301:18 301:23 302:3 302:13 304:9 304:12 311:23 315:22 321:23 327:11 338:20 343:13 345:18 346:13 348:13 350:18 360:15 376:19 <b>line</b> 75:14,18,20 114:9 137:1,2 137:10 138:4,5 164:16 226:12 312:12	<b>lined</b> 114:7,10 <b>lines</b> 75:15 212:6 <b>Lisa</b> 96:11,16,20 96:25 149:5,13 163:12 168:13 173:7,17,25 175:20 176:18 178:8,15 190:12 191:4 256:4 265:17 265:20,24 274:8 333:7,12 366:17 367:12 368:3 369:5,24 370:14 372:5 372:19 373:7 373:19 374:7 374:18 375:4 377:6,20 378:19 <b>list</b> 45:23 47:1,13 55:14 58:11 59:11,12,17 96:6 131:7,19 144:17 145:7 145:14,18,20 145:20,21 193:5 277:12 282:7 297:24 298:1 326:2 363:2 <b>listing</b> 131:12,24 208:4 <b>listings</b> 246:21 246:22,25 247:4 <b>lists</b> 277:16 <b>litigated</b> 361:12 <b>Litigation</b> 42:25 380:6 <b>little</b> 64:22 91:19 126:22 155:4 240:4 245:13 246:17 265:13 317:1 330:4 333:15 <b>live</b> 219:14
--	---	--	--	--

<p>312:20  <b>lives</b> 233:17  <b>living</b> 317:13  322:11 342:22  <b>LLC</b> 42:13,15  45:4 51:8 63:19  70:20 74:23  88:15 171:3,6  171:24 183:25  300:19,22  327:3,15  328:12 329:4,5  329:8,9  <b>LLCs</b> 328:21  329:11  <b>loan</b> 95:15  <b>local</b> 256:10,19  256:23,25  257:9  <b>locate</b> 181:16  244:2,8,12  301:10  <b>located</b> 53:12  57:18 231:10  247:25  <b>location</b> 57:20  61:19 200:7  243:10,13,17  243:22 245:22  247:5  <b>locations</b> 54:6  <b>Loethen</b> 177:10  330:21  <b>log</b> 287:3 333:14  <b>logs</b> 71:9 281:14  <b>long</b> 59:11 62:11  222:24 223:2  229:3 256:18  263:7 287:6  317:24 325:9  <b>longer</b> 219:14  232:5 233:2,12  234:5 312:19  <b>long-term</b> 340:16  <b>look</b> 102:13  113:16 125:16  143:12 165:9</p>	<p>172:7 179:16  182:19 184:21  217:17 229:7,9  233:14,19  234:1 236:5  237:12 250:18  252:8,18  267:22 279:3  281:20 288:1  296:13,16  301:11 302:17  303:2 309:17  311:7,15  314:24 336:23  337:4 342:24  358:25  <b>looked</b> 102:8  143:16 150:21  170:15 175:25  193:20 198:4  225:25 308:22  311:1,8  <b>looking</b> 101:21  101:23 102:14  102:17 112:25  117:12 184:22  222:17 230:18  245:15 248:2  252:10,19  294:16 301:25  302:5,14  321:20 330:5  364:19 365:7  <b>looks</b> 182:16  295:11 317:1  317:22 335:12  <b>Lordo</b> 200:17,18  301:4,7 302:7  302:11,19  307:14 320:11  320:16  <b>lose</b> 328:24  <b>loss</b> 267:4,9,20  <b>losses</b> 280:23  <b>lost</b> 95:24  <b>lot</b> 60:25 91:21  145:2 228:4</p>	<p>269:2 285:14  286:1 316:9,9  320:7 321:1  324:23 328:9  330:19 332:1,3  342:2,8  <b>lots</b> 339:2,25  340:3,13,16  342:6,21  343:17 344:5,6  346:25 347:4  347:11,13,15  348:11,12,14  348:17 350:22  <b>Louis</b> 238:9  251:25 252:2  <b>Lou's</b> 327:9  <b>low</b> 74:6 331:10  343:19  <b>lower</b> 108:18  <b>lowered</b> 68:6  333:1  <b>lunch</b> 178:3  187:12,17</p> <hr/> <p style="text-align: center;"><b>M</b></p> <hr/> <p><b>M</b> 42:20 377:20  <b>Madison</b> 43:15  43:20  <b>magnitude</b> 160:9  <b>mail</b> 167:8  211:14 212:9  213:12 319:25  <b>mailbox</b> 319:4  <b>mailed</b> 212:8  <b>mailing</b> 211:5  212:12  <b>main</b> 82:1 340:11  <b>mains</b> 159:11  <b>maintain</b> 172:16  <b>maintenance</b>  56:1,2,10 79:10  107:14 108:4  109:10,19  111:23 112:2  112:14,16  113:1 117:2</p>	<p>126:23 127:1  167:24 172:13  199:11 289:8  <b>major</b> 56:21  70:10,23  <b>making</b> 64:20  71:17 265:1  <b>mall</b> 322:25  <b>man</b> 318:18  321:21  <b>management</b>  70:3 71:2  225:20  <b>manual</b> 65:23  86:7 101:15,24  102:9,15 104:5  104:7 105:24  112:11,24  119:24 124:2,4  125:1 126:1,8  126:11 127:25  131:10  <b>manually</b> 53:11  81:21 152:13  <b>map</b> 242:18,25  243:4,9,13  244:10,20  248:2,3,11  319:11 360:16  360:18 376:19  <b>March</b> 232:13  293:1  <b>mark</b> 98:1  130:19 145:23  242:17 243:21  245:2,8,11  326:4,7 360:22  <b>marked</b> 44:4  75:6 88:23 97:2  97:8,12 121:5  130:22 131:1  144:11 225:24  242:19,23  266:1 277:21  277:25 295:24  298:19 360:19  376:5</p>	<p><b>market</b> 202:9  203:6 247:5,13  308:15,20  316:24  <b>markings</b> 361:1  361:4  <b>master</b> 354:6  <b>match</b> 215:19  217:6,19,23  <b>matching</b> 214:22  214:24 215:23  216:11 217:3  217:25 218:10  <b>material</b> 215:7  215:15  <b>materiality</b>  218:21  <b>materials</b> 175:8  276:8  <b>math</b> 87:24  <b>matter</b> 42:12,14  44:13 50:1  87:24 197:6  262:18 340:22  361:5 363:11  365:12  <b>matters</b> 45:19  118:7  <b>maximum</b>  354:11  <b>ma'am</b> 77:2,6  92:22 146:20  158:15 214:8  214:15,23  276:1 277:24  281:1 285:13  338:1  <b>McIlroy</b> 43:9  45:3  <b>mean</b> 49:4,23  78:6 111:1  117:16 118:19  123:16 141:8  191:20 214:10  217:14 223:15  246:6,9 250:21  250:23 251:22</p>
---	---	---	--	---

251:23 252:1 302:25 316:11 316:20 317:2 317:17 319:15 319:25 320:21 331:17 332:5 349:8,10,15 363:9,24 <b>meaning</b> 362:16 <b>means</b> 62:22 300:1 302:20 <b>measurable</b> 213:3 218:16 <b>measurement</b> 228:9 <b>meet</b> 57:2 67:1 71:12 93:18 229:4 320:5 339:4 <b>meeting</b> 91:2 93:20 168:21 <b>meetings</b> 320:1 <b>member</b> 88:16 97:6 264:4 <b>members</b> 51:14 54:11 55:24 107:12 168:22 271:2 272:9,15 275:2 285:15 305:14 <b>memory</b> 63:4 115:12 132:18 160:11,21 172:5 179:18 184:11,17 197:24 <b>mention</b> 61:7 103:1 236:25 <b>mentioned</b> 59:18 70:2 86:12 115:8 122:19 126:7 215:11 237:25 295:17 318:8 350:13 <b>Merciel</b> 47:8 48:8 94:25 120:14,18,22	121:3 122:4 127:9 130:25 133:14 135:20 163:13 176:19 188:12 313:15 313:19,24 345:21,23 346:16 353:8 357:3 358:10 366:22 368:20 377:24 <b>Merciel's</b> 313:4 345:4 <b>merely</b> 64:14 70:13 73:2 <b>MERIC</b> 249:21 250:20 251:13 251:21 252:5 <b>met</b> 61:23 66:6,9 235:1,12 <b>meter</b> 49:3,8,10 52:21,23 53:1,3 53:7,18 54:6 55:4,5 59:20 65:1,18,23 67:5 67:6,13 76:25 77:4,13 79:7,9 79:16 80:13 81:8,11,16,24 82:25 83:5,17 83:24 84:5 85:18 86:14,19 91:24 95:11,19 100:11,21,23 101:1,13,14,24 102:15 104:1,5 104:6,8,14 105:1,4,8,8,21 105:21,25 106:2,2 110:4 110:12,17 111:3,7,9,9 113:10 115:19 116:4,15 118:13,23 119:9,24 124:5 124:23 125:2,2	125:3,4,9,15,22 126:11,15 127:2,11,13,21 127:23,24 128:1,4,6,8,8,9 128:16,23 131:10 132:16 133:4,15,18 135:16 138:9 138:12 140:11 140:12,23 141:24 144:19 152:14 233:14 296:23 354:7,7 361:24 <b>metered</b> 100:14 100:15,16 115:9 116:2 134:3 143:8 163:8 <b>metering</b> 60:5 100:17 <b>meters</b> 48:14 49:14,14 52:4,8 52:11,13,18 53:1,3,5,12,14 55:4 59:20 60:11 64:24 65:13 76:23 77:24 78:2 80:11,24 81:10 81:17,21 82:2 82:10,17 83:17 83:20 84:14,19 84:25 85:13,22 86:8,11,20 87:18,19,24 90:4,15,22 91:10,11 92:2 92:21 93:6,20 94:1,4,24 95:5 99:13,18 100:22 101:16 101:25 102:9 103:8,11,12 105:8,11,18,24 106:5,12	110:19 111:4 112:11,12,24 112:25 115:15 115:17,22,23 116:4 119:15 119:22 120:1 123:11,14 124:20 128:21 128:22,24 129:9 132:15 133:4,20,23 138:9,12,16 141:3,11,17 142:3,4 148:21 167:16 177:2 292:24 322:4 326:3 332:20 332:24 361:22 362:20 363:3 364:24 365:5 <b>METERS/ME...</b> 366:5 <b>method</b> 211:19 261:21 336:10 <b>methods</b> 355:24 <b>Meyer</b> 322:14,15 <b>mid</b> 344:25 345:1 <b>middle</b> 59:15 248:3,11 <b>Midwest</b> 42:25 380:5 <b>Mike</b> 200:17 301:3,7 302:7 302:11,19 307:14 320:11 <b>mileage</b> 48:16 205:21,22,23 253:21 254:2 287:1,9,12 293:20 329:25 333:21 372:23 <b>miles</b> 53:13 95:21 281:23 282:4 322:21,21 <b>Millan</b> 43:9 45:3 <b>million</b> 51:5,6 135:3 176:23	<b>mind</b> 71:17 98:7 117:5 138:25 226:21 264:11 345:2 <b>mine</b> 164:17 170:21 <b>minimum</b> 52:10 56:8 73:12 90:21,22,23,24 95:11 115:15 286:17 330:5 <b>minor</b> 75:11 <b>minus</b> 146:23 <b>minute</b> 72:21 78:19 94:23 117:2 167:25 245:4 <b>minutes</b> 305:16 <b>miscellaneous</b> 216:1 217:23 <b>missing</b> 160:1 163:25 164:1 164:20,21 165:6 284:22 285:9 <b>Missouri</b> 42:1,9 43:19,22 45:11 45:17 51:5,6 53:3 64:5 65:15 69:18 82:18 96:23 131:16 131:25 134:14 134:16 135:2 136:11 151:11 151:18 181:23 182:1,5,9,19 186:6,7 214:13 242:24 249:19 249:20,21 250:2 252:6 265:23 268:4 268:11,15,17 268:21,22 271:12 298:15 324:12 380:2 380:20 <b>misunderstand</b>
--	--	---	---	---

<p>181:19  <b>ML</b> 300:18,20,21  300:22 301:7  301:22 302:3  302:12  <b>MO</b> 43:6,10,15  43:21  <b>model</b> 229:11  <b>MoDOT</b> 243:3  <b>moment</b> 93:2  97:25 153:1  185:4 206:7  220:10  <b>money</b> 65:4  95:16 154:13  177:4 180:18  220:2 232:25  234:14,19,22  235:2,7,21,23  236:2 320:23  321:4 323:25  324:8 333:1  355:7  <b>monitors</b> 238:12  <b>month</b> 56:9 77:4  103:24 110:4  124:1,2,14,16  124:19 125:2,3  125:23,23  126:3,4 129:23  138:10 152:20  169:16 170:2  170:16 173:9  173:21 199:4  200:1 202:4  223:18,22  283:17 284:20  323:4 330:6,8  330:10,13  332:17  <b>monthly</b> 53:24  57:18 82:6  124:6 125:14  281:15 290:16  310:5  <b>months</b> 72:13  153:11 162:1</p>	<p>173:10 174:3  275:23 278:15  278:19 281:14  284:23 292:23  293:1 331:12  332:25  <b>Moore</b> 43:19  45:8,8 46:19  47:5 59:2 76:18  76:19 77:18  79:15 81:7  89:22,25 90:5  92:4,11,13,23  96:11,17 97:22  98:4,5,14 115:3  115:4 117:18  120:14,19  121:17 132:5  133:12,13  135:18 139:18  145:1 146:11  147:5 149:4,8  151:23,24  152:24 154:2  188:11,17,25  189:2,6,8 190:5  190:12,16  193:3 195:15  195:16 196:15  198:23 200:3  202:14,15  203:7 205:15  205:24 211:2  212:1 214:3  216:13 224:18  224:25 241:1  242:12 248:22  248:23 249:8  253:23,24  254:6 255:4,9  260:19,20  263:9,15,20  264:2,3 285:24  285:25 293:17  296:7,16 298:9  299:6 306:8,9  310:12 313:8</p>	<p>313:16,21,25  314:5 326:14  329:19 333:22  335:5,21,23  338:2 341:3  345:16 353:6,7  357:6,11  359:10,20  364:6,12,16  366:3,9,14,17  366:20,23,24  367:9,15  368:14,22,25  370:6,17,24  371:2,14,18  372:15,22  373:5 374:12  374:22  <b>moot</b> 50:1  <b>morning</b> 46:4,25  50:20,21 70:2  76:20,21 79:3,4  86:4,5 89:22,24  97:23 99:5,6,11  107:23 117:22  117:23 122:4,5  122:6 132:14  136:4,5 155:23  155:24 188:13  225:1 318:14  318:20 331:24  <b>move</b> 58:15  139:4 145:25  188:18 190:11  191:16 194:4  195:12 205:13  205:21 206:4  208:10 210:24  213:25 220:7  224:16 238:20  240:15 242:10  248:20 253:20  254:13 258:1  263:11 293:19  310:14 314:10  326:20 329:17  358:7,12</p>	<p><b>moved</b> 319:10,11  323:5  <b>moving</b> 155:14  <b>mowing</b> 199:10  201:19  <b>MPB</b> 148:6  <b>multiple</b> 168:22  <b>multiplication</b>  247:16  <b>multiplied</b> 56:15  82:3 247:7  <b>multiply</b> 251:6  342:9  <b>municipal</b>  134:19  <b>municipalities</b>  145:4  <b>myriad</b> 71:7</p> <hr/> <p style="text-align: center;"><b>N</b></p> <hr/> <p><b>N</b> 44:1 366:1  <b>name</b> 44:12  74:18 88:12  96:18 120:21  136:6,8 225:16  265:19 298:10  300:16,18  302:18,19  315:22 316:3  <b>narrow</b> 124:21  129:1,16,18  <b>narrows</b> 129:25  <b>natural</b> 303:14  338:10  <b>nay</b> 311:18  <b>nearly</b> 86:15  <b>necessarily</b>  105:10 131:24  239:16 348:5  352:15,25  <b>necessary</b> 62:1  109:14 124:8  126:8 146:14  182:5,11 186:2  186:14,16  235:4 276:19  288:14,16,17</p>	<p>340:24 346:7  <b>necessity</b> 51:10  <b>need</b> 50:16 61:24  73:9 74:6 85:16  105:25 108:8  109:21 115:24  124:10 134:7  144:2 166:21  167:18 189:19  198:15 213:4  214:18 215:18  216:6 242:16  265:13 285:10  286:17 289:1,6  296:15,21  329:5  <b>needed</b> 62:17  123:19 166:18  182:6 288:25  291:6 347:16  349:22  <b>needs</b> 59:6 61:2  62:23 73:10  75:20 174:21  234:14 235:21  264:16 291:16  291:16 309:23  321:3 355:13  <b>negotiated</b>  308:19 310:3  <b>neither</b> 351:1  <b>Neptune</b> 108:3  167:13,20  <b>net</b> 308:23  <b>never</b> 62:19 63:5  135:13,14  151:17 161:21  161:22,23  163:16 168:3  169:21 173:6  177:14,16  247:24 268:17  278:11 287:24  297:7 318:23  318:25 319:21  322:16 331:7  351:25 352:7</p>
--	---	---	---	--

<p>355:7  <b>new</b> 44:18 56:3  167:20 198:11  262:17 292:24  294:15 320:1  348:12  <b>nice</b> 111:6 191:25  <b>night</b> 93:11  331:18,23,23  <b>nodded</b> 243:5  <b>non-AMR</b>  101:22  <b>non-automated</b>  65:13 67:4,13  79:9 101:13,14  <b>non-metered</b>  100:13 115:8  116:1 143:9  163:8  <b>noon</b> 187:13  318:15  <b>normal</b> 74:5  104:3,3 124:17  199:23 212:11  236:5 259:18  348:15  <b>normalization</b>  73:20 74:3  260:6,22  261:17  <b>normalized</b>  258:15 259:21  260:2 262:13  262:21  <b>normally</b> 68:4  116:22 124:6  127:25 182:18  237:14 262:1,7  274:13 351:17  <b>NOS</b> 44:2,3,3  76:14 89:18  98:24 139:14  144:10 297:12  <b>note</b> 80:17,22  <b>notebook</b> 286:10  <b>noted</b> 65:21  80:25 103:25</p>	<p><b>notes</b> 380:15  <b>notice</b> 158:21,23  188:3 212:15  212:19,24  306:15  <b>notices</b> 54:1  173:14  <b>notified</b> 46:1  92:19  <b>November</b> 42:8  95:7 109:6  284:17 360:13  <b>now-known</b>  336:24 337:4  341:17 342:18  <b>number</b> 52:10  53:2 54:7 75:18  79:11,14 83:13  86:21 90:15  95:11 99:13  103:19 110:6,7  110:9,14,15,22  116:9,14,15  118:2,4,7 119:7  143:21 144:18  152:22 159:15  160:13,17  163:13 164:9  164:11,17,20  196:25 197:25  198:5 219:12  242:1 247:8  252:19 261:11  261:25 275:22  288:4,6,14,17  304:25 305:5,6  339:1,25  343:17 347:11  354:19,22,23  360:1 363:17  <b>numbers</b> 63:11  64:17,18 66:4  70:25 107:9  113:25 114:1  114:12,14  116:3,7 117:4  117:12 125:4</p>	<p>127:24 128:2  145:9 152:16  159:8 163:9,16  163:25 164:1,2  164:19 165:2  175:15,17,19  182:12 215:1,6  215:7,18 216:7  216:7 218:17  218:21 232:2  294:25 342:10  348:4,5 363:10  364:15  <b>number's</b> 95:17</p> <hr/> <p style="text-align: center;"><b>O</b></p> <hr/> <p><b>O</b> 44:1 243:16  <b>oath</b> 146:6 149:7  154:1 155:19  161:12 188:24  190:1,15  335:17  <b>object</b> 47:25  99:20 229:23  310:8 356:23  359:21,22  <b>objection</b> 48:5,6  48:18,22,23  49:6 50:15  76:10 78:4 94:5  94:15 98:18  100:1,4 121:19  127:15 227:5  264:21 272:21  272:25 297:9  299:8 310:11  356:25 357:9  361:2  <b>objections</b> 48:12  89:14 132:4  139:8 359:13  <b>objection's</b> 49:25  <b>objective</b> 204:24  <b>objects</b> 359:24  <b>observations</b>  306:12  <b>obstructions</b></p>	<p>111:5  <b>obtain</b> 186:2  <b>obvious</b> 348:23  <b>obviously</b> 324:2  <b>occasion</b> 133:24  148:9  <b>occupation</b> 250:2  <b>occupied</b> 57:16  <b>occur</b> 261:20,22  321:2  <b>occurred</b> 109:8  219:3 281:23  286:18  <b>occurring</b> 234:16  352:6  <b>occurs</b> 350:20  <b>odor</b> 331:12,16  331:21  <b>offer</b> 76:8 89:12  132:3 227:4  266:13 295:23  360:16  <b>offered</b> 181:15  297:6,7,7,21  311:2  <b>offering</b> 188:7  <b>offers</b> 98:14  121:17 299:6  <b>offhand</b> 344:20  <b>office</b> 43:14,17  45:12,15 47:8  57:11,14 63:15  64:3 68:21,21  68:23 69:14,15  69:18 90:6 91:7  122:1 136:11  136:14 147:6  149:10 153:22  167:4 173:24  174:20 188:12  198:21,21,25  199:4,11,20,25  200:7 202:18  202:25 208:1  210:25 213:21  242:10 243:17  245:18,23</p>	<p>246:23,23  247:5,25 255:2  273:10 289:21  297:17 299:19  304:25 305:1  305:17,19  306:13,13,18  307:8 310:7  314:3,13,14  315:15 318:8  318:11,21  319:15,19,20  322:12,20  323:12 326:12  326:12 331:18  333:8,11 335:3  374:9 380:18  <b>offices</b> 243:23  322:12  <b>officially</b> 256:24  <b>offset</b> 267:9  268:25  <b>oh</b> 91:4 125:5  165:13 175:20  215:24 217:14  222:18 265:15  295:13 296:25  312:22 313:6  326:11 331:20  340:7 348:15  360:23 362:22  <b>okay</b> 44:23 47:17  49:15 74:8  78:16 86:2,24  87:1,11 88:5  91:7,16 92:7,23  94:17 96:2,9  97:14 100:2,9  100:18 101:9  102:22 109:1  109:16 116:5  116:25 119:11  120:11 122:23  123:5 124:22  127:14,20  128:20 137:17  144:2 145:25</p>
---	---	---	--	---



147:5,19 151:20 155:10 155:12 156:23 157:1,4,16,22 158:6 161:24 162:11,14,24 164:2,12,15 165:6,8,12,16 165:25 166:6 167:6,8,13,14 168:1,11 187:10 188:15 189:10 191:10 192:4 193:6 194:4 196:8 198:20 202:1 205:21 208:10 210:24 213:25 215:24 216:4 218:4 221:6,16 221:19 222:15 222:18,20,23 225:2,5 228:14 229:10 233:10 234:18 235:6 235:11 244:1,3 244:21 246:3 246:11 248:19 252:12 253:20 255:17,21 258:1 263:11 264:23 269:16 270:4,14,23 273:3,7 276:3 278:23 282:6 282:14 284:12 288:11 293:19 295:11 297:8 298:6 302:2,10 302:20,23 305:20 306:24 310:14 312:6 312:15,17,21 313:9 314:3 315:3,14,19 316:5,7,15 317:19,25	318:2,12 320:6 320:21 324:3 325:3,3 326:11 328:22 329:1 330:20 333:15 336:1,13 337:6 337:19 338:17 340:9 345:7,9 345:11,12 358:1 360:12 361:10 362:23 <b>old</b> 263:7 <b>once</b> 71:23 92:21 93:6 138:10 305:13 330:19 344:11 349:5 <b>ones</b> 134:11 296:5,20 322:13 <b>one-time</b> 261:5 261:15 <b>one-year</b> 167:16 <b>online</b> 246:21 <b>OPC</b> 44:2 79:23 84:23 85:5 93:19 94:3 99:2 135:21 139:6,6 139:11,12,14 154:12 169:1 171:25 192:8 194:9 196:16 200:4 206:22 238:20 240:2 250:7 360:5 <b>OPC's</b> 139:8 143:22 367:1 367:16 368:17 369:1,16,22 370:9 371:7 372:14 373:2 373:14 374:1 374:15 375:1 375:11 376:20 <b>OPC-1</b> 358:6 360:2,3 <b>open</b> 127:23,23 318:23	<b>opened</b> 167:9 171:8 <b>opening</b> 50:18 65:24 128:6 295:16 366:2,3 366:4 <b>operate</b> 171:2 175:6 <b>operated</b> 281:2,4 <b>operates</b> 51:20 175:5 <b>operating</b> 50:22 140:8 <b>operation</b> 56:10 70:24 79:10 107:14 183:24 <b>operations</b> 51:3 55:25 58:9 70:11 352:24 <b>operator</b> 51:17 294:19 <b>opinion</b> 234:4 347:6 <b>opportunity</b> 62:13 63:6 264:2 276:22 277:6 283:16 284:9 350:3,15 <b>oppose</b> 55:11 <b>opposed</b> 260:3 <b>opposing</b> 359:14 362:15 <b>opposition</b> 362:10 <b>option</b> 119:25 147:4 211:17 <b>options</b> 60:6 <b>order</b> 48:1 53:21 58:22 61:25 135:9 152:4 160:9 182:13 187:21 214:16 215:19 216:6 249:4 264:13 272:19 280:23 286:15 326:25 <b>ordered</b> 47:13	<b>orders</b> 54:2 135:15 <b>ordinary</b> 210:9 261:6 <b>organization</b> 200:9 299:24 301:23 302:3 302:12,12 <b>organize</b> 204:4 <b>organized</b> 204:10 <b>original</b> 117:16 163:20 170:12 176:10 235:24 291:23 341:22 341:23 349:23 <b>originally</b> 85:11 291:24 323:2 <b>originals</b> 181:16 181:24 182:17 182:20 <b>ought</b> 329:11 <b>Outdoor</b> 172:8 <b>outside</b> 186:5 286:19 322:21 322:21 <b>outweigh</b> 60:13 66:1,7 <b>outweighed</b> 103:5 117:5,7 <b>overaccrued</b> 232:21 233:4 <b>overage</b> 120:5 <b>overall</b> 105:16 235:18 363:13 <b>overbuilding</b> 346:20 <b>overlooked</b> 284:8 285:7 <b>overnight</b> 129:18 <b>overpay</b> 346:19 <b>overruled</b> 94:15 100:4 <b>overshooting</b> 219:19 <b>oversized</b> 347:4 <b>overstated</b> 214:10	<b>owed</b> 267:24 <b>owned</b> 69:1,3 200:10 228:11 267:10 271:17 329:2,3,8,9 <b>owner</b> 69:2 153:9 200:8 299:23 316:12 <b>owners</b> 51:15 70:19 211:14 267:24 271:3 275:2 322:16 <b>ownership</b> 46:6 155:12 200:20 200:21,22 302:16 307:4 310:1 321:3 <b>owner's</b> 267:5 <b>owner/manager</b> 74:22 <b>Owning</b> 50:22 <b>o'clock</b> 331:18 <hr/> <b>P</b> <b>P</b> 44:1 243:22 <b>package</b> 65:10 221:24,25 222:1,5,17,21 222:24 <b>pads</b> 156:18 178:20 <b>page</b> 75:14,18 108:2 109:17 137:1,2,10,11 137:25 138:4,5 164:7,9,11,14 164:15,22 165:9,10,12,14 169:1 182:23 226:11 249:14 276:11 278:7 279:17 290:16 303:8,22 304:22 <b>pages</b> 319:8 333:11 <b>paid</b> 53:8 72:12
---	--	--	--	--

<p>99:24,24,25 112:15 168:4 170:11 173:10 173:10 174:12 179:6 224:6 250:11 300:9 320:24 321:14 323:24 324:8 324:18,20 361:19,20 <b>paper</b> 174:25 175:4 250:6 277:8 287:1 <b>papers</b> 143:12 159:16 193:21 196:22 219:17 241:23 <b>paperwork</b> 207:24 332:21 <b>paragraph</b> 172:7 172:10 <b>part</b> 58:4 62:10 64:4,9 87:14 91:24 94:9 106:22,23 115:14,16 116:6,20 117:4 123:13 140:17 140:18,19 142:21 151:13 158:17 163:5 207:20 239:14 239:15 259:14 260:6 292:17 351:23,24,24 <b>Partially</b> 207:10 <b>participate</b> 78:13 84:6 99:7 122:14 356:6 <b>participated</b> 132:11 <b>particular</b> 49:2 63:1 81:19 107:16 112:25 123:11,14 127:2 129:17 151:1,10</p>	<p>193:20 198:11 212:6 227:18 228:14 231:9 231:14,20 233:1 234:4 247:17,19 286:16,17 292:4 351:19 352:16 361:13 <b>particularly</b> 286:3 347:3 348:14 364:8 <b>parties</b> 46:11 63:23 68:4 72:3 79:19 97:19 106:19 172:3 180:3 181:8,9 291:12 292:12 292:16 301:25 303:2,10 308:12 326:10 359:2 362:9,9 362:16 <b>parts</b> 53:6 58:5 84:20 85:5 141:20 <b>party</b> 107:1 171:21 172:2 256:13 260:5 302:1,9 307:23 365:1 <b>pass</b> 61:14 69:11 328:16 <b>passed</b> 295:21 309:8 <b>paved</b> 111:6 <b>pay</b> 68:13 70:21 71:25 72:5 73:1 73:5 108:9 109:22 112:10 118:15,17 166:22 167:19 168:6,7 176:14 199:4 204:1,7 221:11 232:17 233:11 234:11 234:25 270:2,7</p>	<p>321:4,6 323:9 324:1,5,24 329:13 333:13 346:6,9 352:25 355:13,15,20 361:25 364:23 <b>payers</b> 219:13 <b>paying</b> 102:17 174:4,6 199:19 235:16 236:2 247:22 308:24 317:3,20 324:19 325:4 330:7 362:2 363:1 <b>payment</b> 57:21 <b>payments</b> 53:25 319:19,23 321:11,17 <b>payroll</b> 70:18 252:22 253:10 274:16 275:6 <b>pays</b> 57:17 271:20 275:6 <b>PCB</b> 148:6 <b>PE</b> 226:5 378:25 <b>peaks</b> 261:19 <b>pen</b> 243:19,21 <b>pencils</b> 289:21,24 <b>pens</b> 289:21,24 <b>people</b> 60:8 83:2 93:10,12,25 94:2,2,18 124:23 152:8 173:8 191:19 192:16 219:13 318:23,24 319:18 322:9 322:22 331:11 342:22 364:7 <b>percent</b> 67:20 75:18 231:20 231:22 237:10 324:23 349:9 349:12,22,23 <b>percentage</b> 343:3 <b>perfectly</b> 60:5</p>	<p><b>perform</b> 51:17 55:20 108:13 148:9 153:11 282:22 <b>performance</b> 238:13 <b>performed</b> 51:16 55:24 56:7,18 105:10 110:10 184:11 257:2 287:4 289:3,8,9 290:20,24 <b>performing</b> 56:2 68:2 <b>performs</b> 288:8 <b>period</b> 47:15 62:15 112:9,11 124:7 129:5 137:14,15 138:16 183:22 183:24 184:1 218:1,2,13 275:21 278:16 278:17,20 279:18,23,25 283:12,21 284:23 291:7 291:11 293:4 293:11 295:3 309:18 361:18 361:24 362:1 <b>periods</b> 129:12 171:13 283:11 <b>permit</b> 57:7 336:16 337:3 338:11,24 343:18,23 354:19,22 <b>permits</b> 344:18 <b>permitted</b> 339:7 <b>person</b> 117:12 301:14 302:21 311:9 <b>personal</b> 47:8 153:14 174:15 175:9 267:5,12 280:24 288:11</p>	<p>323:16 <b>personally</b> 103:13,15 110:9 116:11 133:25 206:11 209:1 222:8 305:12 380:7 <b>personnel</b> 154:20 305:2 <b>perspective</b> 285:17 <b>pertaining</b> 179:15 <b>per-customer</b> 102:23 118:25 119:5 290:23 291:2 <b>per-meter</b> 102:23 <b>phase</b> 352:17 <b>phases</b> 52:21 340:12 352:13 <b>phone</b> 44:20 169:20 220:18 223:4 287:6 318:22 319:13 323:12,13,14 323:16 333:10 <b>physically</b> 160:4 <b>pick</b> 183:10,15 240:17 <b>picked</b> 104:7 <b>picks</b> 183:23 <b>pictures</b> 331:9 <b>piece</b> 68:10 277:8 316:10,14 <b>pieces</b> 159:6 181:6 229:2,8 233:16 236:8 315:12 <b>pipe</b> 289:9 <b>pipng</b> 228:7 <b>pit</b> 105:25 126:12 127:23 <b>place</b> 46:24 52:5 52:23 100:19 119:23 140:24 148:11 149:19</p>
--	--	---	--	---

<p>150:3 159:24 229:3 232:5 234:5 251:4 294:17,20 321:24 322:1 342:12,13,25 380:8,16 <b>placed</b> 115:23 232:6 280:24 <b>placement</b> 115:16 <b>places</b> 49:19 <b>plan</b> 224:11 237:7 311:3 345:5 348:7 <b>planned</b> 347:5 353:23 <b>plans</b> 222:12 <b>plant</b> 57:1 68:5,7 68:11,13,16 101:1,16 157:14 159:7 159:22,24 165:3,4,4 172:16 174:24 185:21 188:18 195:24 210:16 210:17,18 233:9 263:2 291:14 330:23 334:21 339:13 339:23 342:1,3 342:11,21 343:23 344:1,4 344:6,7,9 349:18,21 350:6 351:6,15 351:18,20 354:3,18 355:15 368:23 <b>plants</b> 56:3 175:21 210:13 330:18,22 332:1 <b>plat</b> 319:11 338:21 339:6 <b>plating</b> 67:9 73:3</p>	<p><b>platted</b> 339:2 <b>play</b> 48:7 <b>Plaza</b> 43:10 <b>please</b> 59:2 63:17 74:18 88:12 96:18 120:20 136:6 220:10 225:16 265:19 283:22 284:15 298:10 357:8 362:14 <b>plenty</b> 354:11 <b>plumbing</b> 130:2 <b>plus</b> 65:4,8,15 70:4 101:9 221:4 252:21 <b>point</b> 46:9,22 47:4,22 50:2 56:5 61:6 63:8 66:13 81:11 84:23 106:10 108:14,22 130:19 179:19 183:4,5,10,14 183:16 193:9 194:20 215:1 233:6 241:19 244:16 269:7 269:22 276:8 277:11 278:8 278:24 279:6,9 279:9,12 282:3 282:3 291:15 291:17 313:12 <b>points</b> 286:13 <b>policy</b> 167:20 <b>population</b> 342:7 342:9 <b>portion</b> 48:3 82:1 101:12 196:8 243:3 350:4,6 351:2 <b>pose</b> 263:15 <b>position</b> 49:18 54:19 55:7 59:5 61:10 73:17,22 74:2,4 79:6</p>	<p>117:4 136:13 137:21 143:22 234:10 246:20 287:21 311:6 346:17 359:15 361:17 <b>positions</b> 55:9,18 148:8 362:10 362:17 364:3,4 <b>positive</b> 52:17 <b>possession</b> 183:1 183:3,12 317:9 <b>possibility</b> 337:13 <b>possible</b> 47:6 62:23 63:2 74:6 114:22 201:20 257:14 293:6 <b>possibly</b> 78:6 293:1 <b>post</b> 319:20 361:10 379:11 379:16,20,23 <b>postage</b> 174:19 174:21 210:25 255:3 273:10 335:4 374:9 <b>post-hearing</b> 194:13,18 360:13 <b>potential</b> 66:13 66:15 95:13 123:8,17,18 <b>potentially</b> 204:21 234:8 <b>practical</b> 352:15 <b>practice</b> 197:4,5 213:12 258:15 260:7 303:19 304:6 308:6 <b>practices</b> 179:4 <b>prefer</b> 357:21 <b>preference</b> 62:19 288:12 308:7 313:14 <b>prefiled</b> 48:19,24 358:22</p>	<p><b>prehearing</b> 45:19 <b>prepare</b> 207:23 <b>prepared</b> 75:1 88:17 97:1,1 121:4,4 198:2 225:23,23 226:7 265:25 265:25 277:12 278:3 280:22 284:19 298:18 298:18 <b>prepares</b> 154:20 <b>preparing</b> 257:12 <b>prepaying</b> 235:14 <b>presence</b> 257:1 <b>present</b> 185:6,23 298:6 305:18 312:2 346:25 380:7 <b>presented</b> 96:6 296:6 <b>presently</b> 200:8 247:9,18 <b>presiding</b> 42:18 44:13 <b>pressure</b> 228:9,9 233:15 <b>presumably</b> 205:8,10 <b>presume</b> 281:25 <b>pretty</b> 94:10 105:16 316:24 325:16 330:14 <b>prevail</b> 50:13 <b>prevalent</b> 50:25 151:13 <b>previous</b> 111:11 183:13 197:8 241:16 284:9 284:16 285:7 318:7 356:21 <b>previously</b> 58:1 186:23 263:17 276:21 <b>price</b> 52:7 247:5</p>	<p>247:6 307:16 308:10 321:6 <b>prices</b> 141:11 247:14 <b>Primarily</b> 244:23 <b>primary</b> 312:12 355:16 <b>principals</b> 285:15 <b>principle</b> 214:22 214:25 215:23 216:11 217:4 217:25 218:11 262:18 304:5 <b>printed</b> 75:13 166:2,4,5 <b>printing</b> 97:23 295:19 <b>prior</b> 105:10,13 106:11 163:23 168:24 171:3 171:13 181:14 183:24 184:1 184:12 185:19 215:25 241:7 275:22 279:25 280:6 281:2 332:25 <b>privately</b> 329:8,9 <b>probably</b> 50:1,1 60:13 63:10 66:1,2,5,5,14 78:9 103:5 160:7,21,23 200:2,14 202:8 223:5 318:1 319:21 329:10 354:14 363:10 <b>problem</b> 103:25 192:1 295:20 <b>problems</b> 83:15 83:21,25 219:6 <b>procedurally</b> 203:14 <b>procedure</b> 167:11 <b>procedures</b></p>
--	--	--	---	--

<p>303:9  <b>proceed</b> 100:4  122:2 136:1  139:16,23  146:6  <b>proceeding</b> 75:2  88:18  <b>proceedings</b> 42:6  380:7,11  <b>process</b> 50:9 51:2  53:22 55:1  58:18 61:15  84:6 85:22  87:15 94:10  168:19 172:19  173:12 348:3  <b>procuring</b>  195:20  <b>produce</b> 53:18  211:11 212:14  288:16  <b>produced</b> 56:16  147:10 211:8  <b>producing</b>  148:14,17  288:14  <b>professional</b>  77:13  <b>profit</b> 267:4,7,9  267:15,23  <b>program</b> 53:23  53:24 54:4 55:7  81:25 115:20  146:1,16,23  147:2 148:10  148:17,19  150:4,12 152:2  152:5,8 294:16  294:20 367:7  <b>programs</b> 150:22  <b>project</b> 52:14  338:12  <b>projection</b>  309:12  <b>proof</b> 71:9,10  308:14 324:16  <b>proper</b> 288:17</p>	<p><b>properties</b> 58:6  245:14 316:9  <b>property</b> 57:24  58:1 127:22  128:15 129:14  179:23 180:23  181:6 200:18  200:19,20  202:6,8 300:17  302:5,17,21  305:1 315:12  316:3,6,10,13  316:14 317:18  317:21 321:12  324:17,20,23  363:1  <b>property/liabil...</b>  46:7  <b>proposal</b> 254:3  <b>proposals</b> 260:23  <b>propose</b> 144:3  157:19 336:6  355:10  <b>proposed</b> 57:9  85:11 207:14  215:20 249:6  260:23 350:22  <b>proposes</b> 57:6  71:13 150:17  191:7 208:15  263:1 338:14  353:21  <b>proposing</b> 86:16  194:22 209:20  336:9  <b>proposition</b>  221:13  <b>prospective</b>  361:14  <b>protected</b> 73:9  <b>protection</b> 64:6  <b>prove</b> 64:9,10  66:4 71:13  <b>provide</b> 51:10  53:14 55:23  62:12 64:10,17  64:20 148:19</p>	<p>171:12 182:1  186:16 204:25  208:5 212:15  212:19,24  251:5 276:24  279:5 282:20  283:10,16  284:10 291:20  324:16 362:7  <b>provided</b> 70:15  79:18,21,23  83:11,14 95:13  103:14,16,21  108:12,16,20  109:14,24  114:22 137:19  151:1 157:18  159:17,19  167:4,7 170:6  172:20 173:25  175:24 178:22  182:3,18 183:2  185:15 196:22  215:17 216:5  249:4,20 250:6  254:1 256:10  258:6 274:11  277:9,10,13  278:12,15  279:7,8,13  281:10 282:16  282:16 286:2,6  286:8 287:11  288:12,23  290:1 294:10  294:12,18  310:21 312:8  343:18  <b>provider</b> 220:13  220:16,21  <b>provides</b> 57:20  200:18 251:14  <b>providing</b> 57:3  157:23 213:16  279:4  <b>provision</b> 67:7  268:3</p>	<p><b>prudence</b> 120:5  <b>prudent</b> 80:2  118:1,8  <b>PSC</b> 93:7 176:2  330:20 337:10  337:15  <b>public</b> 42:2 43:13  43:14,17,17,19  43:22 45:10,13  45:15 48:11  55:11,18 58:2  59:13 63:16  64:4,14,15  67:16 73:17  74:1 85:12,19  86:6,16 90:6  91:7 94:19  96:23 120:25  122:1 134:19  134:22 135:22  136:12,14,15  137:20 138:11  147:7 149:10  153:22 158:8  166:8 167:5  178:13 185:1  189:11,22  190:19 203:8  204:14 205:17  205:25 209:10  211:10 212:3  216:16 223:7  225:21 227:15  243:23 256:2  256:11,19,24  256:25 257:9  258:2 263:13  264:19 265:23  266:16 273:13  273:20 274:6  275:15 293:21  294:3,8 298:15  299:16 310:16  314:7 318:17  322:8 327:18  329:21 333:23  334:4 335:7</p>	<p>338:5 345:21  358:6  <b>publication</b>  211:23  <b>pull</b> 318:23  <b>pulled</b> 95:3  <b>pump</b> 56:24  67:18,21,25  68:18 193:18  227:19,22  228:3,4,20,22  230:18,20  231:10,10,14  231:21 232:1,4  232:17 233:1  233:11 234:12  234:12,15,20  235:1,8,15,20  336:18 347:4,7  349:3 354:3,6  354:10,17  <b>pumpage</b> 354:6  <b>pumped</b> 210:20  334:21  <b>pumping</b> 209:23  228:5,6,16,19  230:14,16,21  231:23,25  232:3,19,20  233:3,13 234:6  240:7 294:15  <b>pumps</b> 56:2  <b>purchase</b> 79:9  82:9 105:1  321:12  <b>purchased</b> 53:7  53:22 54:20  64:25 77:24  78:2 150:5  <b>purchases</b> 53:10  54:12  <b>purpose</b> 90:18  221:7,21  276:24  <b>purposes</b> 74:23  75:2 88:18  180:23 288:25</p>
--	---	---	--	--

337:24,25	119:13 125:19	108:19 109:17	214:1 216:13	330:3 333:18
<b>put</b> 50:15 59:23	125:21 140:25	111:18 113:3	216:22,23,25	333:20,22,24
66:23 71:13	149:12 153:3	114:25 115:6	218:7 220:5	334:2,5,6,10
81:24 90:21	154:10 166:15	117:1,19,21	223:6,25 224:1	335:8 338:7
91:2 92:20 93:5	166:23 167:2,6	119:14 120:9,9	224:15 226:22	339:19,20,22
93:20 94:1,22	168:11 169:8	121:10 127:4	236:11 237:19	344:12,15
95:8,14,16	177:23 179:24	133:6,8,12	237:21 238:17	345:16,19
99:13 101:16	189:3,7,8 191:6	135:19 139:1	239:18,23	346:11 353:2,4
115:13,15,22	191:11 193:13	139:18 142:7	240:1,19 241:1	366:10,11,14
117:14 119:23	199:16 201:6	142:10,12	242:5,7,12,14	366:19,21,21
126:20 131:14	203:13 210:5	143:24 146:12	244:4,5,7 246:4	367:14,14,15
131:22 132:19	212:7 215:25	147:13,14,16	246:12,13	367:18,25
132:20 142:2	216:3 218:20	147:18 148:24	248:18 249:9	368:6,7,15,16
160:8 163:10	226:12 229:21	149:23 150:9	249:10 252:13	369:6 370:25
173:15,16	229:21,24	150:11,25	252:14 253:19	371:1,4,5,5,6
174:8 175:21	232:22,22	151:22 153:4	254:9,11,15,19	371:10,17
176:21,22	234:9 244:6	154:1,2,4,5,8,9	254:20 255:4,9	372:1,13
177:1 195:4	248:24 252:4	154:11,21,22	255:14,20	373:25 374:24
232:24 234:6	253:25 256:3	158:7,25 159:1	256:21 257:21	<b>quick</b> 274:10
261:8 283:12	262:24 263:15	161:3 166:7,9	257:22 258:2	316:24 325:17
285:4 289:4	269:21 270:15	166:12,17	259:4,5 260:15	<b>quickly</b> 224:20
294:20,23	274:10 275:15	170:23,25	260:17,21	<b>quit</b> 314:21,22
313:11 319:2,3	281:12 299:17	175:11 177:25	263:10,19,24	315:9 316:11
320:25 321:1	300:12 302:6	178:2,5,23	266:7,17	<b>quite</b> 145:2 219:7
322:4 329:11	304:20 308:23	180:4,6,10	270:12,16	219:15
<b>puts</b> 128:10	309:3 314:18	181:5,13	273:2,4,4,14,15	<b>quoted</b> 249:16
<b>putting</b> 94:24	319:5 324:14	184:24 185:2	273:17,18,19	
294:16	330:2 334:9,11	187:9 189:12	273:21,22	<b>R</b>
<b>P.C</b> 43:4 45:2	339:21 341:2	189:13,16,17	274:4,5 275:8,9	<b>R</b> 44:1 243:13
<b>p.m</b> 365:15	353:12 356:4	190:5,8,9,20,21	285:18,19,21	248:8 380:1
<b>P.O</b> 43:5,14,20	357:13,18	190:23,24	291:3 293:17	<b>radio</b> 128:13,16
45:10,16	362:5	191:2,5,10,22	293:23 294:1,3	128:19
<b>Q</b>	<b>questions</b> 48:20	192:23 193:1,4	294:4,6,8 295:5	<b>raise</b> 225:10
	49:12,24 58:25	193:12,23,25	295:7,9 298:24	265:8 328:8
<b>qualifying</b> 201:6	61:6 75:23	195:6,7,15	300:11 304:15	<b>raised</b> 110:24
<b>quantifiable</b>	76:22 77:19,20	197:17,18	304:17,21	<b>raises</b> 318:1
60:10	77:21,22 78:18	198:18 200:25	306:4,11	<b>ran</b> 61:10 332:16
<b>quantified</b> 215:9	78:20 81:2,3	201:1,4 202:3	310:13 311:20	<b>random</b> 49:1
<b>quarterly</b> 292:3	85:25 86:3,13	202:13 204:13	312:16 314:5,8	<b>range</b> 62:13
<b>question</b> 49:5	86:25 87:1 88:3	204:16,17	314:10,17	<b>rate</b> 42:13,16
75:3 78:5 79:7	89:4 90:1,2,4,8	205:11,15,19	318:6 319:8	44:10 47:20
80:6,10 84:3	90:11,12 92:10	205:20 206:2,3	320:10 323:20	48:15 49:9
87:8 88:19 92:5	92:23 95:25	206:5,20,21,23	323:22 325:7	54:15,17,21
92:15 94:6	98:8 99:11	206:24 208:8	327:16,17,19	55:5,8,12 56:16
100:7 108:7	104:16,21	209:9,10,25	327:20,23,24	56:23 58:18,20
109:17 110:2	107:5,17,19,21	210:1,22 212:2	329:14,18,19	59:22 63:20,22
111:21 113:15	107:24 108:11	213:6,7,23	329:21,23,24	64:22 66:3

67:20 68:9,10	259:2,10,15,18	193:7,12,14	164:24 168:18	<b>realize</b> 78:3
68:16 71:15,22	259:21 260:1	195:4,19	284:15 300:24	331:25 355:14
71:23 72:6,8,16	261:9,12,18,21	197:14 198:8	332:20 358:18	360:17
73:6,10,15,18	261:23 262:1	198:14,15,16	<b>reader</b> 59:21	<b>realized</b> 355:7
74:5 81:10	262:19 267:19	201:14,25	65:1,19 76:25	<b>really</b> 71:7 72:18
84:12,25 93:8	289:5 291:22	214:13,17	77:13 79:16	123:15 124:17
93:15 95:4,8	293:7 309:9	215:2 218:12	101:7,13 116:4	126:24 129:7
97:20 100:9,13	311:3 318:19	224:6 225:6	116:16 118:23	134:4 219:2
100:14,16	319:7 323:9	228:1 229:15	119:9 125:2	281:8 289:22
105:12 106:23	332:15,22,25	232:24 234:7	128:1,8 138:9	339:8 340:21
107:3 109:9	333:2 336:7	236:17,19,22	<b>readers</b> 67:13	347:16 350:8
110:10 111:12	359:7,9 363:19	237:16 238:1,4	80:13 95:19	350:10 363:11
113:12,23	364:2,6 367:19	238:13,15,20	124:23 361:16	364:19
114:2,4,11,11	369:19	242:1 246:23	361:19	<b>realtor</b> 316:6
114:14,15	<b>ratemaking</b>	250:22 258:16	<b>reading</b> 53:1,8	<b>reannualize</b>
115:9 116:1,1,7	61:14 64:7	258:21 261:9	55:5 67:6 81:8	182:10
116:20,24	180:23 303:9	289:13 330:8	81:11,16 82:2	<b>reask</b> 216:3
118:21,21	<b>ratepayer</b> 67:3	332:4 333:1	84:5 95:18	<b>reason</b> 49:9
120:4 133:3	<b>ratepayers</b> 45:16	346:19 351:12	100:23 104:5	59:21 62:10
134:3 142:3	62:24 71:25	359:8 361:13	110:18 111:3,7	167:7 276:23
143:8,9 154:13	72:4 73:1,14	363:6,11,12,12	113:11 118:13	280:18 340:10
155:14 156:2	74:1 108:9	363:17,25	123:10,13	340:11 355:16
157:5,8,19	109:22 112:9	369:7	124:8 125:15	356:20 357:15
159:7 160:17	166:22 221:11	<b>Raytown</b> 131:17	126:15 127:2	<b>reasonable</b> 49:1
161:19 163:8	291:21 309:9	134:16 135:4	127:11,21	50:11 59:15
163:10 164:16	350:17	<b>reach</b> 58:11	128:1,4,10,20	60:18,19,23,25
165:1 173:9,20	<b>rates</b> 50:11 52:2	336:25 343:20	128:22,23	62:21 63:7 64:8
174:2,7 175:12	54:17 58:20	<b>reached</b> 224:20	129:8 131:10	64:13 66:5 67:2
175:15,15	59:23 60:2 61:4	<b>read</b> 52:25 53:12	133:18,20	67:14 68:15
178:19 180:2	61:25 63:11,21	65:23 81:17,21	135:17 144:19	69:22 70:13
182:9 185:11	64:7,12,13	82:10 84:13,14	167:16 296:23	71:1,14,20
186:2 192:18	67:17 68:1,4,5	84:25 86:7,20	366:5	72:14 73:4,15
194:5,11,13,17	68:6,13 69:13	95:20,21	<b>readings</b> 81:24	73:18,21 74:4
197:6,7,8,8,10	69:17 71:14	101:15,25	83:17,24	118:1 119:5
204:25 219:24	73:11 74:6	102:9,15 104:5	<b>reads</b> 125:3,3	153:7,13,19
226:14,17	76:24 79:8,11	104:8 105:24	128:16,16	174:6 202:5,17
228:16,24	84:12 99:17	106:2 110:12	152:14 226:12	203:5 233:8,10
230:11,25	100:10,12,18	110:19 112:11	226:15	247:21 258:24
231:11,20,23	106:22 110:12	112:24 119:24	<b>ready</b> 335:24	264:13 301:6
232:24 233:7	113:17,18	124:2,4,6 125:2	<b>real</b> 61:4 93:14	304:5 323:9,10
234:24 235:16	115:7,13,24	125:5,25	170:20 193:19	332:15 350:7
238:6 240:15	116:17,18	127:24 128:6	250:22 300:20	354:25
241:16 249:16	119:23 140:17	128:13,19	300:22 311:24	<b>reasonableness</b>
250:11 251:8,9	143:3,8 146:15	129:11 131:10	317:12 324:11	64:11 253:10
251:23,23,24	149:19 150:3	137:18,19	324:17	<b>reasoning</b> 232:16
255:21 258:15	191:17,20	138:9,10	<b>reality-based</b>	232:23 264:3
258:17,25	192:10,18	148:21 163:9	62:21	<b>reasons</b> 47:9 93:7

285:5	177:8,10	144:8,16	<b>recreated</b> 184:5	270:17,20
<b>rebuttal</b> 49:8	250:13 253:17	171:10 172:19	184:5,11	285:23,25
55:2 88:18	<b>receives</b> 351:1	174:10,12,15	<b>recross</b> 78:18	295:13,15
136:17,25	<b>receiving</b> 233:8	187:16 227:9	80:9,9,10 87:7	306:7,9 312:22
137:10,24	<b>recognition</b>	280:25 296:13	92:9 111:20	326:15,19
138:1 139:5	218:11	296:20,21	113:5 142:14	329:15 333:18
143:18 169:2	<b>recognize</b> 54:17	298:11 299:12	147:19 151:21	341:5,7 353:5,7
241:10 249:14	131:4 241:7	314:22 321:16	159:2 170:24	366:11,12,15
265:25 266:24	261:7 278:1	358:21 359:17	183:18 194:1	366:20,24
358:6,13	279:10	361:7 365:11	195:8 202:12	367:6,10,15,18
376:12,22,24	<b>recognized</b> 58:19	365:13	203:8 218:6	367:23 368:1,9
377:20,23,25	<b>recommend</b> 58:3	<b>recorded</b> 83:20	246:13 306:3,4	368:16,22
<b>recall</b> 90:15	59:5 112:4	165:4 267:4,11	326:12,17	369:15,18
157:10,11,12	267:18 288:20	315:23,25	329:15 333:17	370:8,17
159:12 198:5	<b>recommendation</b>	316:1 317:3,7	341:1	371:11,18,22
258:9 277:10	59:25 78:11	<b>recording</b> 123:12	<b>Recross-Exami...</b>	372:8,16,22
295:16 341:14	84:23,24	128:24	92:13 111:22	373:12,24
<b>receipt</b> 176:7,10	100:25 101:25	<b>recordkeeping</b>	113:9 183:20	374:13,25
176:14 181:16	155:7 210:8	63:22	202:15 366:14	375:10
<b>receipts</b> 175:22	252:20 311:11	<b>records</b> 61:20	366:19,20	<b>reduce</b> 272:19
176:1,3 181:15	336:2	62:12 83:5	368:8 371:2	<b>reduced</b> 56:23
184:4	<b>recommendati...</b>	91:21 92:3	<b>REC'D</b> 376:5	104:2
<b>receive</b> 77:15	46:10 117:6	123:19,22	<b>redirect</b> 78:18	<b>reduces</b> 234:24
110:17 220:3,3	359:12,16,18	168:15,20	80:6 81:4,6	<b>redundancy</b>
252:24 254:4	<b>recommended</b>	169:5,7,9,24	87:4 92:24 93:4	100:2
352:10	80:11 101:14	170:11,14,18	115:2,4 133:10	<b>refer</b> 81:18
<b>received</b> 52:3,6	147:1 231:1	170:20 171:6,7	133:13 142:13	127:25 141:5
54:23 61:17	233:6 308:6	171:12,15	142:15,17,19	172:12 196:21
62:4 76:15 77:8	322:13 334:16	172:12,16,19	147:20,22	303:8
77:12 89:19	<b>recommending</b>	172:21 173:18	151:22,24	<b>reference</b> 104:25
98:25 104:10	85:5 100:25	173:19 233:25	155:3 159:2,4	106:10 159:11
106:4 110:5,6	101:6 103:2	281:9 283:13	170:25 171:1	278:10 279:1
111:24 112:5	143:22 231:22	283:16 315:22	185:3,5 189:19	286:13 337:17
114:23 116:25	<b>recommends</b>	354:6	190:10 194:1,1	343:5,6
117:1 121:24	138:11 251:18	<b>recover</b> 63:7 65:3	195:9 197:19	<b>referenced</b>
132:8 139:15	288:18	65:8 69:19 71:1	197:21 203:11	160:18 171:17
179:13 182:24	<b>reconciliation</b>	337:9 350:18	204:18,20	312:6 341:16
223:17 227:10	197:23 364:20	351:25	206:25 207:2	<b>references</b> 75:13
256:9 260:25	<b>reconnect</b> 54:2	<b>recovered</b> 60:1	210:2,4 213:8	75:15 159:12
284:12,19	<b>record</b> 48:17	120:1 201:14	213:10 218:7,9	312:11
288:5 297:6,13	49:6 50:16	201:25 261:13	224:2,4 237:22	<b>referred</b> 83:2
298:3 299:13	53:18 66:17	262:11 352:7	237:24 240:2,3	114:3,5,18
360:5,10 361:8	76:13 89:17	<b>recovering</b>	242:8 246:15	236:21
<b>receiver</b> 148:2,5	96:19 98:3,23	343:13	246:16 252:15	<b>referring</b> 46:1
206:15 253:14	100:3 120:21	<b>recovery</b> 258:23	252:17 254:11	134:8 181:21
<b>receivers</b> 250:11	121:23 132:7	261:7 337:15	257:23,24	184:22 200:16
<b>receivership</b>	133:23 139:13	352:6	260:18,20	237:5 241:12

<p>277:17 303:18  <b>reflect</b> 68:6,19                  221:3  <b>reflected</b> 281:6,8  <b>refresh</b> 179:17                  197:23  <b>regard</b> 49:7                  106:25 132:20                  141:23 172:19                  234:3 280:15                  281:12  <b>regarding</b> 65:21                  69:17 91:20                  97:20 103:8,18                  122:8 135:16                  137:15,21                  166:16,23                  168:11 201:7                  257:8 258:10                  258:12 287:8                  303:9 337:13  <b>region</b> 250:1                  252:9  <b>register</b> 170:15                  283:23 284:20                  294:13  <b>registers</b> 281:7                  283:17  <b>regular</b> 105:24                  289:7  <b>regulate</b> 304:8  <b>regulated</b> 50:23                  51:12 55:20                  58:15 59:23                  62:19 93:21                  94:2 134:11,17                  134:20,24                  144:17,20,23                  145:6,8,15                  169:24 176:16                  211:10 267:23                  285:2  <b>regulation</b>                  211:12 212:14  <b>regulations</b>                  330:20  <b>regulatory</b> 42:18</p>	<p>44:13 51:1                  96:24 265:22                  288:25 298:16  <b>reimbursement</b>                  221:20  <b>reject</b> 309:21  <b>relate</b> 301:25  <b>related</b> 55:23                  56:20,24 81:23                  106:5 108:4                  138:9 180:21                  180:25 182:12                  185:21,22                  196:6 207:24                  215:1,3,18                  216:7,7 289:14                  290:25 301:25                  302:8 303:2,10                  307:22 308:13                  311:13 321:22                  341:12 346:20                  349:1 351:14  <b>relating</b> 171:13                  304:13  <b>relation</b> 244:23  <b>relationship</b>                  302:2  <b>relatively</b> 65:16  <b>relevant</b> 203:14                  273:9 283:10                  287:2 291:17                  359:3,9  <b>reliability</b> 337:24                  343:7,11  <b>relied</b> 250:8                  287:20  <b>relieve</b> 301:14  <b>rely</b> 184:16                  287:17  <b>relying</b> 222:18  <b>remain</b> 146:6                  149:7 153:25                  155:19 161:11                  188:24 189:25                  190:15 234:7                  335:17  <b>remaining</b> 58:10</p>	<p>238:22 313:24  <b>remember</b> 100:7                  111:25 131:14                  160:9 237:1                  276:7 301:2                  343:7 353:12                  356:4  <b>remind</b> 44:20                  50:7  <b>reminding</b>                  326:10  <b>remit</b> 319:19  <b>remote</b> 52:25                  81:17 82:10                  84:13,14,25                  86:20 106:2                  148:21  <b>remotely</b> 128:17  <b>removal</b> 119:22                  226:13,16  <b>removed</b> 45:24                  156:20  <b>removing</b> 46:8                  119:20  <b>rent</b> 57:17 68:21                  68:23 69:20                  198:21 199:24                  201:7,15 202:4                  202:5 247:5                  309:2 310:5                  314:13 317:20                  322:11,22,22                  326:12  <b>rental</b> 57:24,25                  58:4,6 69:9,17                  202:9 246:22  <b>rentals</b> 69:18  <b>rented</b> 57:11,14  <b>renting</b> 323:3  <b>rent/office</b>                  242:11 297:17                  314:3  <b>repairs</b> 199:12                  201:20  <b>repeat</b> 100:8  <b>repeatedly</b> 61:24                  288:18</p>	<p><b>rephrase</b> 140:25                  205:4 230:1                  357:7  <b>replace</b> 234:14                  235:3,7 296:10  <b>replaced</b> 234:8                  235:21 296:5                  351:18  <b>replacement</b>                  115:19  <b>replacing</b> 296:17  <b>replied</b> 251:1  <b>report</b> 211:5,8,10                  211:15 212:7                  212:15,20                  213:2,13  <b>REPORTED</b>                  42:24  <b>reporter</b> 44:5                  45:4 130:23                  136:7 144:12                  242:20 277:22                  296:1 297:21                  365:10 380:5  <b>reports</b> 309:5  <b>reprehensible</b>                  177:20  <b>represent</b> 131:23                  162:15  <b>representative</b>                  62:16 247:4                  288:4  <b>represented</b> 54:9                  158:13  <b>represents</b> 59:12                  351:3  <b>repudiate</b> 162:12  <b>request</b> 62:5                  64:17 73:24                  74:2 91:21                  103:17 122:7                  122:12 123:25                  130:21 134:9                  144:14 145:6                  181:22 186:3                  274:16,24                  276:15 279:17</p>	<p>281:13,16                  282:6,8 283:2                  293:15  <b>requested</b> 172:21                  183:9,15                  201:13,16,24                  209:14 277:13                  279:21 282:24                  350:24  <b>requesting</b> 59:22                  65:8 68:22 70:3                  70:5 194:12                  196:19 216:19                  258:7 274:19                  310:20  <b>requests</b> 58:21                  61:21 70:9,17                  108:15 280:12                  293:11  <b>require</b> 145:2                  171:10 176:4                  211:14 215:6                  337:14 355:14  <b>required</b> 51:18                  56:10 64:6                  105:20,24                  210:16 211:11                  212:10 272:16                  278:23 305:4                  308:9 337:7,24  <b>requirement</b>                  55:15 56:12,20                  219:23 226:15                  226:17 267:19                  268:4 363:9,13                  363:16  <b>requirements</b>                  57:2 63:23                  339:3  <b>requires</b> 199:3                  339:9  <b>research</b> 69:17                  86:10 109:12                  145:3 247:13                  249:20  <b>reservations</b> 60:2                  60:10</p>
---	--	--	--	--



<b>reserve</b> 65:5,16 67:24 68:18 101:3,9,18 178:2 232:10 232:14 235:7 235:19,22 351:13,16,20	319:25 <b>result</b> 65:2,21 68:12 165:3 224:21 267:19 269:19 <b>resulted</b> 52:19 60:6 <b>results</b> 177:13 267:9 268:25 <b>retained</b> 74:24 <b>retired</b> 351:18 <b>retirement</b> 233:25 237:11 237:12	143:11,20 166:18 241:11 249:19 250:5 284:10 290:3 292:16,19 306:16 <b>reviewed</b> 122:13 122:15 159:16 159:19 184:8 200:6 223:20 223:20 238:14 283:11 299:19 <b>reviewing</b> 100:4 150:21 151:14 <b>revised</b> 97:11,24 295:17 378:2,5 378:8,12 379:1 379:4,6,9,11,16 379:20,23	172:25 174:25 177:6 178:3 179:21 180:17 184:19 188:8 192:12 215:15 216:14 225:10 233:21 240:14 243:1 246:12 252:13 265:8 272:12 280:5 300:19 311:10 314:9 325:1,5 328:9 330:7 332:1 335:1 337:16 338:19 339:11,14 348:25 349:25 349:25 351:13 <b>River</b> 170:7 <b>road</b> 50:16 115:18 309:6 <b>Robertson</b> 358:7 358:24 360:2,3 376:23 <b>Robertson's</b> 359:22 <b>rock</b> 178:20 <b>Rockport</b> 51:23 52:1,5 56:24 164:23 165:1 169:12,13 228:5,13 243:14 248:8 300:19,22 336:3 339:24 340:8,11 344:20 346:1 346:21 348:9 348:10 350:23 356:16 377:14 377:18 378:6 378:13 379:5 379:10,17,24	<b>roll</b> 174:25 <b>rolled</b> 268:24 <b>rolls</b> 175:3 <b>room</b> 71:22 160:5 247:17 247:19 364:7 <b>rotate</b> 192:25 <b>rough</b> 102:18 160:13 <b>round</b> 186:12 <b>route</b> 95:24 <b>routinely</b> 65:15 <b>row</b> 111:6 <b>RPR</b> 42:25 380:25 <b>rubber</b> 73:7 <b>ruin</b> 322:10 <b>rule</b> 261:4 303:20 <b>rules</b> 50:8 135:15 303:14,15 <b>run</b> 51:19 241:23 250:12 330:12 330:17,18 332:1,7,10,12 <b>running</b> 93:12 191:19 192:16 291:19 <b>runs</b> 159:18 <b>Russo</b> 95:6 332:23 333:10 <b>R-i-c-e</b> 225:17
<b>responded</b> 130:10 <b>responding</b> 56:4 <b>response</b> 49:16 76:11 79:22 83:12,13 86:12 89:15 98:20 103:17 120:10 121:21 122:12 122:16 123:25 134:10 139:10 154:23 191:12 192:3 227:7 246:14 274:23 275:15 281:18 282:12,15 284:13 299:10 376:17	<b>return</b> 63:7 65:5 65:17 101:4,10 101:19 205:5,7 267:1,5,12 268:8,12,16,23 268:25 269:13 269:17,24 270:1,6 271:22 332:15 351:1,2 351:25 352:1 352:10 355:4 359:7 <b>revenue</b> 55:15 56:12,20 217:8 217:16,18 218:25 219:20 219:23 226:13 226:16 267:18 268:4 292:24 363:9,13,16	<b>revisions</b> 97:19 <b>revolves</b> 211:4 <b>Rice</b> 225:8,9,14 225:17,18,22 226:5 227:12 227:17 236:16 238:16,18 369:11 378:25 <b>rid</b> 169:10 170:3 170:9 <b>ridiculous</b> 175:6 <b>right</b> 47:13 48:7 48:10 50:17 72:23,25 74:9 79:1 80:6 90:1 93:3,21 100:3 102:3 106:13 108:20 111:4,6 111:24 113:8 119:6 120:8 122:15,18 123:24 126:5,6 137:7,23 138:3 138:7,17,20 142:6 155:2 156:10,21 157:9 158:1 168:5 171:8	<b>Robertson's</b> 359:22 <b>rock</b> 178:20 <b>Rockport</b> 51:23 52:1,5 56:24 164:23 165:1 169:12,13 228:5,13 243:14 248:8 300:19,22 336:3 339:24 340:8,11 344:20 346:1 346:21 348:9 348:10 350:23 356:16 377:14 377:18 378:6 378:13 379:5 379:10,17,24 <b>Rockport's</b> 336:13 338:21 <b>Rogue</b> 148:2 <b>role</b> 59:4,8	<b>roll</b> 174:25 <b>rolled</b> 268:24 <b>rolls</b> 175:3 <b>room</b> 71:22 160:5 247:17 247:19 364:7 <b>rotate</b> 192:25 <b>rough</b> 102:18 160:13 <b>round</b> 186:12 <b>route</b> 95:24 <b>routinely</b> 65:15 <b>row</b> 111:6 <b>RPR</b> 42:25 380:25 <b>rubber</b> 73:7 <b>ruin</b> 322:10 <b>rule</b> 261:4 303:20 <b>rules</b> 50:8 135:15 303:14,15 <b>run</b> 51:19 241:23 250:12 330:12 330:17,18 332:1,7,10,12 <b>running</b> 93:12 191:19 192:16 291:19 <b>runs</b> 159:18 <b>Russo</b> 95:6 332:23 333:10 <b>R-i-c-e</b> 225:17
<b>responses</b> 280:11 284:19 <b>responsibility</b> 201:11 <b>responsible</b> 73:13 199:8 201:22 <b>responsive</b> 48:19 49:4,12 <b>rest</b> 81:14,15 134:18 310:24	<b>revenues</b> 214:6 214:17,19 215:12 216:1,8 217:6,10,23 218:3,22 219:9 219:10,22 220:2 291:13 291:14 293:5 <b>review</b> 62:20 103:9 122:11 142:24 143:3	172:25 174:25 177:6 178:3 179:21 180:17 184:19 188:8 192:12 215:15 216:14 225:10 233:21 240:14 243:1 246:12 252:13 265:8 272:12 280:5 300:19 311:10 314:9 325:1,5 328:9 330:7 332:1 335:1 337:16 338:19 339:11,14 348:25 349:25 349:25 351:13 <b>River</b> 170:7 <b>road</b> 50:16 115:18 309:6 <b>Robertson</b> 358:7 358:24 360:2,3 376:23 <b>Robertson's</b> 359:22 <b>rock</b> 178:20 <b>Rockport</b> 51:23 52:1,5 56:24 164:23 165:1 169:12,13 228:5,13 243:14 248:8 300:19,22 336:3 339:24 340:8,11 344:20 346:1 346:21 348:9 348:10 350:23 356:16 377:14 377:18 378:6 378:13 379:5 379:10,17,24 <b>Rockport's</b> 336:13 338:21 <b>Rogue</b> 148:2 <b>role</b> 59:4,8	<hr/> <b>S</b> <hr/> <b>S</b> 44:1 269:6 272:14,17 326:24 327:2,4 327:12 328:12 328:21 <b>sad</b> 78:23 <b>safe</b> 67:7 291:20 <b>said/she</b> 61:13 <b>sake</b> 47:19,20 48:11 <b>salaries</b> 70:1,11 152:16 205:14 248:20 254:1 274:5,6 329:17	

<p>333:18 372:9  <b>salary</b> 70:3,4,5  71:2,3 152:9  154:18,20  155:7 248:25  249:6 287:18  288:18 290:7  290:14 330:13  <b>sale</b> 308:16  <b>sample</b> 207:22,23  207:24  <b>samples</b> 173:23  <b>sat</b> 213:20 318:21  <b>save</b> 78:16  313:21 314:1  <b>saw</b> 161:22  163:24 223:22  <b>saying</b> 91:5  154:12 162:10  162:11,13  188:4 199:18  222:2 235:6  264:23 301:17  318:25 327:14  327:15 339:14  352:15  <b>says</b> 49:8 64:7  110:3 164:16  164:17 165:23  172:15 324:15  324:15 337:3  339:15  <b>SA-2012-0019</b>  138:15  <b>SA-2012-019</b>  158:22  <b>scale</b> 118:10  343:25 349:17  <b>Schedule</b> 224:11  <b>schedules</b> 97:7  97:12,17,24  98:7 143:17  230:25 295:18  296:9,14,24  297:9 377:9,13  377:15,17  378:2,5,8,12</p>	<p>379:2,5,7,10,12  379:17,21,24  <b>Schulte</b> 108:2  166:18  <b>scope</b> 240:10  310:9  <b>search</b> 141:14  <b>searches</b> 141:12  <b>seat</b> 225:4  <b>seated</b> 74:15  96:15 120:17  225:13 265:12  297:19  <b>second</b> 72:2,10  72:20 73:25  101:12 137:9  164:14,15  167:6 171:18  172:10 173:19  252:3 264:18  272:2 285:8  337:14,23  343:6,22 344:9  357:3  <b>secretary</b> 318:20  319:9 322:5  333:14  <b>Security</b> 304:8  <b>see</b> 48:10 49:23  59:11 60:15  78:17 81:19  93:22 113:17  113:18 122:25  125:4,25 129:3  129:5,16 131:9  152:21 153:5  167:9 172:10  173:8 182:18  195:8 196:22  213:20 214:18  223:20 225:25  244:22,25  249:5 279:19  284:17 290:6  291:18 303:7  305:18 306:15  307:3,11</p>	<p>311:17,18  314:25 315:9  334:16 349:9  <b>seeing</b> 121:22  139:11 301:2  <b>seek</b> 79:17,24  80:3 141:11,16  141:19 291:4  308:14  <b>seeking</b> 65:3  220:24 309:2  <b>seeks</b> 142:2  221:20  <b>seen</b> 66:21 83:8  161:21,23  163:16 177:16  257:4 263:4,7  300:7 301:5  307:11 309:14  <b>sees</b> 274:14  <b>selected</b> 52:20  <b>sell</b> 316:23  <b>selling</b> 302:19,21  316:14  <b>sells</b> 320:2 324:5  <b>send</b> 173:13,14  211:22 276:18  319:9,18  332:20 333:9  <b>SENIOR</b> 42:18  <b>sense</b> 302:15  <b>sent</b> 46:4 54:14  62:2 94:17,18  167:7,25 168:7  169:15 173:6,8  173:11,23  284:6 332:23  333:11  <b>sentence</b> 137:18  138:10 226:12  <b>separate</b> 52:2  57:12 86:14  115:24 148:20  174:17 207:14  229:13 230:3  268:11,16,23  283:19 289:13</p>	<p>344:10  <b>separately</b>  212:24  <b>September</b> 52:24  94:25 276:9  281:14 283:22  291:25 292:5  292:22  <b>septic</b> 331:15  <b>serial</b> 54:7  <b>serious</b> 61:2  177:24  <b>serve</b> 65:6 337:1  339:25 340:16  346:2,7  <b>served</b> 57:20  80:23 118:2  <b>serves</b> 51:23  <b>service</b> 42:2  43:19,23 45:10  51:10,12,12  54:6 57:3 67:8  94:19 96:24  108:8 109:22  115:25 120:25  135:16 166:21  168:9 213:16  220:13,19  221:3,12  225:21 241:17  241:20 265:23  270:11 291:1  291:20 298:16  310:25 312:3,8  330:8 336:12  350:23  <b>services</b> 42:25  55:24 56:13,20  64:2 74:23  108:16 109:13  220:25 221:8  221:19,22  223:12,16  225:20 312:13  319:19 380:6  <b>service-related</b>  56:4</p>	<p><b>session</b> 301:14  <b>set</b> 52:7,10 59:23  67:25 68:5,17  68:19 69:9  93:15 99:17  106:22 143:8  197:13 198:9  201:10 219:24  228:16 229:15  232:1 235:7  236:17,21  237:16,25  246:22 258:20  258:21 292:3  293:14 295:18  296:17 300:5  320:2,4 342:7  380:8  <b>sets</b> 100:12  296:14 338:16  <b>setting</b> 50:10  64:13 218:12  235:3  <b>settlement</b> 114:4  114:6  <b>seven</b> 53:13  <b>sewage</b> 56:3  156:16 229:17  342:1 349:3  354:18  <b>sewer</b> 42:13,15  43:12,19 44:11  45:4 50:23 51:8  51:10,21,24,25  54:14,15 55:20  56:25 58:16,23  63:19 69:3,25  74:25 88:15  107:15 114:23  116:20 121:1  132:12 138:11  138:14 140:6,9  144:17 148:4  165:1,3,18,20  165:24 169:12  169:13 171:3,5  171:21,24</p>
--	--	--	---	--

172:15 183:25 201:12 204:7 204:22 205:1 224:7 229:20 230:4 231:2,8 236:23 237:15 238:2,7,9,12 250:12 270:25 271:16 274:22 277:14,25 280:11 283:20 285:2,15 301:18 302:3 302:13 303:16 304:9,12 310:7 321:23 327:11 336:18 343:25 346:21 347:25 349:18 377:10 377:14 378:2,6 379:2,5,13,18 <b>shareholders</b> 270:24 271:2,5 271:9 272:1,2 <b>sharing</b> 117:14 <b>shed</b> 322:23 <b>sheer</b> 87:23 <b>sheet</b> 197:23 277:11 286:7 287:2 380:9 <b>sheets</b> 51:11 70:14,23 71:9 230:24 238:6 274:11 275:16 275:21 276:21 278:8 283:3 286:3 287:11 288:24 290:2 290:11 305:21 <b>she'd</b> 272:22 <b>shield</b> 115:17 <b>shock</b> 261:9,12 <b>shoots</b> 343:19 <b>short</b> 47:15 330:2 <b>Shorthand</b> 380:5 <b>shortly</b> 59:22 <b>show</b> 65:2,11	66:7 67:19 69:5 69:14,21 70:22 102:11 105:5 164:3,3 170:3 205:5 242:2,4 277:24 285:9 310:24 315:22 331:9 360:19 <b>showed</b> 63:25 174:19 <b>showing</b> 300:8 <b>shows</b> 66:6 70:19 205:7 241:15 246:22 287:1 307:3 311:17 314:25 <b>shut</b> 93:11 <b>sic</b> 93:23 112:19 300:20 <b>side</b> 104:1,7 112:21 343:25 353:14 <b>sign</b> 162:2 167:23 <b>signage</b> 318:9 <b>signature</b> 165:10 165:12,14,17 165:21,25 166:3 <b>signatures</b> 165:9 <b>signed</b> 141:2 162:8,9,10 314:23 316:19 <b>significance</b> 85:8 <b>significant</b> 54:10 55:22 57:10 58:3,17 84:1 <b>signs</b> 305:3 <b>similar</b> 69:18 85:23 152:12 270:8 <b>Similarly</b> 67:22 <b>simple</b> 151:16 230:23 265:2 289:7 290:15 <b>simpler</b> 365:3 <b>simplification</b>	262:5,6 <b>simply</b> 119:22 123:10 194:19 198:12 286:9 340:25 <b>single</b> 52:13 68:3 68:10 <b>singular</b> 110:4 <b>sir</b> 74:14 77:25 88:21,25 89:3,7 89:10 90:5 91:9 91:12 113:7 135:25 165:11 166:13 168:16 171:4 172:11 172:14 217:2 225:12 254:23 264:25 304:22 306:1 312:1 314:20 315:1,8 315:24 316:4 320:14,17 322:1 328:10 335:14,18 <b>sit</b> 196:24 215:16 287:5 322:4 332:5 <b>site</b> 207:23 <b>sitting</b> 197:2 235:20,23 <b>situation</b> 66:2 67:15 118:9 123:25 125:1 269:2,19 270:7 271:12 <b>six</b> 90:22,23 95:21 173:10 305:7,8,11,12 <b>size</b> 54:7 134:25 202:5,7,17 338:11,12 339:6,12 348:22 353:16 354:9 <b>sized</b> 57:1 347:14 <b>skip</b> 188:15 273:12	<b>Skipping</b> 155:12 <b>sledge</b> 208:23 <b>slightly</b> 357:12 <b>sludge</b> 71:10 208:11,15 210:13,16,17 254:21 294:7 294:11 331:2 333:25 373:20 <b>small</b> 44:9 50:23 50:25 51:18 54:15 58:23 60:4,7 61:18 65:23 67:10 70:24 71:23 72:8 115:22 177:3,7 186:12 186:18 211:14 231:7 233:24 236:4,23 237:6 237:15 238:1 238:14 310:6 328:4,5,16 <b>smaller</b> 65:16 129:12 <b>smart</b> 86:8 329:6 <b>software</b> 102:2 108:5 150:22 151:1,10,16 152:8,11 <b>sold</b> 134:14 302:6,7 308:16 316:9,20,21 321:7 323:5 340:3 342:21 <b>solely</b> 104:14 <b>solids</b> 331:5 <b>Solutions</b> 109:19 151:2 <b>solve</b> 265:4 <b>somebody</b> 160:13 176:12 222:15 305:18 318:11 319:6 319:16 320:7 352:21 <b>someone's</b> 50:11	<b>soon</b> 95:4 234:8 234:15 <b>sorry</b> 65:12 78:21 80:9 93:3 141:13 142:14 194:2 215:24 223:15 244:11 247:2 269:10 326:12 349:5 365:10 <b>sort</b> 54:7 130:14 259:18 341:9 <b>sought</b> 84:5,9 <b>sound</b> 269:2 <b>sounds</b> 337:11 <b>source</b> 129:13,15 <b>space</b> 57:11,14 57:16 68:24 69:16 199:5,20 199:25 202:17 202:18 203:1,4 245:18 306:13 307:8,9,13 310:7 <b>spaces</b> 246:23 <b>span</b> 229:4,6 231:15,15,17 232:5,18 233:2 233:12,12 234:6,13 235:1 361:21 <b>speak</b> 99:22 236:7 <b>special</b> 124:8 <b>specific</b> 83:9 94:7 114:15 129:13 150:14 159:10 159:12 161:1 181:25 209:14 212:16,21 216:18 231:17 240:6,7 250:7 341:15 357:6 359:11 <b>specifically</b> 106:18 114:7 157:12 166:17
---	--	---	---	--

168:17,21	54:19,24 55:3,6	182:3,8,24	304:24 305:6,8	372:3,17 373:6
182:12 201:13	55:9,17 56:11	183:1,3 184:9	305:13 307:3	373:18 374:5
244:17 245:7	56:22,23 57:9	186:5,11 187:2	311:16 314:4	374:16 375:3
245:10 249:15	58:2 59:1,15	187:5 188:9,24	322:8,13	375:13 376:17
257:12 263:18	60:15,20 61:1,9	190:4,12,16	326:21 329:18	377:4
289:14 337:12	61:11,14,19,24	192:5 194:6,7	333:8,21 334:1	<b>stamped</b> 73:7
<b>specified</b> 230:12	62:2,8,18 63:3	195:8,14 196:6	334:13 335:4	<b>stamps</b> 173:12,16
<b>speculation</b>	64:3,15,16	197:5 198:22	335:20 336:10	<b>stances</b> 361:14
272:22	65:21 66:8,13	199:17 201:7	342:17 345:15	<b>stand</b> 192:24
<b>speculative</b> 78:3	66:21 67:19,22	203:22 205:14	346:17 350:7	194:5 196:24
<b>spell</b> 136:6	67:25 68:8	205:22 206:6	351:3,5 356:13	256:24 263:21
<b>spend</b> 71:6 177:3	76:17 79:22	208:11,15	356:14,24	313:12 323:7
262:1 333:2	83:12,14 84:22	209:16,19	357:15,20,21	<b>standalone</b> 135:1
<b>spending</b> 247:12	85:10 89:21	210:12 211:1	358:13 359:11	<b>standard</b> 82:24
<b>spends</b> 56:9	91:1,4,23 92:19	214:2,5,10	360:8,9,10	87:18,19
<b>spent</b> 58:16	93:18,19 94:3	215:9,17 216:5	362:16 364:25	105:21 106:2
286:16,21	96:9,11 97:2,4	219:9 220:9	377:9,13,15,17	127:12 135:10
287:14 289:2	97:6,7,8,11,12	221:2,11 222:3	378:2,5,8,12	138:15 141:16
333:1	98:1,14,15,15	225:6 227:5,8	379:1,4,6,9,11	197:4,5 236:21
<b>spite</b> 55:9	98:15,16,21,21	227:10 229:12	379:16,20,23	237:16,25
<b>split</b> 84:19	98:22,22,24	230:23,25	<b>staff's</b> 54:13,18	238:6 251:22
<b>spoke</b> 91:10	100:25 101:6	231:5,12,16	59:4,16,25	258:15 260:6
311:9 326:2	101:14 102:3	233:21,23	61:21 63:5	276:18 303:19
<b>sponsored</b> 97:7	103:2,11	234:3,13	65:24 100:24	339:1
<b>spouse</b> 51:15	106:10,16	235:17 236:22	101:25 103:9	<b>standardized</b>
<b>spread</b> 53:12	107:1,12 109:9	237:16 239:1	103:17 117:4	284:5
60:7 90:23	110:6,11 112:4	240:18,25	118:5 134:9	<b>standards</b> 135:16
110:25 113:1	113:24 114:1	242:11 248:21	137:16,21,22	303:18,24,24
118:12,20	114:19 115:2	253:22 254:14	143:16 145:20	304:3,11
362:2	119:21 120:13	254:22 255:3,8	147:1 152:9	338:16 339:9
<b>spreading</b> 90:18	120:14 121:5	255:13 256:10	178:4,6 179:4	342:2,4,7,25
115:16 116:8	121:17,18,19	258:6 260:1	190:11 193:21	<b>standpoint</b> 52:17
<b>spreads</b> 262:4	121:22,24	264:4 266:1	208:18 219:17	78:11 83:4
<b>sprung</b> 72:2	122:7,7,11	267:14,18	227:4 229:10	117:12 157:14
<b>square</b> 69:15,17	130:13 131:8	268:2 274:13	232:16 234:10	202:20 207:21
247:1,3,6,7,8	131:19,22	276:24 277:13	240:17 241:23	217:7,20 221:9
247:14,16,19	133:11 134:9	281:11 282:5	241:23,25	221:10 222:9
<b>SR-2013-0231</b>	139:16 144:10	283:9,11	255:22 258:14	223:14
187:16	144:16 145:13	284:10 286:3	258:25 259:17	<b>start</b> 50:18
<b>SR-2013-0321</b>	146:9 149:2,4	288:18,22,23	266:13 274:23	173:17 187:19
42:13 44:9	150:17,18	290:19,22	287:20 296:24	265:3 286:21
ss 380:2	153:11 154:1	294:10,14	341:16 350:17	293:8 306:10
<b>St</b> 238:9,10	155:19 157:18	295:18,24	350:25 352:8	332:2 333:14
251:25 252:2	161:14 167:5	296:8,18 297:9	366:16 367:11	344:11
<b>staff</b> 43:18,22	168:19,22	297:10,12	368:19 369:4	<b>started</b> 94:2,3,18
44:3 45:6,9	171:25 175:18	298:3,19 299:6	369:10,23	94:24 171:7,9
46:10,19 47:7	177:19 181:2	299:8,11,13	370:12 371:12	174:3,6 331:15

<p>331:16  <b>starting</b> 127:9  191:18 282:3  314:3  <b>starts</b> 318:14  <b>state</b> 42:1 58:13  64:5,14 74:18  82:21 88:12  96:18 120:20  136:6 225:16  241:11 252:6  265:19 266:24  278:12 298:10  309:25 324:12  380:2,20  <b>stated</b> 49:3 65:24  66:21 68:24  86:6 105:14  168:19 196:20  241:22,23  259:1 274:24  277:4 280:16  302:18 331:6  357:4  <b>statement</b> 44:22  49:18 61:10  65:25 73:10  132:24 164:23  164:24 172:24  173:1 201:5  279:3 280:19  304:23 318:18  346:17 366:2,3  366:4  <b>statements</b> 50:18  170:1 183:8,11  183:13 279:17  333:5  <b>states</b> 169:3  278:14  <b>state-of-the-art</b>  64:25  <b>stating</b> 93:25  122:24  <b>status</b> 53:25  <b>stay</b> 248:19  291:16</p>	<p><b>stayed</b> 292:21  <b>stays</b> 318:15  <b>Stenotype</b> 380:11  380:15  <b>step</b> 88:6 96:3  120:11 135:20  144:1 149:2  152:25 153:21  154:25 155:10  161:6 178:9  187:10 189:21  190:10 191:13  238:19 273:25  295:13 312:22  312:25 345:12  345:20  <b>STEPHEN</b> 42:20  <b>Steve</b> 177:10  330:20  <b>stilling</b> 331:1,3  334:20  <b>stip</b> 160:12,18  163:18,19  164:3 175:13  180:3,16 181:7  <b>stipulated</b> 157:5  356:2  <b>stipulation</b> 52:8  52:10 90:25  92:18 95:12  99:21 104:22  105:5 106:18  113:16,20,23  114:2,8,10,16  140:16,18,19  141:2 142:24  157:8 158:17  158:21 159:6  160:16 161:18  162:2,12,20  163:23 171:18  171:20,22  172:3,6 175:12  187:22,23  241:6,21 242:2  341:11 357:1,2  357:5</p>	<p><b>Stoll</b> 42:20  147:16 154:9  191:3 201:3,4  202:1 216:25  218:4 270:16  285:21 318:5,6  320:8 335:11  344:14,15  345:7,9 361:23  362:19,22  363:23 368:16  370:25 371:5  374:24  <b>storage</b> 56:24  336:18 349:3  349:10,11,21  349:24 354:3,5  354:9  <b>straight</b> 318:21  <b>straightforward</b>  342:5  <b>strategy</b> 192:13  <b>street</b> 43:15,20  93:13 128:15  <b>strictly</b> 126:19  <b>strike</b> 138:8  206:17 296:20  <b>strip</b> 322:25  <b>strong</b> 60:2  <b>structure</b> 69:6,9  359:7  <b>structures</b>  178:20 342:22  <b>stuck</b> 293:5  <b>studies</b> 231:4  238:8  <b>study</b> 68:2  233:22,24  237:1,5,8,12  239:7  <b>stuff</b> 163:9  173:24 177:19  317:23 318:22  319:13,13  322:23 333:10  333:13,14  <b>stupid</b> 328:23</p>	<p><b>subdivision</b>  93:25 94:3  95:20 111:6  173:22 175:4,5  243:10,14  283:20 289:15  338:22 339:16  342:2 347:11  348:12,16,22  348:24 352:11  352:16 353:1  353:23  <b>subdivisions</b>  51:21 57:19  111:2 244:24  245:21 331:8  346:25 347:22  347:24  <b>subdivision's</b>  289:14  <b>subject</b> 51:1 52:8  58:4 70:6 76:23  102:19  <b>subjective</b> 324:2  <b>submersible</b>  68:18 193:17  227:19 230:18  231:21 232:17  <b>submitted</b> 97:8  226:1  <b>subrequests</b>  282:8  <b>subsequent</b>  64:24 97:18  183:6 197:6  208:1 256:9,10  258:16 293:15  <b>subsequently</b>  104:2 287:10  <b>subsidiaries</b>  269:1  <b>subsidiary</b>  271:13  <b>substantial</b> 58:14  <b>subtracted</b>  219:23 247:20  <b>successfully</b></p>	<p>82:17  <b>sudden</b> 72:18  <b>suddenly</b> 103:23  <b>sufficient</b> 64:14  219:14,16  249:4 254:2,4  279:14  <b>sufficiently</b>  278:12 279:7  <b>suggest</b> 77:4  140:11 301:21  <b>suggested</b> 155:25  186:9 218:24  257:18  <b>suggesting</b> 196:7  294:20 349:11  <b>suggestion</b> 49:21  152:1,18,20  194:19  <b>suggests</b> 56:11,14  302:11 327:11  <b>Suite</b> 43:15  <b>summary</b> 182:4  311:17,17  <b>summer</b> 72:18  <b>Sun</b> 243:17  300:17  <b>supplement</b> 98:2  144:16 186:13  285:10  <b>supplemental</b>  282:14  <b>supplied</b> 109:2  <b>supplies</b> 208:4  210:25 211:11  255:2 273:10  335:3 374:9  <b>Supply</b> 108:3  134:22 166:18  <b>support</b> 55:4  64:18 71:8  109:20 137:20  153:6 178:22  186:2 249:17  250:17 251:2,5  251:10,14,17  251:20 294:24</p>
--	--	---	---	---

<p><b>supported</b> 63:3  <b>supporting</b> 85:13  85:20 152:21  283:23  <b>supports</b> 137:21  <b>suppose</b> 130:12  189:18 190:10  <b>supposed</b> 301:13  330:21  <b>supposedly</b> 302:6  <b>surcharges</b>  311:13  <b>sure</b> 87:6 92:15  111:12 133:23  134:7 145:5  147:3 160:6  181:20 182:17  206:9 245:5  260:14 263:6,8  264:2 283:9  284:7 305:6,9  309:19 311:9  334:24 359:19  364:18  <b>surprise</b> 73:24  80:21  <b>surrebuttal</b> 55:3  55:6 75:3 88:19  108:1,21  109:18 136:17  138:2 139:5  143:18 168:14  182:15 224:11  226:1,4 264:6  296:10 300:25  303:7,23  304:22 312:9,9  314:24 315:1  376:9,14 377:1  378:16,19,24  379:1,4,6,9,11  379:16,20,23  <b>surrounding</b>  51:3 246:7  <b>survey</b> 323:12  <b>surveyed</b> 323:1  <b>surveying</b> 173:15</p>	<p>319:9,11 322:7  322:10,20  325:16 329:7  <b>surveyor</b> 321:21  328:7,8  <b>suspect</b> 144:23  347:23  <b>suspected</b> 331:5  <b>sustained</b> 272:25  310:11  <b>Swarengen</b> 43:4  45:1  <b>Swept</b> 243:17  300:17  <b>sworn</b> 74:13 88:9  96:13 120:15  135:24 225:11  265:10 297:18  <b>sympathy</b> 62:20  <b>sync</b> 217:11  <b>system</b> 57:1 65:6  65:9,10,22,23  66:12 67:6,11  67:18 72:14  73:3 86:7 102:6  117:25 118:9  118:25 122:9  123:1,11,13  124:3,4 125:9  125:22 126:1,9  126:10,10,11  126:15,20,24  127:1,2,12  128:1,3,14,16  128:18,22  129:8 135:7  144:19 148:4  149:19 151:17  152:12 153:10  227:19 228:8  228:20 229:14  231:9 286:16  289:23,23  290:21 340:6  344:17 347:3  352:22 363:19  <b>systems</b> 51:21</p>	<p>52:1 53:2,12  54:10 65:14  68:1 72:8 82:17  82:21 102:9  104:5,6 112:5  128:4 131:24  134:19,24  140:6,9 151:15  219:1 228:13  230:24 248:14  289:16,18,21  289:25 346:22  346:24</p> <hr/> <p style="text-align: center;"><b>T</b></p> <hr/> <p><b>T</b> 380:1,1  <b>table</b> 160:20  202:25 203:4  <b>tail</b> 177:12  <b>take</b> 44:23 46:24  46:25 48:10  49:22 80:12,15  80:16 100:16  110:23 112:7  118:1 119:3  125:8,21  137:15 144:2,4  158:20 167:22  174:24 180:20  184:17 187:12  206:9 207:22  207:23,23  228:15 238:21  243:21 246:24  247:3 250:15  251:12 252:8  255:18 265:3  289:23 309:23  313:14 321:1,3  321:24 322:1,3  325:9 330:7  334:20 338:23  357:8 364:13  364:14 365:9  <b>taken</b> 81:24  83:17 119:6  140:23 144:9</p>	<p>149:20 150:4  152:9 158:23  187:14 261:24  265:6 286:10  <b>takes</b> 55:20 128:1  128:9 145:22  207:22 293:13  331:25 346:17  <b>talk</b> 270:4 363:5  <b>talked</b> 81:10  90:20 93:9 95:1  95:6,19 113:11  147:23 163:12  259:21 283:3  317:6 324:6  332:23 342:16  342:17 350:14  <b>talking</b> 90:16  106:8 123:10  123:15 125:14  125:15 126:22  128:21 145:12  160:10 179:8  179:11 197:10  197:11 215:25  219:1 237:4  251:7,8 336:21  340:15 344:1  363:12,14  <b>Tammy</b> 358:14  377:25  <b>tank</b> 56:24  156:13 336:18  349:3,10,11,24  354:3,5,9  <b>tariff</b> 51:11  115:7 143:3  283:18 284:21  <b>tariffs</b> 100:13  <b>task</b> 59:17  286:21 287:3  287:15 289:2  <b>tasks</b> 51:16 56:6  56:18 287:12  288:1,5 290:20  290:24  <b>tax</b> 70:18,21</p>	<p>71:10 204:4  205:5,7 252:22  253:10 263:17  266:25,25  267:5,9,12,24  268:12,16,23  268:25,25  269:9,9,12,13  269:17,23,24  269:25 270:1,2  270:6,7,9  271:22 272:5,8  272:19 274:2  274:17 275:6  280:24 311:19  324:17 326:25  327:4,6,12  <b>taxable</b> 268:1  <b>taxed</b> 272:2,11  272:20  <b>taxes</b> 65:9 203:21  204:1,7 205:3,8  263:12,16,23  265:4,8 268:3,8  271:20 311:13  324:15,15,16  324:20,21,24  325:4 326:11  326:21 327:8  328:17,18  363:1 371:19  <b>technical</b> 109:20  <b>Technically</b>  317:4  <b>technology</b> 53:2  59:21 82:20,24  83:9 131:9,25  135:12 145:8  <b>Ted</b> 358:6,23  376:22  <b>telephone</b> 220:8  255:12 310:15  375:5  <b>telephone/Inte...</b>  223:13 310:19  <b>tell</b> 81:14 130:1  147:25 159:5</p>
---	--	--	---	---

162:21 184:22 268:18 300:21 329:11 332:6,9 332:12 344:16 344:16 <b>telling</b> 316:13 317:16 <b>tells</b> 176:13 <b>template</b> 288:24 <b>ten</b> 95:21 115:18 187:12 261:23 286:19 322:21 <b>tenant</b> 201:11 <b>tender</b> 76:9 89:13 139:6 146:8 149:8 155:17 178:11 188:22 227:12 255:24 266:13 <b>tenders</b> 98:16 121:18 190:16 299:7 <b>ten-minute</b> 144:5 <b>ten-year</b> 112:9 112:10 113:1 115:19 117:13 <b>term</b> 196:2 222:3 308:2,22 348:16 <b>termed</b> 207:15 336:23 <b>terms</b> 145:13 171:5,12 172:19 213:16 308:18 <b>test</b> 62:14 173:20 174:7,24 214:14 215:6 218:17,18 232:12,13 276:19 278:15 278:19 284:23 284:25 286:19 286:19 291:10 291:11,16,23 292:8,11,14,17 292:22 293:8	293:13,14 295:3 <b>testified</b> 55:4 74:16 88:10 96:16 120:18 136:2 146:10 146:14 149:13 155:21 161:15 178:15 181:14 181:16 189:1 191:4 193:15 206:17 208:21 211:4 225:14 239:2 256:4 264:7 265:17 274:8 298:8 335:22 345:23 <b>testifies</b> 49:20 56:8 <b>testifying</b> 238:22 <b>testimonies</b> 336:24 <b>testimony</b> 48:19 48:24 49:4,5,8 50:12 54:19 55:3,3,6 61:7 75:3,6,10,12 76:24 79:5 81:18 83:7 84:16 85:3 88:19,23 89:2 92:16 97:1,15 97:16 99:10 103:1 108:2 116:14 121:4,8 122:6 136:17 136:21,23,25 137:10,24 138:1,20 160:19 163:22 166:16 168:14 169:2 182:15 182:23 185:6 185:24 196:20 199:18,21 202:22 203:21 207:13 225:23	226:2,4,7,10 238:23 240:5 241:10 245:14 245:19 258:6 258:10,12 259:2 262:25 263:17,23 266:1,4 269:11 290:6 294:24 298:18,22 300:25 301:16 303:3 304:23 308:4 310:23 311:16 313:4 313:17 314:24 318:8 320:13 321:20 327:10 343:7 345:4,25 346:16 350:16 352:21 358:2,4 358:14 359:6 359:21,23 376:7,9,12,14 376:22,24 377:1,6,20,23 377:25 378:16 378:19,24 <b>testing</b> 70:4 173:22 206:4,4 206:5,12 207:4 207:8 208:2,5 254:14 288:10 294:2 373:8 <b>thank</b> 45:14 58:24 59:1 63:13,15 74:7,8 74:14 76:18 77:18 81:5 86:2 86:24 88:5 92:8 96:2,4,14 98:4 100:5 111:15 113:4 117:18 119:11 120:16 135:18,25 139:19 143:25 147:5,8 149:1 150:8 151:20	152:24 153:20 155:9,20 161:5 164:6 166:6 170:23 178:7 180:8 181:11 183:17 187:8 188:17,25 189:6 190:2,5 190:20 191:15 192:6 194:8 195:11 196:15 199:16 200:3 202:1,11 203:7 203:12,23 205:24 209:8 211:13 212:1 216:14,15 218:4 224:14 225:7,12 237:23 238:16 238:18 239:13 239:19 240:19 242:13 249:8,9 253:23 254:6 254:15 257:20 257:24 258:14 260:19 263:9 265:11,16 266:15,17,20 270:19 273:1 273:15,21 275:11 285:24 293:18 294:4 295:6 297:14 298:5 304:20 305:25 306:2 310:13 311:21 312:24 314:5,8 314:15 315:19 318:3,7 320:8 323:17,19 325:5 326:14 326:22 327:19 329:16,19,23 332:13 333:16 333:22,24 334:2,5 335:2,5	335:8,11,14,21 338:2,6 345:11 353:6 357:24 358:11 <b>Thanks</b> 188:7 <b>Thanksgiving</b> 95:7 <b>theme</b> 55:16 <b>then-existing</b> 354:24 <b>theory</b> 217:25 <b>thereabouts</b> 348:21 <b>thereof</b> 380:9 <b>they'd</b> 262:11 318:24 <b>thin</b> 95:3 <b>thing</b> 47:5 87:3 103:15 109:15 113:22 117:17 124:11 130:14 167:19 168:8 174:22 181:21 207:12 265:2 294:12 307:10 308:21 316:22 329:4 333:3 352:16 362:9 <b>things</b> 53:19 75:12 80:12 95:6 126:6,11 156:23 157:12 207:17 217:13 277:1,5 282:15 289:8 334:15 358:4 <b>think</b> 46:3,23 47:10 49:25 61:13 81:25 82:12 83:1,2,6 84:22 85:3 86:17 87:12 95:17 99:21 104:22 109:20 113:11 116:17 128:25 129:20 130:10 133:1
---	--	--	---	--

135:5,7 142:16 145:1 151:13 154:17 157:2 160:12,22 172:6,7 175:15 181:18 196:23 197:12 207:12 207:12 213:15 213:19 237:13 240:9 242:17 244:11,12 246:4,17 247:11,21 249:8,14 258:9 275:14 276:11 279:6 280:21 283:3 293:22 295:24 297:15 303:22 304:5 305:8 307:10 308:18 309:12 309:14,16,22 310:9,23 312:6 313:16,19 325:5 330:11 330:12 332:11 334:13 336:23 337:6,12 338:2 345:3,25 346:8 346:9 347:2,12 347:15 349:2 350:13,14,16 353:18,20,24 354:11,13 357:2,3,4,19,25 358:20 359:22 360:21 364:16 <b>thinking</b> 150:18 191:22 344:25 345:2 <b>Thompson</b> 43:18 45:9 47:21,23 48:6 78:24 96:8 155:20,22 158:6 161:16 164:6,8 166:7 178:7,11 185:4	185:5 187:8 192:6 194:7 195:11 203:23 203:25 204:13 206:7,10,19 207:3 208:12 208:13 209:8 220:10,11 223:6 225:7,15 227:3,12 229:23 237:23 237:24 238:16 239:3,18 240:9 240:19 254:15 254:23 255:14 255:24 257:24 264:25 265:13 265:16,18 266:12 270:18 270:20 273:1 274:1 295:15 295:23 296:3 296:11 297:5 297:14,25 298:5 312:23 326:22,23 327:16 334:2 358:12,17,20 360:8 362:6 363:21 367:22 367:24 368:9 369:12,15,17 371:21,25 372:6,8 373:11 373:22 375:8 <b>thought</b> 110:16 174:5 175:14 181:6 196:20 267:19 329:1 333:3 354:25 360:24 <b>thousands</b> 177:5 319:8 <b>three</b> 107:24 109:17 191:24 191:25 210:9 238:5 247:4	255:19 261:23 278:15,19 305:7 313:19 318:15,21 319:16 332:25 345:10 362:3 <b>Three-part</b> 108:6 <b>three-year</b> 73:20 208:16 209:16 209:19 210:6,7 210:12 334:14 <b>throw</b> 192:13 331:13 <b>thrown</b> 168:23 331:13 <b>tied</b> 176:24 179:12 229:14 <b>time</b> 44:23 47:15 52:3 53:10 54:22,23 55:19 57:2 58:17 63:14 70:4,14 70:23 71:6,9 74:5 75:10 78:8 82:13 88:8 89:2 90:15,19,24 91:5,8 92:20 93:16 95:24 96:1 105:9 106:25 108:14 109:24 111:13 111:25 114:20 124:13,17 129:12,16,22 130:1,19 132:21 133:7 140:22 141:1,2 150:19 155:6 156:5,8,24 157:24,25 161:17 162:17 162:18 166:18 166:25 168:13 174:9 177:9 182:21 183:5,5 183:10,14,24 184:1 185:15	202:24 206:9 207:7,18,22 212:16,16,21 213:1 217:24 218:1,2,12 227:3 235:8 238:15 256:8 256:18 260:9,9 260:10,10 261:9 263:7 265:14 266:12 272:2,12,20 274:11 275:16 275:20,22,25 276:14,21 278:8,16,24 279:9,15,23,25 283:3,6,11,12 286:3,7,16,22 286:25 287:2,8 288:24 290:2 290:10 291:7 291:11,17 293:4,11 298:23 305:21 306:23 307:16 309:4 313:12 317:24 325:18 332:1 344:25 353:17 361:18 361:24 362:1 364:13 380:8 380:16 <b>timed</b> 212:11 <b>timeline</b> 108:24 292:1,6 <b>timely</b> 64:22 <b>times</b> 70:16 82:4 94:25 163:13 168:17,18 170:8 286:12 305:7,7,22,23 318:19 <b>timing</b> 109:7,8 217:6,20 293:7 <b>today</b> 55:10 60:17,25 63:2	71:6,22 75:25 89:6 98:8 100:20 117:8 121:10 126:7 139:1 147:11 148:14 149:16 150:3 158:3 168:7 179:12 196:24 200:22 213:3 215:16 226:22 230:4 258:5 266:7 298:24 327:11 341:21 345:25 346:3 350:4 352:6 356:13 361:12 <b>today's</b> 257:13 <b>toilet</b> 130:3 <b>told</b> 173:17 176:18,20 182:21 209:3 222:16 263:19 276:20 277:5 283:9 291:5 330:21 334:19 <b>tomorrow</b> 47:18 313:7 <b>Toni</b> 51:15,17 271:3 319:7 331:18 <b>total</b> 68:22 85:4 85:10 86:15 160:23 209:18 218:25 241:15 247:7,10,16,21 <b>totality</b> 112:22 112:23 <b>totally</b> 268:14 <b>touch</b> 128:6 <b>touches</b> 128:9 <b>towels</b> 174:25 175:4 <b>town</b> 320:4 <b>track</b> 53:25,25 171:10 236:1 289:13
--	--	---	--	--



<p><b>tracking</b> 262:8  <b>training</b> 53:9  <b>transaction</b>  303:14 307:22  307:23,25  308:9,20 310:2  310:4  <b>transactions</b>  303:9 308:12  <b>transcript</b> 42:6  380:15  <b>transferred</b>  307:4  <b>transformer</b>  228:11  <b>transitioning</b>  134:3  <b>transmission</b>  228:9  <b>transmitter</b>  228:10 233:15  <b>transpired</b> 95:9  <b>Transportation</b>  242:24  <b>treat</b> 261:18  <b>treated</b> 177:17  177:20  <b>treatment</b> 56:3  56:25 169:19  174:24 259:18  260:25 262:22  263:5 269:23  327:1 330:18  330:21 336:6  336:19 342:1  342:21 349:4  354:1,18  356:20 357:16  357:23  <b>trend</b> 72:9  <b>tried</b> 55:10,23  177:4 308:14  332:22  <b>trims</b> 282:1  <b>trip</b> 207:18  <b>triple</b> 308:23  <b>trips</b> 281:21,22</p>	<p>281:24,25  282:2 305:8,10  305:15  <b>Tri-States</b>  131:16 134:13  135:1  <b>Troy</b> 43:10 69:18  202:10 222:13  245:16,18,23  246:1,2,6,7,10  246:23 248:3  248:10 252:2  322:2,15,18,21  322:22,24  323:8,10  <b>truck</b> 174:25  <b>true</b> 72:22,24  76:3 89:8 98:11  121:14 131:11  138:21 199:3,7  204:11 221:2  226:25 234:3  266:9 275:24  276:16 278:4  278:13 279:22  282:17 285:16  299:3 333:5  336:13 380:13  <b>trust</b> 200:16  307:5 320:19  <b>try</b> 47:12 48:8  61:20 62:21  68:9 159:13  186:5 245:13  292:3 330:22  364:25  <b>trying</b> 50:5 59:15  61:1,2 62:2  63:10 81:18  99:23 130:7,13  168:15 184:16  244:16 251:6  301:10 328:17  328:18 334:17  356:25  <b>turn</b> 44:19 78:24  78:25 292:18</p>	<p>302:8  <b>turned</b> 293:2  <b>tweaked</b> 68:9  <b>twenty</b> 305:7  <b>twice</b> 80:14,18  102:10 106:9  <b>two</b> 46:5 51:14  51:21 53:12  69:10 73:2  83:14,22 85:22  93:7 100:12  102:16 111:1  112:25 115:13  115:24 125:4  143:7 145:22  164:1,19  166:17 169:17  170:2,16  194:24 207:18  238:5 244:24  256:7 257:17  268:13,13  284:23 285:5  296:14 297:16  315:12,13  322:5,14  340:12 362:25  <b>two-page</b> 310:24  <b>two-thirds</b> 278:7  <b>type</b> 83:5,19  86:18,19  109:15 131:9  157:14 160:10  194:17 229:16  230:12,15  234:4 236:6  287:23 288:19  288:25 289:2,8  <b>types</b> 85:22  108:16,19  111:3 128:5  153:11 261:18  <b>typical</b> 208:18  210:6 287:22  347:24  <b>Typically</b> 261:2</p>	<p style="text-align: center;"><b>U</b></p> <p><b>Uh-huh</b> 233:18  <b>ultimately</b> 63:21  118:16 133:1  360:21  <b>unable</b> 244:8  <b>Unanimous</b>  187:22  <b>unclear</b> 79:5  <b>understand</b> 50:8  145:5 163:22  229:25 234:9  301:16 317:15  324:25 334:15  340:19 357:18  359:4 362:4  <b>understanding</b>  75:5 88:22  99:16 116:8  117:3 122:24  126:25 149:18  157:7,17  175:17 194:12  195:2 199:13  200:15 212:13  236:20 252:20  275:1,7 282:18  299:22 300:3  351:8 359:15  <b>understands</b>  62:18  <b>understood</b>  92:15 245:14  <b>undertake</b>  206:14  <b>unfortunately</b>  277:14 285:14  <b>unincorporated</b>  51:22 348:13  <b>unique</b> 259:13  <b>unit</b> 121:1  225:20 238:7  <b>unlimited</b> 222:24  223:2  <b>unnecessary</b> 67:6  73:1  <b>unregulated</b></p>	<p>144:21,23  145:2  <b>unrelated</b> 196:10  308:12  <b>unscheduled</b>  304:25  <b>unusual</b> 53:15  66:16 129:2  186:18 218:19  355:22,25  <b>upcoming</b> 214:6  214:10 215:10  <b>update</b> 167:19  215:2,6,18  216:6 217:8,9  278:16,20  283:23 284:23  292:25 295:3  <b>updated</b> 70:12  73:20 291:15  292:22  <b>updates</b> 98:6  136:21 137:24  138:18,21,24  281:15  <b>updating</b> 356:15  <b>upgrade</b> 53:21  <b>ups</b> 50:24  <b>upset</b> 331:11  <b>usage</b> 52:16  53:16,19 54:5  57:1 66:16,18  66:18 83:15,16  83:23 93:22  103:19 124:15  124:16 125:16  128:25 133:23  134:3 151:10  172:8 281:13  283:18 284:21  336:24 337:4  341:17,21  342:8,18  347:17,19,22  <b>usages</b> 348:1  <b>use</b> 52:7 65:22  66:23 111:8</p>
--	---	---	---	--

<p>116:15 131:25 133:24 148:16 152:4 165:4 173:18 174:10 174:23 175:4 176:21,22 188:19 203:4 207:11,17 208:3,15 209:20 210:15 211:19 218:2 235:4 238:1 245:23 250:19 251:15 261:21 262:16 282:5 290:3,10,14 302:23 308:2,4 323:15 348:1 354:25 356:24 368:23 <b>useful</b> 129:13 290:18 <b>uses</b> 128:2 145:8 231:6 354:22 <b>USOA</b> 191:8 231:2 <b>usual</b> 61:17 186:18 <b>usually</b> 261:17 292:3 318:13 320:3 328:14 352:22 <b>utilities</b> 51:4 57:18 58:5,5 68:22,23 69:22 107:14 131:7 134:13 148:2 198:22 201:15 229:13 230:3 242:11 297:17 303:15,16 308:8 314:3,14 326:13 <b>utility</b> 50:23 55:21 58:16,23 64:1 67:11 96:24 109:18</p>	<p>136:15 151:2 166:24 199:24 229:16 265:22 270:5 285:3 298:16 308:6 352:9,13,22 <b>utility's</b> 310:7 <b>utilization</b> 288:17 <b>utilize</b> 65:15 128:13 148:16 207:6 293:4 <b>utilized</b> 57:21 66:25 69:16 288:6 342:25 350:4,20 <b>utilizes</b> 67:25 123:21 237:16 <b>utilizing</b> 128:18 133:16,21 134:6</p> <hr/> <p style="text-align: center;"><b>V</b></p> <p><b>valleys</b> 261:19 <b>valuation</b> 46:6 155:13 185:10 185:14,16,18 <b>valuations</b> 157:18,23 <b>value</b> 68:20 159:25 161:19 180:11,12,17 180:22,22,24 250:21 308:15 308:20 <b>values</b> 347:21 <b>valve</b> 130:3 <b>valves</b> 228:8 <b>varies</b> 186:20 251:22 <b>variety</b> 55:13 312:13 <b>various</b> 69:22 106:1 362:9 <b>varying</b> 55:14 119:7 <b>vehicle</b> 71:9</p>	<p>281:13 287:3,8 <b>vendor</b> 184:14 <b>verbal</b> 282:19 323:24 324:9 324:10,11 <b>verified</b> 222:7 <b>verify</b> 254:3 <b>versus</b> 65:23 101:24 102:9 105:21 112:3 112:11,24 118:8 209:17 209:19 236:5 260:22 269:6 343:4 <b>viable</b> 58:23 <b>Vieth</b> 358:14 360:7 377:25 <b>Vieth's</b> 359:21 <b>view</b> 179:19 184:6 229:10 241:25 258:25 264:20 <b>viewed</b> 159:21 <b>violation</b> 177:14 <b>visit</b> 305:17 330:21,22,22 <b>visited</b> 305:15 <b>visits</b> 304:25 305:1 330:19 <b>volume</b> 42:9 44:20 <b>vu</b> 72:2</p> <hr/> <p style="text-align: center;"><b>W</b></p> <p><b>W</b> 91:18 92:1,7 107:20,21 111:15 142:11 147:17 154:7 166:11,12 170:22 180:8 180:10 181:11 189:15 191:1 202:3,11 226:5 239:25 285:22 304:19,21 305:25 314:15</p>	<p>314:17 315:14 315:18,20 323:19,20 327:22,24 330:1,3 334:8 334:10 335:1 335:10 365:2,8 366:19 367:25 368:6 371:1,4,6 371:17 372:1 372:13 373:25 378:24 <b>wage</b> 56:16 249:15,19 250:7,8,16,22 251:13,23,23 251:24 252:5 <b>wait</b> 47:3 78:19 92:8 94:20 165:13 <b>walk</b> 128:14 <b>walked</b> 153:10 <b>wand</b> 126:16 128:9 <b>want</b> 44:21 46:9 48:10,17,25 50:7 61:12 78:24,25 93:20 94:4 137:3,14 138:8 145:7,21 177:1 188:5 191:22 192:14 192:15 193:2 207:13 217:22 217:23 218:1 244:19 245:8 245:11,12 246:5 263:23 264:1 284:7 293:14 296:13 313:10,11 332:6,7,9 333:2 338:21 350:21 358:18 364:9 364:22,25 365:9,11 <b>wanted</b> 47:14</p>	<p>49:6 50:15 62:12 127:20 170:5 264:1 276:17,21 323:1 329:12 <b>wanting</b> 144:15 <b>wants</b> 64:11 <b>warrant</b> 357:22 <b>warranty</b> 167:17 167:17 <b>wasn't</b> 91:13 95:15 114:20 142:23 159:14 163:19 169:10 176:2 245:20 281:7 285:3 297:22 303:17 322:6 345:10 <b>waste</b> 175:2 <b>watchful</b> 64:2 <b>water</b> 42:13,15 43:12 44:10 45:4 50:23 51:7 51:8,10,20,24 51:25 52:4,6 53:2 54:5,10,13 54:15 55:20 58:16,23 63:19 65:14,23 67:7 69:3,24 74:25 88:15 93:10,12 93:14 107:15 114:22 116:20 121:1 123:12 124:11 125:16 128:25 129:4 131:17 132:12 133:23 134:15 134:16,17,19 134:19,22 138:14 140:6,8 144:17 145:15 145:15 148:4 165:1,3,18,19 165:24 169:11 169:12 171:3,6 171:21,24</p>
---	--	--	--	---

172:8,16	228:11 236:1	98:2 145:23	369:17,23	306:2 310:15
173:21,22	245:13 250:18	178:2,7,11	370:10 371:8	313:1,5 325:11
174:7,24	250:19 255:18	188:15 189:24	372:15 373:4	325:14,20,25
183:25 199:10	261:17 264:22	191:16 192:22	373:16 374:3	326:8 335:14
201:12,15	268:19 278:7	192:24 193:7	374:15 375:2	335:18 358:8
204:7,22 205:1	292:18 307:19	238:20 240:16	375:12 376:24	358:11 360:18
206:4,5,12	308:10 328:16	255:18 265:3	377:1	<b>witnesses</b> 48:12
207:4 208:5	328:19,20	314:9 326:1,4	<b>willing</b> 182:10	49:1 74:9
211:11 224:7	332:1 343:11	362:6	187:25 263:20	192:25 297:16
229:17,20	349:8 350:11	<b>we're</b> 46:8,23	<b>wind</b> 55:16	358:5
230:4 231:1,7,8	352:9 355:25	50:5 63:1 96:6	<b>wisdom</b> 60:3	<b>wonder</b> 60:3
231:24 232:3	<b>ways</b> 174:22	100:4 101:23	<b>wish</b> 97:14 121:7	92:1 165:8
236:23 237:15	352:14	102:14 123:15	298:21	<b>Wonderful</b> 188:8
238:1,7,9,12	<b>WA-2012-0018</b>	125:15 128:21	<b>wishes</b> 72:24	<b>woody</b> 111:10
250:12 254:13	138:15 158:22	142:16 144:15	<b>withdraw</b> 357:9	<b>word</b> 49:3 60:24
268:4,25 269:1	187:24	168:8 176:12	<b>witness</b> 47:7,7,10	66:1 226:14
271:1,6,8,14,16	<b>Weather</b> 261:4	179:11 188:2	48:14 57:6	270:25 302:23
271:20 274:22	<b>website</b> 151:14	192:9,11	74:10,13 78:6	322:19
277:14,25	311:9	193:11 194:22	78:22 88:6,9	<b>words</b> 361:16
283:20 285:2	<b>week</b> 194:13	197:10,11	89:13,24 94:17	<b>work</b> 58:17 61:8
285:16 288:10	325:13,15,21	219:1 251:7,7	96:4,7,7,10,13	140:23 143:12
294:2 301:19	325:24 330:20	280:1 296:17	98:16 120:13	144:3 145:22
302:3,13	<b>weeks</b> 318:21	314:12,13	120:15 121:18	159:16 167:23
303:16 304:9	364:14,17,18	328:16 333:15	127:19,20	176:11 177:14
304:12 310:7	<b>weighed</b> 60:9	339:15 340:15	135:21,24	184:11 186:1
321:23 326:2	<b>wells</b> 56:2 331:1	343:12 350:5,5	139:6,19 146:2	186:11 193:21
327:12 330:23	331:3	358:24 363:12	149:3,8 153:23	196:22 207:19
337:20,22	<b>went</b> 93:9,11,18	363:14	155:15 161:8	209:22 219:17
343:25 346:21	94:8 103:24	<b>we've</b> 97:22	164:7 169:2	241:23 245:5
347:3,20,22,24	115:25 170:14	117:8 175:3	178:4,6 181:14	250:5 257:2,12
348:1 349:3,10	172:23,25	207:14 293:22	188:20 189:23	281:6 290:22
349:11,15,18	175:23,25	297:7 300:7	190:2,11,16	<b>worked</b> 197:4
349:23 354:2,6	176:19 177:4	313:6,16	191:15,18	268:17 290:19
363:2,18	186:5,6 246:21	319:21 331:7	195:13 198:21	<b>working</b> 55:1
377:16,18	253:11 293:12	334:20,21	199:17 202:21	61:11 77:23
378:9,13 379:7	305:2,6 311:1	364:20	203:16,19	78:1 82:13
379:10,25	316:25 318:20	<b>wholesale</b> 304:3	205:16 214:1	283:25 318:19
<b>water's</b> 138:12	338:20 347:12	<b>wide</b> 62:13	225:6,11	331:19
177:13 280:11	352:21	<b>widespread</b>	238:20 240:11	<b>worry</b> 326:9
<b>way</b> 52:22 58:18	<b>weren't</b> 82:13	151:9	240:17 242:13	<b>wouldn't</b> 80:20
61:14 63:13	107:1 176:16	<b>wife</b> 318:12	243:5 245:1,7	131:23 142:1
66:25 94:6	210:16 279:2	<b>William</b> 42:20	245:10,17	180:18 211:21
95:23 96:6	281:8 282:17	135:23 136:2,8	246:2,9 248:20	249:25 259:24
97:24 160:8	282:24 284:24	136:16 153:24	255:22,25	267:18 268:10
176:11 177:9	305:23 312:1,1	169:2 189:24	264:17 265:10	269:4 270:7,10
204:3,9 208:22	<b>west</b> 248:4	239:2 367:3,17	273:11 297:18	271:7 276:16
211:24 219:9	<b>we'll</b> 47:3 48:7	368:18 369:2	298:7 299:7	303:12 333:13

351:22	218:17,18		\$35,800 65:15	76:8,13,14 97:2
<b>write</b> 127:24	232:12,13	\$1 118:17 321:1	\$36,000 86:9	98:15,21,24
318:13	246:25 247:1	\$1,225 209:21	101:16,24	130:21 131:15
<b>writes</b> 318:16	250:2 261:22	\$1,500 53:8	102:16,21	134:22 145:24
<b>writing</b> 77:10	275:23 276:19	323:2	\$380 174:8	283:21 326:4
79:18 122:14	278:15,19	\$1.50 95:17	\$39,356 68:19	360:5 362:25
<b>written</b> 323:23	284:23,25	110:6,8,12	\$39.65 252:21	362:25 366:5
352:21	286:19,19	111:11 113:11	\$4,000 65:8	376:6,21 377:5
<b>wrong</b> 64:15	291:10,11,16	114:7 116:14	\$4,005 209:19	<b>1B</b> 79:7
317:22 331:21	291:18,23	116:15	\$4,810 198:7	<b>1st</b> 167:21 276:9
<b>wrote</b> 93:24	292:8,12,14,17	\$10 174:9	\$4,895 209:24	314:23 315:5,7
169:17,17	292:22 293:8	\$10,000 118:14	\$42.68 249:15	321:10
170:16 319:2	293:13,14	118:15,24	250:10 252:18	<b>1,000</b> 118:8
320:25	295:3 330:6	\$100 320:25	253:11	339:16,17
<b>WR-2013-0322</b>	344:17 362:3	\$101,000 232:2	\$45,000 112:10	<b>1,200</b> 323:4
42:16	<b>yearend</b> 163:15	\$11,000 101:7	112:21 117:14	<b>1,250</b> 323:2
	<b>yearly</b> 163:15	\$12 247:2	\$5,227.92 69:20	<b>1,400</b> 200:1
	<b>years</b> 115:18	\$125 174:7	\$500 95:2 124:2	<b>1.1</b> 51:5
	116:9 169:25	\$13,200 68:23	322:14	<b>1.2</b> 51:6
<b>X</b>	170:10 175:22	\$15 95:22	\$55 173:9 332:17	<b>1:20</b> 187:13
<b>X</b> 286:14 288:3	175:23 176:3	\$150 173:21	\$6,592 71:3	<b>10</b> 44:4 95:22
349:21 366:1	177:14 184:6	174:4	\$60 103:23 124:1	108:2 226:11
	184:11,15	\$152,900 321:6	\$61,000 101:1	290:17 297:6
<b>Y</b>	210:9,11	\$153,160 165:3	\$642 309:16	370:22
<b>Y</b> 42:21	238:11,12	\$17,000 69:7	\$65,565 53:4	<b>10A</b> 97:12 98:16
<b>yeah</b> 91:18	261:11,24,25	\$17,236.44 70:6	\$7 246:25	98:23,25 296:8
129:15 133:20	262:4 286:19	\$180 69:24 137:3	\$7,500 56:12	297:3 379:1
160:17 217:21	317:14 321:14	137:5	\$70,000 101:23	<b>10B</b> 98:25 379:4
221:18 265:2	331:6 332:17	\$2,100 219:2	102:13	<b>10C</b> 98:25 379:6
265:15 267:8	345:10 348:19	\$2,200 112:17	\$75,000 101:24	<b>10D</b> 98:25 379:8
274:3 303:20	348:19 362:3	\$2,275 241:15,19	\$76,000 65:4	<b>10,000</b> 118:16
311:15 314:15	<b>yesterday</b> 256:15	\$2,780 209:20	\$8,000 321:14	<b>100</b> 118:8 148:3
319:25 325:14	352:6	\$2,75 81:11	\$8,240 71:2	321:1 342:8
329:6 331:20	<b>you-all</b> 47:17	\$22,000 112:19	\$84,000 232:15	343:20,20
336:22 348:9	91:10 170:3	\$23,000 117:16	\$9 247:1	344:6,7
349:7	192:14 238:24	\$245,957 160:18	\$9,438 53:8	<b>100,000</b> 160:23
<b>year</b> 52:24 56:9	255:19 265:1,4	161:19	\$95 223:17,22	<b>101</b> 64:7
62:14 68:23	312:17 332:6,6	\$25,000 333:2	\$950 203:3	<b>103A</b> 43:10
69:23,24 70:4,6	332:7 360:12	\$250 147:1		<b>104</b> 366:18
70:14 90:15	361:13	150:18 152:2	<b>0</b>	<b>107</b> 366:19
93:13 99:14	<b>Y2K</b> 261:4	\$265 137:4	<b>06</b> 348:20	<b>11</b> 46:6 98:1
100:19 110:11	<b>Z</b>	\$29,193.12 70:3	<b>07</b> 169:15 348:20	109:17 280:14
110:16 112:15		\$3,745 53:23	<b>08</b> 169:15	290:17 297:7
112:18,19,19	<b>zero</b> 68:17	\$300 102:18		331:18
115:16,23	180:12	361:24 362:1	<b>1</b>	<b>11A</b> 144:10
167:17 169:16	<b>zoning</b> 322:19	\$300,000 331:10	<b>1</b> 44:2,3,3 47:9	295:25 296:18
173:11 174:8		\$31,000 113:2	48:14 75:6,24	297:4,12
199:20 209:17				
214:14 215:6				

379:11	<b>147</b> 367:10,10	<b>1996</b> 344:25	184:1 236:19	<b>244</b> 371:10
<b>11B</b> 144:10	<b>149</b> 367:13	<hr/>	276:4,9 281:14	<b>245,957</b> 164:17
297:12 379:15	<b>15</b> 137:10 305:16	<b>2</b>	283:22 284:17	<b>246</b> 371:11
<b>11C</b> 144:10	314:22 322:21	<hr/>	284:17 291:25	<b>248</b> 372:15
297:12 379:19	373:8	<b>275</b> :7,24 76:8,13	292:5,15	<b>249</b> 372:16
<b>11D</b> 144:11	<b>15th</b> 315:10	76:14 81:11	314:22 315:10	<b>250,000</b> 160:13
297:13 379:22	<b>15,000</b> 176:13	139:6,9,12,14	<b>2013</b> 42:8 168:21	<b>252</b> 372:16
<b>11,400</b> 247:11	<b>150</b> 174:5 367:13	279:17 290:17	232:13 280:14	<b>253</b> 373:5
<b>11:30</b> 331:23	367:14	296:11 297:5	281:15 283:24	<b>254</b> 373:16 374:3
<b>111</b> 366:19	<b>151</b> 367:14,15	319:1 326:5	<b>202</b> 243:17	<b>255</b> 374:15 375:2
<b>112</b> 247:19	<b>153</b> 321:6 367:15	362:25 363:1	300:17 319:4	375:12
<b>113</b> 366:20	<b>154</b> 367:18	367:7 376:8,24	371:1,2	<b>256</b> 369:25 370:1
<b>115</b> 366:20	<b>155</b> 367:18,22	<b>2A</b> 97:8 98:15,22	<b>203</b> 371:21	<b>258</b> 370:15
<b>117</b> 366:21	<b>158</b> 367:22	98:24 297:2	<b>204</b> 371:22	<b>259</b> 370:16
<b>119</b> 366:21	<b>159</b> 367:23	377:8	<b>205</b> 372:10,24	<b>260</b> 370:17
<b>12</b> 146:14 152:20	<b>16</b> 75:14 170:10	<b>2B</b> 98:24 377:12	<b>206</b> 373:11	<b>265</b> 137:5,6
153:13,16,17	175:21,23	<b>2C</b> 98:24 377:15	<b>207</b> 373:12	372:6
172:7 281:14	176:3 177:14	<b>2D</b> 98:25 377:17	<b>208</b> 373:22	<b>266</b> 372:7
281:21,22	184:5,11,15	<b>2,261</b> 108:5	<b>209</b> 75:15 373:23	<b>27</b> 249:14 281:13
318:20 330:10	331:6 332:17	166:19	<b>21</b> 46:10 167:22	281:20 345:6
371:19	373:20	<b>2,958</b> 334:14	224:23	<b>27th</b> 51:11
<b>12-hour</b> 153:6	<b>161</b> 367:24	<b>2.75</b> 77:4 82:4	<b>210</b> 75:16 340:13	<b>270</b> 372:8
<b>12-month</b> 279:18	<b>166</b> 367:25	110:3 114:18	340:16 342:2,6	<b>273</b> 374:18 375:4
<b>120</b> 102:16,21	<b>17</b> 75:14 374:9	<b>20</b> 47:1 51:13	342:23 350:22	<b>274</b> 372:20
199:24 366:23	<b>17,000</b> 199:20	168:25 237:10	373:24	<b>275</b> 372:21
<b>121</b> 377:24	<b>171</b> 368:1	330:7,10	<b>211</b> 374:12	<b>28</b> 167:23
<b>122</b> 53:12 65:1,6	<b>178</b> 368:4	<b>20-something</b>	<b>212</b> 374:12	<b>285</b> 372:22
73:3 82:5 102:4	<b>179</b> 368:5	317:14	<b>213</b> 374:13	<b>29</b> 282:6,6,25
102:14 319:24	<b>18</b> 281:25,25	<b>200</b> 43:15,20	<b>214</b> 374:22	<b>29,000</b> 330:9
330:7,9 366:23	374:20	331:9 344:5	<b>216</b> 374:23,24	<b>293</b> 373:7
<b>125</b> 174:5	<b>180</b> 368:6	370:24	<b>218</b> 374:25	<b>294</b> 373:19 374:8
<b>127</b> 366:24	<b>181</b> 368:7	<b>2000</b> 309:14	<b>22</b> 93:11	<b>297</b> 379:13,18,25
<b>13</b> 75:14 372:9	<b>183</b> 368:8	<b>2000s</b> 345:1	<b>22nd</b> 97:8 360:13	<b>298</b> 371:14
<b>130</b> 376:17	<b>185</b> 368:9	<b>2006</b> 345:2	364:10	377:21
<b>132</b> 376:17	<b>189</b> 368:25	<b>2007</b> 283:21	<b>216</b> 374:23,24	<b>299</b> 371:15
<b>133</b> 366:24	<b>19</b> 276:4 344:24	345:6	<b>218</b> 374:25	378:17
<b>136</b> 367:4	375:5	<b>2009</b> 314:23	<b>22</b> 93:11	
<b>139</b> 367:5 376:24	<b>19th</b> 95:2 293:12	315:5,7 321:10	<b>22nd</b> 97:8 360:13	
377:2	<b>190</b> 369:2	<b>201</b> 370:25	364:10	
<b>14</b> 48:16 75:18	<b>191</b> 369:6	<b>2010</b> 280:9	<b>220</b> 375:8	
167:21 172:10	<b>193</b> 369:9	324:18,20	<b>223</b> 375:9	
214:11 226:12	<b>194</b> 369:21	<b>2011</b> 183:9 276:9	<b>2230</b> 43:14 45:16	
309:15 372:23	<b>195</b> 370:6	279:18 280:4	<b>224</b> 375:10	
<b>140</b> 110:21	<b>196</b> 370:7	<b>2012</b> 51:11,13	<b>225</b> 369:12	
<b>142</b> 367:6	<b>197</b> 370:8	52:24 54:16	<b>227</b> 369:13	
<b>144</b> 379:13,18,25	<b>198</b> 370:24	70:25 99:8	378:25	
<b>146</b> 367:9	<b>1990s</b> 344:25	141:17,19	<b>236</b> 369:14	
		168:25 171:3	<b>237</b> 369:15	
			<b>239</b> 369:17	
			<b>240</b> 369:18,23	
			<b>241</b> 370:11	
			<b>242</b> 371:9 376:19	
				<hr/>
				<b>3</b>
				<b>3</b> 42:9 44:3 46:5
				88:23 89:5,12
				89:16,18 139:6
				139:9,12,14
				164:22 266:1
				266:13 290:17
				298:3 376:11
				376:25 377:19
				<b>3rd</b> 168:21

<p><b>3,500</b> 135:2  <b>3.7</b> 342:7  <b>3:30</b> 47:9  <b>30</b> 276:9 281:14  292:5 319:23  349:9,12,22,23  <b>30th</b> 283:22  291:25 292:22  <b>30,000</b> 333:3  <b>300</b> 102:21  371:16  <b>304</b> 371:17  <b>306</b> 371:18  <b>31</b> 279:18  <b>31st</b> 232:13 280:4  280:9 281:22  292:15 293:1  <b>310</b> 375:14  <b>311</b> 375:15  <b>312</b> 43:5  <b>314</b> 371:4  <b>318</b> 371:5  <b>32</b> 276:8 277:2  283:2  <b>320</b> 371:5  <b>323</b> 371:6  <b>326</b> 371:25  <b>327</b> 372:1  <b>330</b> 372:13  <b>333</b> 372:25  <b>334</b> 373:25  <b>335</b> 368:14  374:14  <b>338</b> 368:15  <b>339</b> 368:15  <b>34</b> 137:10,11  <b>341</b> 368:16  <b>344</b> 368:16  <b>345</b> 368:18,21  <b>346</b> 368:21  <b>35</b> 169:1  <b>350</b> 354:14  <b>353</b> 368:22  <b>360</b> 43:20 45:10  376:23 377:25  <b>361</b> 376:19  <b>37</b> 283:17 318:18</p>	<p style="text-align: center;"><b>4</b></p> <p><b>4</b> 44:2 48:15  88:24 89:5,12  89:16,18 121:5  121:18,20,23  121:24 138:4,4  138:5,5 182:23  276:11 304:22  367:19 376:14  377:22  <b>4th</b> 54:16 95:9  <b>400</b> 354:14  <b>42.68</b> 251:18  330:6,14  <b>44</b> 376:7,10,13,15  376:23,24  377:2,6,10,14  377:16,18,21  377:24,25  378:2,6,9,13,17  378:20,25  379:2,5,7,10  <b>456</b> 43:5</p> <p style="text-align: center;"><b>5</b></p> <p><b>5</b> 42:8 47:11  75:18 83:14  103:17 130:20  130:22 131:1  132:3,6,8 134:8  144:15 358:13  359:11 360:8,9  360:10 368:12  376:16 377:25  <b>5:18</b> 365:15  <b>50</b> 51:24 366:2  <b>500</b> 103:24  <b>500,000</b> 51:7  176:24  <b>51</b> 51:24  <b>550,000</b> 135:4  <b>57</b> 56:9 330:6,13  <b>573)635-7166</b>  43:6  <b>573)751-3234</b>  43:21  <b>573)751-4857</b></p>	<p>43:16  <b>59</b> 366:3</p> <p style="text-align: center;"><b>6</b></p> <p><b>6</b> 75:20 242:17  242:19,23  243:2,9,22  245:2 297:7  303:8 360:15  361:3,8 368:23  376:18  <b>6A</b> 297:3 378:1  <b>6B</b> 378:4  <b>6C</b> 378:7  <b>6D</b> 378:11  <b>6,700</b> 135:5  <b>6.6</b> 67:20 231:20  231:22  <b>600</b> 354:12,15  <b>62</b> 165:5  <b>63</b> 366:4  <b>63334</b> 43:10  <b>636)462-4505</b>  43:11  <b>65.55</b> 75:18  <b>65.71</b> 75:19  <b>650</b> 43:15  <b>65102</b> 43:21  45:11,17  <b>65102-0456</b> 43:6  <b>65102-2230</b>  43:15  <b>684</b> 56:9 330:5</p> <p style="text-align: center;"><b>7</b></p> <p><b>7</b> 137:1,2 277:21  277:25 298:19  299:7,9,12,13  303:22 321:14  323:25 369:7  378:15  <b>72</b> 51:25 333:11  340:14,18  342:23  <b>74</b> 366:8  <b>75</b> 110:17,20  160:23</p>	<p><b>76</b> 366:9 376:7  376:10  <b>76,000</b> 102:1  <b>77</b> 366:10  <b>78,000</b> 342:4,10  <b>79</b> 366:10</p> <p style="text-align: center;"><b>8</b></p> <p><b>8</b> 97:4 98:15,22  98:25 164:16  281:21 318:20  369:19 378:18  <b>8,000</b> 323:25  <b>81</b> 366:11  <b>838</b> 42:25  <b>86</b> 366:11  <b>87</b> 366:12  <b>88</b> 366:13  <b>89</b> 376:13,15  <b>895</b> 109:20</p> <p style="text-align: center;"><b>9</b></p> <p><b>9</b> 79:22 137:1,2  225:24 226:1  227:4,6,8,10  279:16 280:15  370:3 378:23  <b>9:07</b> 44:7  <b>90</b> 129:3 366:14  <b>900</b> 69:23  <b>92</b> 366:14  <b>93</b> 366:15  <b>950</b> 199:4 202:4  308:25 323:6  <b>96</b> 366:17  <b>96-day</b> 53:18  66:17  <b>98</b> 165:3 377:6  377:10,14,16  377:18 378:20  379:2,5,7,10  <b>99</b> 366:18</p>
--	--	--	---