

1 STATE OF MISSOURI  
2 PUBLIC SERVICE COMMISSION

3  
4 HEARING

5 June 7, 2000  
6 Jefferson City, Missouri  
7 Volume 11

8 In the Matter of Missouri-American )  
9 Water Company's Tariff Sheets )  
10 Designed to Implement General Rate ) Case  
11 Increases for Water and Sewer ) No. WR-2000-281  
12 Service Provided to Customers in )  
13 the Missouri Service Area of the )  
14 Company. )

15 BEFORE: KEVIN A. THOMPSON, Presiding,  
16 DEPUTY CHIEF REGULATORY LAW JUDGE.  
17 SHEILA LUMPE, Chair  
18 CONNIE MURRAY,  
19 ROBERT G. SCHEMENAUER,  
20 KELVIN SIMMONS,  
21 M. DIANNE DRAINER, Vice-Chair,  
22 COMMISSIONERS.

23 REPORTED BY:

24 PATRICIA A. DURBIN, RMR, RPR, CSR, CCR  
25 ASSOCIATED COURT REPORTERS, INC.  
714 West High Street  
Post Office Box 1308  
JEFFERSON CITY, MISSOURI 65102  
(573) 636-7551

ASSOCIATED COURT REPORTERS, INC.  
Jefferson City \* Columbia \* Rolla  
Toll Free 1-888-636-7551  
564

1 APPEARANCES:

2 W.R. ENGLAND, III, Attorney at Law  
DEAN L. COOPER, Attorney at Law  
3 RICHARD T. CIOTTONE, Attorney at Law  
Brydon, Swearengen & England, P.C.  
4 P. O. Box 456  
312 East Capitol Avenue  
5 Jefferson City, Missouri 65102-0456

6 FOR: Missouri-American Water Company.

7 LARRY W. DORITY, Attorney at Law  
JAMES M. FISCHER, Attorney at Law  
8 Fischer & DORITY  
101 West McCarty Street, Suite 215  
9 Jefferson City, Missouri 65101

10 FOR: Public Water Supply District No. 1 of  
Andrew County,  
11 Public Water Supply District No. 2 of  
Andrew County,  
12 Public Water Supply District No. 1 of  
DeKalb County,  
13 Public Water Supply District No. 1 of  
Buchanan County.

14 CARL ZOBRIST, Attorney at Law  
15 Blackwell, Sanders, Peper, Martin  
2300 Main Street  
16 Suite 1100  
Kansas City, Missouri 64108

17 FOR: Intervenor City of St. Joseph.

18 JAMES B. DEUTSCH, Attorney at Law  
19 Blitz, Bardgett & Deutsch  
308 East High Street  
20 Suite 301  
Jefferson City, Missouri 65101

21 FOR: City of Joplin.

22

23

24

25

1 APPEARANCES Continued:

2 CHARLES BRENT STEWART, Attorney at Law  
JEFFREY KEEVIL, Attorney at Law

3 Stewart & Keevil  
1001 Cherry Street, Suite 302  
4 Columbia, Missouri 65201

5 FOR: Public Water Supply District No. 2 of  
St. Charles County.

6  
STUART W. CONRAD, Attorney at Law  
7 JEREMIAH D. FINNEGAN, Attorney at Law  
Finnegan, Conrad & Peterson  
8 3100 Broadway, Suite 1209  
Kansas City, Missouri 64111

9 FOR: St. Joseph Industrial Intervenors.

10  
LELAND B. CURTIS, Attorney at Law  
11 Curtis, Oetting, Heinz, Garrett & Soule, P.C.  
130 South Bemiston, Suite 200  
12 Clayton, Missouri 63105

13 FOR: City of Warrensburg,  
City of St. Peters,  
14 City of O'Fallon,  
City of Weldon Spring,  
15 St. Charles County,  
Warrensburg Industrial Intervenors,  
16 Central Missouri State University.

17 DIANA M. VUYLSTEKE, Attorney at Law  
Bryan Cave, LLP  
18 311 North Broadway  
Suite 3600  
19 St. Louis, Missouri 63102

20 FOR: Missouri Industrial Energy Consumers,  
Boeing, et al.

21  
JOHN B. COFFMAN, Senior Public Counsel  
22 SHANNON COOK, Assistant Public Counsel  
P. O. Box 7800  
23 Jefferson City, Missouri 65102

24 FOR: Office of Public Counsel and the Public.

25

ASSOCIATED COURT REPORTERS, INC.  
Jefferson City \* Columbia \* Rolla  
Toll Free 1-888-636-7551  
566

1 APPEARANCES Continued:  
KEITH R. KRUEGER, Deputy General Counsel  
2 CLIFF E. SNODGRASS, Senior General Counsel  
ROBERT FRANSON, Assistant General Counsel  
3 P. O. Box 360  
Jefferson City, Missouri 65102  
4  
FOR: Staff of the Missouri Public Service  
5 Commission.  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25

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

2 JUDGE THOMPSON: Let's go on the record if we  
3 may.

4 Mr. Coffman?

5 MR. COFFMAN: Yes.

6 JAMES E. SALSER, having been previously sworn, testified  
7 as follows:

8 CROSS-EXAMINATION (CONT'D) BY MR. COFFMAN:

9 Q. I'm going to attempt to finish my  
10 cross-examination. We did, I think, find the work papers  
11 that I was speaking about. This may not work.

12 If not, I'll talk with counsel for company. We  
13 may be able to finish this cross-examination with  
14 Mr. Salser on another issue, but we're going to attempt to  
15 wrap it up now.

16 JUDGE THOMPSON: Fire away.

17 BY MR. COFFMAN:

18 Q. Mr. Salser, if you'll recall when we last left  
19 off, I was asking about the growth and accumulated  
20 depreciation reserve and if you had included that in your  
21 schedule JM -- JES-S1.

22 Would its inclusion have offset the increase in  
23 rate base associated with the deferred revenues found on  
24 line 2 of that schedule? I don't know if after the break  
25 you were able to answer that question.

26 A. You're looking at accumulated depreciation the

1 following year.

2           What really happens, accumulated depreciation  
3 would be reduction of rate base but also going up here to  
4 tie the company to have normal recurring additions which  
5 would more than offset that accumulated depreciation for  
6 that period of time.

7       Q.       I'm not sure I heard you. What else?

8       A.       During that period of time, the next year, the  
9 company also has nonrecurring plant additions which would  
10 more than offset the reserve that you're talking about.

11      Q.       And those plant additions are not shown on this  
12 schedule?

13      A.       No, they are not.

14      Q.       All right. Were you able to determine from the  
15 work papers what the annual -- what the accumulated  
16 depreciation reserve growth was for St. Joseph?

17      A.       Just about \$1,650,000.

18           MR. COFFMAN: Okay. I believe that takes care  
19 of me now.

20           JUDGE THOMPSON: Mr. Coffman, I have a question  
21 for you before we move on.

22           Mr. Trippensee's work papers, are those marked  
23 as an exhibit?

24           MR. COFFMAN: No, they're not.

25           JUDGE THOMPSON: Were you planning to offer

1 those?

2 MR. COFFMAN: No. Not at this time.

3 JUDGE THOMPSON: Very well. Thank you.

4 Mr. Franson?

5 MR. FRANSON: Yes, Your Honor.

6 Thank you.

7 CROSS-EXAMINATION BY MR. FRANSON:

8 Q. Mr. Salser, do you have your surrebuttal  
9 testimony here?

10 A. Yes.

11 Q. If you could turn to page 2, lines 2 through 8,  
12 I believe there that you testified that Mr. Trippensee's  
13 phase-ins ignore the return that should be earned on the  
14 deferred revenue until the following year. Is that a  
15 correct summary of your testimony?

16 A. Yes.

17 Q. Now, isn't your solution to this to add --  
18 place it in current year's outstanding deferrals into the  
19 current year's rate base so it is in the rate base?

20 A. Yes. Half of it, yes.

21 Q. Let's turn to your schedule JES-S1 attached to  
22 your surrebuttal. Could you look at Column 1 under the  
23 years?

24 A. Yes.

25 Q. Is there current year's return in line 13?

1           A.       Yes.

2           Q.       And is there current year's return in line 27?

3           A.       Yes.

4           Q.       The same question for line 30, 33 and 35, but

5 line 30 is first.

6           A.       That is correct.

7           Q.       Is that on line 30?

8           A.       Yes, it begins on line 30, yes.

9           Q.       What about line 33?

10          A.       It's the same number.

11          Q.       So does that mean that there is current year

12 return in line 33 also?

13          A.       Yes.

14          Q.       Okay. How about line 35?

15          A.       That's the same number.

16          Q.       Okay. The same question though. There is a

17 return on it?

18          A.       Yes.

19          Q.       Okay. Is line 2 one half of line 35?

20          A.       It sure is.

21          Q.       Okay. Is this calculation or method carried

22 forward in your recalculation of Mr. Trippensee's

23 schedules in years two and three?

24          A.       Yes.

25          Q.       And is it the same solution that you proposed



1 for Staff's calculations?

2 A. Yes.

3 MR. FRANSON: No further questions, Your Honor.

4 JUDGE THOMPSON: Thank you, Mr. Franson.

5 Mr. Curtis?

6 MR. CURTIS: I have no questions.

7 JUDGE THOMPSON: Mr. Finnegan?

8 MR. FINNEGAN: No questions.

9 JUDGE THOMPSON: Mr. Curtis?

10 MR. CURTIS: No questions.

11 JUDGE THOMPSON: Mr. Deutsch?

12 MR. DEUTSCH: Thank you, Your Honor.

13 CROSS-EXAMINATION BY MR. DEUTSCH:

14 Q. Mr. Salser, referring to your direct

15 examination on pages 5 and 6, have you got that in front

16 of you?

17 A. Yes.

18 Q. I just wanted to clarify something for you.

19 There are other rate increases that have been referred to

20 that are a part of this rate proceeding, I mean, other

21 capital expenditures besides St. Joseph that are part of

22 the revenue increase you're asking for in this proceeding;

23 is that right?

24 A. Yes.

25 Q. And you've listed those on pages 5 and 6, I

1 think, of your direct testimony; is that right?

2 A. That or that are the major additions that has  
3 not -- was not placed in service at the end of the test  
4 year that would be part of the true-up, yes.

5 Q. And once again, this is under the company's  
6 plan to spread these capital improvements across all of  
7 the districts by using single-tariff pricing?

8 A. Yes.

9 Q. And you note there, first of all, that the  
10 St. Joseph treatment plant comes in at \$74,684,000. Is  
11 that -- that is old information, though. Right?

12 A. It's 74 million.

13 Q. That's what your direct testimony said?

14 A. Yes. 74,684,000.

15 Q. Okay. Is that correct? Is that the correct  
16 amount?

17 A. That's the correct amount that was in the  
18 filing, yes.

19 Q. Okay. And then Warrensburg, I think you  
20 had a total amount of about 5.3 million that you were  
21 contributing to Warrensburg; is that right?

22 A. Yes.

23 Q. And, let's see. Mexico, 5.76 million?

24 A. Correct.

25 Q. Platte County, 2.33 million and some change?

1           A.       Yes.

2           Q.       St. Charles, 2.2 million?

3           A.       Yes.

4           Q.       I notice Brunswick isn't on there. You didn't

5 have any capital improvements for Brunswick at this time?

6           A.       Well, this is what the large projects that was

7 part of the true-ups are. We did have plant additions

8 during the year or from the last rate case of this rate

9 case that will be recognized in the revenue requirement.

10          Q.       And all of these are to be spread by

11 single-tariff pricing?

12          A.       Yes, sir.

13          Q.       And I guess that's one of the alleged benefits

14 is that everybody gets to pay for all of these projects.

15 Right?

16          A.       That's part of the cost of service, yes.

17          Q.       What is the total amount for Joplin in those

18 improvements for this rate case, about 800,000?

19          A.       A little bit over 800,000.

20          Q.       Not quite as much as St. Joe?

21          A.       No, not quite.

22          Q.       Or Warrensburg?

23          A.       No.

24          Q.       Or Mexico?

25          A.       You're correct.

1 Q. Or the rest of them?

2 A. Be more specific.

3 Q. But the people in Joplin -- by the way, do you  
4 know about what the cost of service in Joplin is right  
5 now, what amount the people of Joplin are overpaying,  
6 subsidizing other communities by?

7 A. I believe it's around 11 percent.

8 Q. A figure close to \$700,000 a year, isn't it?

9 A. In that neighborhood, yes.

10 Q. About, what, one year or this rate case is a  
11 two-year improvement plan for Joplin was.

12 Would you say Joplin is actually kind of paying  
13 more than its share for the benefits of your single-tariff  
14 pricing?

15 A. They're paying the single tariff rate that's  
16 been developed for the total company. They share in the  
17 economies of scale of not only the common cost but also  
18 the financing that was -- was used to construct the  
19 St. Joe treatment plant was a tax-exempt financing. That  
20 cost is being right now applied to the plant additions to  
21 this Joplin district so that they are receiving some  
22 benefit.

23 Q. They're receiving the benefit of the financing  
24 for the St. Joe plant made available by the company  
25 through single-tariff pricing?

1           A.       That is correct.

2           Q.       Why would they have to have the benefit of the  
3   financing for the St. Joe property when they don't benefit  
4   at all from the building of the St. Joe treatment plant?

5           A.       Well, their construction dollars or their rate  
6   base was financed by higher-cost debt, which would result  
7   in a higher rate of return to the Joplin district, if  
8   that's the way you want to calculate it.

9           Q.       You lost me there.

10          A.       When the plant addition was put in service in  
11   Joplin, that debt cost was not used -- was not tax-exempt  
12   financing. So the tax-exempt financing results in a lower  
13   cost of capital for the -- for the plant additions. So  
14   when the -- Joplin's plant additions was placed in  
15   service, the capital -- the long-term debt was more  
16   expensive since it wasn't tax-exempt financing.

17                    So the overall rate of return would be higher  
18   for the Joplin plant additions if it wasn't for the  
19   tax-exempt financing for the St. Joe treatment plant.

20                   MR. DEUTSCH: Did any of you understand that?

21                   Okay.

22                   JUDGE THOMPSON: Gentlemen, gentlemen, please.

23                   MR. DEUTSCH: Okay. I don't have any further  
24   questions of this witness.

25                   JUDGE THOMPSON: Thank you, Mr. Deutsch.

1 Questions from the Bench?

2 Commissioner Schemenauer?

3 COMMISSIONER SCHEMENAUER: Just one.

4 QUESTIONS BY COMMISSIONER SCHEMENAUER:

5 Q. Good morning, Mr. Salser.

6 A. Good morning.

7 Q. On page 2 of your surrebuttal, on lines 9  
8 through 13, you're answering the question whether or not  
9 the company has changed its position regarding a phase-in  
10 of revenues and you answer no.

11 Is that still the position of the company?

12 A. Yes. We would love to be able to put the  
13 deferred revenues on the financials and have them  
14 recognized but we've heard in previous witnesses that's --  
15 we cannot recognize deferred revenues in the financials.

16 Q. And that's the reason, because you can't  
17 recognize the deferred revenues?

18 A. Yes. Because that has an impact on the bottom  
19 line of probably around \$5 million the first year. And  
20 you're talking about the -- \$6 million is about where the  
21 total net income is on an annual basis. So if that's not  
22 recognized, you could have a little bit over a million  
23 dollars net income for that one year.

24 Q. I understand the accounting gymnastics used in  
25 this argument; however, the fact is, this isn't an asset,

1 at least not yet, and when the company is asking for such  
2 a large rate increase from such a small group of  
3 ratepayers, it would look like there would be some  
4 consideration given to -- I think some described it as  
5 rate shock, but the company is steadfast in no phase-in at  
6 all; is that correct?

7 A. That's correct. There is little history to  
8 this which I'm sure you're not aware of.

9 Back before we even started building this  
10 treatment plant, we had meetings with Public Counsel and  
11 the Staff members to see if we could not in some way get  
12 rate base or CWIP recognized in rate cases. We filed rate  
13 cases as the construction period progressed through this  
14 treatment or the construction of the St. Joe treatment  
15 plant.

16 And we were coming up a brick wall, saying not  
17 used and useful and we cannot recognize that in rates. So  
18 we had no alternative but to wait to place it in service  
19 and then come in for a rate increase.

20 Q. Okay. Now, I want to make sure I understood  
21 what you just said.

22 A. Okay.

23 Q. You met with Office of Public Counsel and  
24 Staff?

25 A. Yes. On a number of occasions, yes, sir.

1 Q. And what did you try to accomplish with them?

2 A. We tried to get their buy-in for the company to

3 file a rate case, recognize CWIP, construction work in

4 progress for the St. Joe treatment plant, as it was being

5 constructed instead of waiting until it's placed in

6 service and then come in and file for a large rate

7 increase. We knew that was going to happen.

8 Q. Is that the same as an accounting authority

9 order?

10 A. No. No. I'm talking about getting CWIP

11 recognized in rate base and receive revenues, actual cash,

12 for that -- at that level of construction work in progress

13 during that period of time.

14 Q. But at this point the company had already made

15 the decision to build a new plant and had disregarded all

16 of the other options such as refurbishing the old plant --

17 A. No. No.

18 Q. -- building the pipeline from Kansas City and

19 all of the other options that were available?

20 A. No. That's not true.

21 Q. So they were going to build a plant and still

22 consider the other options?

23 A. No. We had already decided -- we had already

24 determined the options.

25 Q. Okay.



1           A.       Okay.  Then we wanted to -- during the  
2   construction period, to -- for the parties to agree to  
3   recognize CWIP in rate base and we'd file two or three  
4   rate cases during this construction period, so, in effect,  
5   you'd have a phase-in of rates or the rates would  
6   gradually go up as the construction period -- as the  
7   construction of the St. Joe treatment plant was completed.

8           Q.       Okay.  I think I understand your position.  
9   Thank you.

10          A.       Yes, sir.

11                 JUDGE THOMPSON:  I'm going to need a two-minute  
12   recess.

13                 I'll be right back.

14                 (Off the record.)

15                 JUDGE THOMPSON:  Let's go back on the record.

16                 Chair Lumpe left some questions and I don't  
17   know if you're the appropriate witness to pose those to,  
18   but we will find that witness.

19   QUESTIONS BY JUDGE THOMPSON:

20          Q.       First of all, the company proposes, does it  
21   not, to increase its customer charge?

22          A.       Yes.

23          Q.       And as I understand the testimony yesterday,  
24   that was to bring the customer charge for the revenue  
25   generated thereby toward the actual costs associated; is

1     that correct?

2           A.       Do you want to repeat that again, sir?

3           Q.       I believe the testimony was that additional  
4     revenue recovered thereby would go further towards  
5     covering the costs that customer charge is intended to  
6     recover but that, in fact, it would not produce revenue  
7     equal to those costs?

8           A.       That's my understanding, yes.

9           Q.       Okay. Now, Chair Lumpe wanted me to ask if the  
10    customer charge were increased only 10 percent rather than  
11    what I believe is the contemplated 20 percent, what impact  
12    would that have on the volumetric charges in order to  
13    produce the necessary revenue requirement?

14          A.       It would obviously increase it but I can't tell  
15    you the number. But I can definitely get it for you.

16          Q.       Okay. What if there were no increase in  
17    customer charge at all?

18          A.       It would also -- the volumetric rate would  
19    increase.

20          Q.       And isn't it true that the customer charge  
21    impacts customers with lower financial means in a harder  
22    fashion than volumetric charges?

23          A.       Yes, that is true.

24          Q.       Okay. Do you think it would be possible to  
25    prepare some sort of a chart showing these three options;

1 in other words, the anticipated customer charge increase  
2 level of 20 percent and then the option of merely a  
3 10 percent increase in customer charges and merely -- and  
4 no increase at all in customer charges?

5 Would that be possible?

6 A. It sure would.

7 Q. Okay. We'd like that as a late-filed exhibit.  
8 When do you think you could provide that?

9 A. In a day or two.

10 Q. A day or two would be fine.

11 MR. ENGLAND: May I speak, Your Honor?

12 JUDGE THOMPSON: Yes.

13 MR. ENGLAND: Because it does impact the  
14 question you just asked. I'm not sure this witness is the  
15 one that is going to be doing that work.

16 JUDGE THOMPSON: Well, Mr. England, some time  
17 next week would be fine.

18 MR. ENGLAND: I think Mr. Stout is the person  
19 that can do it. We will get it to you as quick as  
20 possible and it may be as quick as Mr. Salser indicates,  
21 but I'd like to reserve judgment until I have a chance to  
22 talk to Mr. Stout who has been excused and, is, in fact,  
23 back in Pennsylvania today.

24 JUDGE THOMPSON: That's fine.

25 Now, Chair Lumpe was also concerned with other

1 sorts of costs, with common costs, with infrastructure  
2 costs, and there has been some mainly indirect references  
3 to these sorts of costs. And Chair Lumpe would like some  
4 sort of a chart defining what these common costs are and  
5 setting them out by district; in other words, setting out  
6 a total for the company and setting these costs out by  
7 district and some sort of a glossary or footnote  
8 describing just what they are.

9 Is that possible, Mr. England?

10 MR. ENGLAND: It certainly is.

11 JUDGE THOMPSON: And, again, whenever you can  
12 get that will be fine. I won't ask Mr. Salser to tell you  
13 when you can provide that.

14 MR. ENGLAND: You're certainly free to ask him.

15 JUDGE THOMPSON: Any further questions from the  
16 Bench?

17 Recross?

18 St. Joseph Area Water District? Mr. Dority or  
19 Mr. Fischer?

20 MR. FISCHER: No. Thank you, Your Honor.

21 JUDGE THOMPSON: Mr. Zobrist?

22 MR. ZOBRIST: No questions. Thank you.

23 JUDGE THOMPSON: Mr. Coffman?

24 MR. COFFMAN: No questions.

25 JUDGE THOMPSON: Mr. Franson?

1 MR. FRANSON: Yes, Your Honor.

2 RECROSS-EXAMINATION BY MR. FRANSON:

3 Q. Mr. Salser, during questions, I believe from  
4 Commissioner Schemenauer, you indicated that you had met  
5 with Staff and OPC about including the CWIP in rate base.

6 Do you remember that conversation with  
7 Commissioner Schemenauer?

8 A. Yes.

9 Q. Are you aware that it is a long-standing policy  
10 of this Commission to not recognize CWIP in rate base?

11 A. Yes. And that's -- we thought we had a good  
12 reason for them maybe to change that policy because of the  
13 size of the St. Joseph treatment plant.

14 Q. Do you accept the idea that CWIP was not even  
15 recognized in the Callaway nuclear power plant?

16 A. I have no idea.

17 MR. FRANSON: I don't believe I have any  
18 further questions, Your Honor.

19 JUDGE THOMPSON: Thank you, Mr. Franson.

20 Mr. Finnegan?

21 MR. FINNEGAN: Just one question.

22 RECROSS-EXAMINATION BY MR. FINNEGAN:

23 Q. If the customer charge were to go down, what  
24 impact would that have on larger users such as water  
25 districts?

1           A.       It would increase.

2           Q.       Increase their rates?

3           A.       Yes.

4           MR. FINNEGAN:   Okay.   Thank you.

5           JUDGE THOMPSON:   Mr. Curtis?

6           MR. CURTIS:   No questions.   Thank you.

7           JUDGE THOMPSON:   Mr. Deutsch?

8           MR. DEUTSCH:   No questions.   Thank you.

9           JUDGE THOMPSON:   Redirect, Mr. England?

10          MR. ENGLAND:   Thank you.

11   REDIRECT EXAMINATION BY MR. ENGLAND:

12          Q.       Following up that line of questioning, if the

13   customer charge is reduced or the increase to the customer

14   charge is reduced below that which we have proposed or

15   it's not increased at all, would you say the volume charge

16   would be greater?

17          A.       Yes.

18          Q.       And then did you say that that would impact

19   more greatly, if you will, large users?

20          A.       Yeah.   It would have an impact to the large

21   users, yes.

22          Q.       Okay.   And I also thought I heard you say in

23   response to a question from the Bench that it would

24   benefit -- that that pricing strategy, if you will, will

25   benefit low-income users; is that correct?

1           A.       Yes. The service charge -- the overall bill  
2 would be lower.

3           Q.       What if the low-income user is actually a  
4 high-volume user of water?

5           A.       It would -- his bill could possibly be higher.  
6 It depends on the usage.

7           Q.       And what are the customer charge -- excuse me.  
8 What are the nature of the costs that the customer charge  
9 tries to collect or recover?

10          A.       It's a cost of reading the meters, sending the  
11 bills out, collecting the costs of the depreciation on the  
12 equipment that is used to bill the meter, bill the  
13 customer's bill. It's labor and the overhead is related  
14 to the labor.

15          Q.       And do those costs necessarily change with the  
16 amount of usage by the customer?

17          A.       No.

18                   MR. ENGLAND: Thank you, sir.

19                   Well, excuse me. One clarifying question.

20 BY MR. ENGLAND:

21          Q.       I think in response to a question from  
22 Mr. Deutsch you indicated that the \$74 million figure in  
23 your direct testimony for the St. Joseph treatment plant  
24 was correct when the testimony was filed. Is that your  
25 testimony?

1           A.       Yes.

2           Q.       And do you now have more current and more  
3 accurate information regarding the cost of that plant?

4           A.       Yes.

5           Q.       And will that be presented in the true-up  
6 phase?

7           A.       Yes, it will.

8           Q.       Thank you, sir.

9                   And just, I guess for the record, is that  
10 number closer now to approximately \$70 million?

11          A.       Yes.

12                   MR. ENGLAND: Thank you. I have no other  
13 questions.

14                   JUDGE THOMPSON: Thank you, Mr. England.

15                   Your line of questioning gave me another  
16 question.

17                   QUESTIONS BY JUDGE THOMPSON:

18          Q.       Mr. Salser, isn't it true that the company in  
19 the St. Joseph district plans to shift from a quarterly  
20 meter reading and billing cycle to a monthly meter reading  
21 and billing cycle?

22          A.       Yes.

23          Q.       And won't that have the effect of raising those  
24 customer charges, meter reading costs, billing and  
25 collection costs? Won't that increase them by a factor of



1 three; in other words, if it costs a certain amount of  
2 money to read the meters four times a year, if you read  
3 them twelve times a year, isn't that going to consequently  
4 cost three times as much?

5 A. Not exactly three times but it will increase  
6 the cost for actually going out and reading the meters and  
7 sending the bill out.

8 Q. Okay. So there will be cost increases?

9 A. Yes.

10 Q. Do you know precisely how much the company  
11 anticipates in increased costs for that shift?

12 A. I'm going to say about \$160,000, I believe.

13 Q. So the effect on customer bills -- if there  
14 were no rate increase, the effect of changing from  
15 quarterly to monthly on customer bills would be such that  
16 you couldn't just take the quarterly bills, add four  
17 together and divide that amount by twelve to get the  
18 monthly bill?

19 A. That's correct.

20 Q. The monthly bill would be larger?

21 A. Right.

22 Q. Okay. Do you know why the company has decided  
23 to shift from quarterly to monthly?

24 A. Well, basically with -- all of the other  
25 districts are monthly and in the last rate case we moved

1 Joplin from quarterly to monthly. And because of the  
2 increase in the bill, instead of a large quarterly bill,  
3 you get a third of that or a monthly bill and it would be  
4 easier budgeting for the payment with that bill on a  
5 monthly basis instead of a quarterly.

6 Q. You're saying the company's motivation is  
7 because the bill is then more acceptable to the  
8 residential consumers?

9 A. I believe so. Because all of the other  
10 utilities are basically billed monthly.

11 Q. Is there any other benefit to the company?

12 A. Yes. There is an offset to the cash, working  
13 capital. Well, that's to the customer. And also, the  
14 reduced uncollectible as a result of more frequent  
15 billing.

16 JUDGE THOMPSON: Thank you.

17 Further questions from the Bench?

18 QUESTIONS BY CHAIR LUMPE:

19 Q. Mr. Salser, on your surrebuttal testimony I  
20 have down here that there is a Schedule 1, which for some  
21 reason I have written down here phase-in.

22 Is this a phased-in approach that the company  
23 accepts or --

24 A. No. This is a phase-in that the Public Counsel  
25 Witness, Mr. Trippensee, was suggesting and I was pointing

1 out some -- my point, an error in this calculation.

2 Q. So it wasn't an acceptance of this phase?

3 A. No, it was not.

4 Q. It was there was an error in it?

5 A. Yes. Or a different method of calculating it.

6 CHAIR LUMPE: Okay. That was my question

7 because I thought I had heard the phase-in was not

8 acceptable and then I thought, here the phase was.

9 Thank you.

10 JUDGE THOMPSON: Recross based on my additional

11 questions and Chair Lumpe's additional question?

12 Mr. Fischer?

13 MR. FISCHER: No. Thank you, Your Honor.

14 JUDGE THOMPSON: Mr. Zobrist?

15 MR. ZOBRIST: No questions.

16 JUDGE THOMPSON: Mr. Coffman?

17 RECROSS-EXAMINATION BY MR. COFFMAN:

18 Q. Just to clarify, Mr. Salser, we discussed the

19 Schedule JES-S1 earlier and discussed some elements that

20 may have been missing from that calculation.

21 A. It's the same calculation your witness put on

22 the schedules.

23 Q. We did discuss some other elements that could

24 have been included in that calculation?

25 A. On -- yes.

1 MR. COFFMAN: Okay. That's all I have.

2 JUDGE THOMPSON: Thank you, Mr. Coffman.

3 Mr. Franson?

4 MR. FRANSON: No questions, Your Honor.

5 JUDGE THOMPSON: Mr. Finnegan?

6 FURTHER RECROSS-EXAMINATION BY MR. FINNEGAN:

7 Q. Mr. Salser, is there another benefit of monthly

8 billing in St. Joe that the customer who receives a

9 monthly bill that was the same size as his quarterly bill

10 won't know that there was a rate increase?

11 A. Do you want to repeat your question again?

12 MR. FINNEGAN: Strike my question.

13 JUDGE THOMPSON: Thank you, Mr. Finnegan.

14 Mr. Curtis?

15 MR. CURTIS: No questions.

16 JUDGE THOMPSON: Mr. Deutsch?

17 MR. DEUTSCH: No questions.

18 JUDGE THOMPSON: Mr. England, redirect based on

19 the additional questions from the Bench and the additional

20 recross permitted?

21 MR. ENGLAND: I'm afraid so.

22 JUDGE THOMPSON: Please proceed.

23 FURTHER REDIRECT EXAMINATION BY MR. ENGLAND:

24 Q. The discussion you had earlier with Mr. Coffman

25 about some of the items that may have been omitted from

1     that schedule, is it your opinion that those items should  
2     properly be included in that schedule?

3           A.       No.

4           Q.       Was it also your testimony that those items  
5     weren't included in Mr. Trippensee's schedule?

6           A.       That's correct.

7           Q.       Okay. With respect to the quarterly to  
8     monthly meter reading change proposed in the St. Joseph  
9     district, does the St. Joseph district customers -- or do  
10    the St. Joseph district customers currently pay a customer  
11    charge equal to that of the other seven districts?

12          A.       Yes, they do.

13          Q.       To the extent that the customer charge is  
14    associated with the St. Joseph district may currently be  
15    less because of quarterly billing than they would be if  
16    they were monthly billed, that's not reflected in their  
17    rates today. Correct?

18          A.       That is correct.

19                   MR. ENGLAND: No other questions.

20                   JUDGE THOMPSON: You may step down, Mr. Salser.

21                   And I believe we are ready for witness Hong Hu.

22                   MR. ENGLAND: Can we go off the record for a  
23    second?

24                   (OFF THE RECORD.)

25                   MR. ENGLAND: I didn't catch the various

1 scenarios for the lower or no customer charge proposal.

2 JUDGE THOMPSON: We would like to see -- the  
3 present option as I understand it, the company is calling  
4 for a 20 percent increase in the customer charges.

5 MR. ENGLAND: That's my understanding.

6 JUDGE THOMPSON: We would like a charge showing  
7 the present option with the 20 percent charge, then we  
8 would like to see scenarios showing a 10 percent and a  
9 zero increase in the customer charge, and what effect this  
10 would have on the volumetric portion of the charges in  
11 order to recover the necessary rate base.

12 And perhaps you could show the effect on a  
13 residential customer in each district who uses 6,000  
14 gallons of water a month so that we may compare those in  
15 apple terms.

16 MR. ENGLAND: I think I understand. We might  
17 even be able to give it to you in graduated consumptions,  
18 1,000, 2,000, et cetera.

19 JUDGE THOMPSON: That would be even better.

20 MR. FISCHER: Your Honor, would it also be  
21 possible or appropriate to show the overall percentage  
22 increase on top of the water districts in St. Joe if those  
23 options were done?

24 JUDGE THOMPSON: I think you can show whatever  
25 you think is necessary given that these are the scenarios

1 we want to see. Now, if there are ramifications that you  
2 need to point out, please do.

3 MR. ENGLAND: Correct. And we need to use the  
4 same revenue requirement for this comparison where the  
5 case as filed should be sufficient?

6 JUDGE THOMPSON: I believe that would be  
7 sufficient. If we need it done again with a different  
8 revenue requirement, we'll let you know.

9 MR. ENGLAND: Thank you.

10 Secondly --

11 JUDGE THOMPSON: Yes, sir.

12 MR. ENGLAND: The second late-filed exhibit, as  
13 I understand it, you want a list of what the company has  
14 categorized as common costs by category by amount at a  
15 total company basis and then allocated -- and then as  
16 would be allocated by district?

17 JUDGE THOMPSON: That is correct.

18 MR. ENGLAND: Okay.

19 JUDGE THOMPSON: And when you say allocated by  
20 district, if there is a difference between allocated and  
21 actual, then show both.

22 MR. ENGLAND: I don't think there will be. My  
23 understanding of common costs is that they have to be  
24 allocated. They can't be specifically assigned.

25 JUDGE THOMPSON: Okay. Well, in that case,

1 fine.

2 CHAIR LUMPE: And I think -- and I apologize  
3 because I was the one that sort of asked for this and part  
4 of that problem was that I had not found Mr. Stout's  
5 direct testimony anywhere in my file, which I did and last  
6 night went home and read it, and discovered that he does  
7 have several charts in there on various common items.

8 And so if we can kind of put it -- put it  
9 together for me in a way that I can sort of see.

10 MR. ENGLAND: Sure. You want to focus on those  
11 common costs only because there are other costs that are  
12 being assigned and directly allocated.

13 CHAIR LUMPE: Right. And I notice in one place  
14 where it says Joplin is given 70 percent of this because  
15 they have 70 percent of the leaks or something like that.  
16 So I'd asked are the district-specific things when I was  
17 talking to Mr. Stout and he said yes. And so I'm -- okay,  
18 can we identify those districts specifically that could be  
19 given directly to that district?

20 And then actually I would also like the  
21 infrastructure, the various -- and put that in. And I  
22 know that is in the testimony too, but if you could kind  
23 of construct it for me in a way that I can -- Brunswick  
24 got in this rate case there is -- X amount went to  
25 Brunswick or X amount went to Joplin, X amount went to



1 St. Charles, X amount went to -- so I can see that column.

2 MR. ENGLAND: I think we can construct  
3 something that shows you by category, by total and then  
4 maybe by separate column how that total got allocated to  
5 each district.

6 CHAIR LUMPE: Okay.

7 MR. ENGLAND: But I want to make sure I  
8 understand. We're just talking about what I call joint  
9 and common costs?

10 CHAIR LUMPE: Right. That's the basic.

11 MR. ENGLAND: Okay. We can do that.

12 Thank you.

13 JUDGE THOMPSON: Thank you, Mr. England.

14 MR. CURTIS: Judge, I have one.

15 JUDGE THOMPSON: Mr. Curtis?

16 MR. CURTIS: Regarding the appearance of James  
17 Landon as a witness, I have discussed with counsel and I  
18 think by common consent we have agreed that he could go  
19 early this afternoon.

20 JUDGE THOMPSON: That's fine with me.

21 MR. CURTIS: And I just wanted to notify the  
22 Bench of that.

23 MR. CONRAD: And I guess I have to follow up on  
24 Mr. England's questions.

25 The second of the two charts or whatever we

1     were calling them, did I understand that was being  
2     requested on a district-by-district basis or was that to  
3     be one -- one list?

4             MR. FRANSON: I thought it was both.

5             MR. ENGLAND: My understanding is that it would  
6     show both total and then allocated by district. And my  
7     hope would be that we could do it on one page so that you  
8     would see the total and then the subsequent columns would  
9     be the districts which would total up to the total.

10            CHAIR LUMPE: I think what -- and maybe this  
11     doesn't exist -- I don't know. But in my conversation  
12     with Mr. Stout, I said, can you tell me what the common  
13     things are? Can you define for me those things that only  
14     occur in a district; in other words, specifically I'm  
15     trying to think maybe -- the treatment is perhaps district  
16     by district?

17            What would be the cost differential if you went  
18     treatment district by district. And I don't know other  
19     items that might be there, but there are things that would  
20     be different from district to district that may -- then it  
21     wouldn't be a commonality.

22            MR. ENGLAND: You're absolutely right. We're  
23     getting a little beyond my headlights, but that's why I  
24     wanted to focus --

25            CHAIR LUMPE: I wanted to be totally beyond my

1 headlights and these things may not exist, but --

2 MR. ENGLAND: That is why I was focusing on  
3 joint and common. Those tend not to be specifically  
4 allocated or directly assigned. They have to be allocated  
5 using some sort of judgment or allocation process that is  
6 subject to debate. There are costs as you point out that  
7 are directly assigned that occur in a specific district  
8 and I don't think anybody disagrees ought to be assigned  
9 to that district. Those are different than what I  
10 consider and I think Mr. Stout considers to be common  
11 costs.

12 CHAIR LUMPE: And I was trying to find out what  
13 are those things that can be directly assigned to a  
14 district because they are not -- if there are any --

15 MR. ENGLAND: So I think what you really want  
16 is the full allocation of joint and common costs, as well  
17 as directly assigned costs.

18 I mean, I think we've got all of that  
19 information. Whether or not it's been put in one of our  
20 schedules or not, I don't know, but I think we can format  
21 it at least or find it and provide it to you.

22 JUDGE THOMPSON: Thank you, Mr. England.

23 CHAIR LUMPE: Thank you.

24 MR. CONRAD: I'm sorry. Well, please go ahead  
25 so she can sit down.

1 (Witness sworn/affirmed.)

2 JUDGE THOMPSON: Please be seated and spell  
3 your name for the reporter if you would.

4 THE WITNESS: My name is Hong Hu, H-o-n-g, H-u.

5 JUDGE THOMPSON: Thank you, ma'am.

6 Now, do you have something?

7 MR. CONRAD: Yeah. I'm sorry. Again, on this  
8 exhibit, with respect to both things, I think that Your  
9 Honor could tell from the questions, there is at least a  
10 potential of some controversy about the content as well as  
11 the presentation of those exhibits.

12 What was your sense of -- I have to plead  
13 that I have not yet committed to memory the new rules.  
14 I'm not sure if there is a change in them as to how we  
15 handle late-filed exhibits and so on. But what was your  
16 contemplation about how mechanically we would handle that?

17 JUDGE THOMPSON: I think that's a very good  
18 point. I have not committed the new rules to memory  
19 either, so what we will do will be this. The exhibit will  
20 need to be presented in open hearing with a copy to all  
21 counsel, and it will need to be offered on the record with  
22 an opportunity for objection.

23 And if it is received, then, of course, anyone  
24 who wants an opportunity to rebut it by offering a  
25 different exhibit or something of this sort will, of

1 course, be given that opportunity.

2 MR. CONRAD: My concern, however, goes to the  
3 point that, as has been suggested earlier in discussion  
4 with Mr. England -- I can't remember whether it was on or  
5 off the record -- but he indicated that perhaps Mr. Stout  
6 would probably be involved in the preparation of that.

7 Chair Lumpe, in her clarification just a moment  
8 or two ago, indicated that she had in mind how Mr. Stout's  
9 exchange will occur. Mr. Stout has been excused. So how  
10 would we set up a structure that if we needed to  
11 cross-examine someone about that exhibit, how would we set  
12 that structure up?

13 JUDGE THOMPSON: I think we'll have to cross  
14 that bridge if we come to it. If it's necessary to bring  
15 Mr. Stout back, perhaps that would have to be done.  
16 Perhaps the company would have another witness immediately  
17 available who could be cross-examined.

18 I realize this creates a burden, but I think in  
19 the context of a general rate case of this size, that that  
20 kind of complexity is unavoidable from time to time.

21 Yes, sir.

22 MR. ENGLAND: From time to time I too share  
23 Mr. Conrad's concerns with the introduction of late-filed  
24 exhibits, depending on the nature and the scope of the  
25 exhibit. But I think as a practical necessity, they tend

1 to be filed after the hearing when the witnesses have gone  
2 and been excused.

3 My suggestion would be to the extent we can get  
4 it here while the hearing is still in progress, we will.  
5 I'm not sure that we can produce Mr. Stout. I don't know  
6 his travel plans. He will be the person to do this. I  
7 can assure you of that. But before we anticipate any  
8 problems, perhaps we submit the exhibit, give the parties  
9 time to look at it and if they have any objections, make  
10 them and then you can deal with how -- whether you want to  
11 receive it, take additional testimony or evidence or  
12 reject it based on those objections.

13 But that would be my suggestion.

14 JUDGE THOMPSON: I think that's a good  
15 suggestion.

16 Mr. Coffman?

17 MR. COFFMAN: I would note that we also have  
18 the luxury in this case of having a true-up hearing later  
19 this month.

20 JUDGE THOMPSON: I think we have most of the  
21 June devoted to this case. And, if necessary, we can  
22 devote part of the month of July.

23 MR. CONRAD: I'm not sure I agree, Your Honor,  
24 with the characterization of that as being a luxury, but  
25 Mr. England's suggestion is certainly apropos and that

1 would be agreeable.

2 JUDGE THOMPSON: To the extent that the  
3 information already exists in schedules scattered here and  
4 there in the schedules that already exist, perhaps to  
5 simply arrange it will be unobjectionable.

6 MR. CONRAD: That's fine.

7 JUDGE THOMPSON: To the extent this is going  
8 to require the creation of a totally new schedule that no  
9 one has ever seen before, then Mr. Conrad is certainly  
10 correct, that he may want to cross-examine the author of  
11 the exhibit. And I think that due process requires that.

12 But, again, we'll cross that bridge when we  
13 come to it. And I'm sure that able counsel will be able  
14 to resolve as many of these issues as they can.

15 Are we ready to begin with direct examination  
16 of this witness?

17 MR. COFFMAN: Public Counsel is ready to go.

18 JUDGE THOMPSON: Please proceed.

19 HONG HU testified as follows:

20 DIRECT EXAMINATION BY MR. COFFMAN:

21 Q. Please state your name again for the record and  
22 your title.

23 A. My name is Hong Hu. I'm a public utility  
24 economist.

25 Q. And by whom are you employed?

1           A.       I work for the Office of Public Counsel.

2           Q.       And are you the same Ms. Hu who has caused to  
3 be filed in this case direct, rebuttal and surrebuttal  
4 testimony marked as Exhibits 30, 31 and 32 respectively?

5           A.       Yes, I am.

6           Q.       Do you have any corrections to those prepared  
7 testimonies?

8           A.       Yes. I have in my rebuttal testimony, page 2,  
9 lines 16 and 17, I have a typo. The sentence reads, this  
10 most current data is for the year ending September 30,  
11 2000, and the year 2000 should be changed to year 1999.  
12 And the same thing for the next sentence. The next line,  
13 the year 2000 should be changed to year 1999.

14          Q.       Do you have any other corrections?

15          A.       No.

16          Q.       Okay. With those corrections, would the  
17 testimony contained in your direct, rebuttal and  
18 surrebuttal testimony still be correct to your best  
19 information, knowledge and belief?

20          A.       Yes.

21                 MR. COFFMAN: I would offer Ms. Hu for  
22 cross-examination and offer Exhibits 30, 31 and 32 into  
23 the record.

24                 JUDGE THOMPSON: Thank you, Mr. Coffman.

25                 Do I hear any objections to the receipt of



1 Exhibits 30, 31 and 32?

2 (No response.)

3 JUDGE THOMPSON: Hearing none, Exhibit Nos. 30  
4 and 32 are received and made a part of the record of this  
5 matter. Exhibit No. 31 as corrected is received and made  
6 a part of the record of this cross-examination.

7 (EXHIBIT NOS. 30, 31 AND 32 WERE RECEIVED INTO  
8 EVIDENCE.)

9 JUDGE THOMPSON: I believe you're up first,  
10 Mr. Franson.

11 MR. FRANSON: Thank you, Your Honor.

12 CROSS-EXAMINATION BY MR. FRANSON:

13 Q. Ms. Hu, do the allocation factors of the Staff  
14 and company contain the allocation of cost to customer  
15 classes for the base component of the base extra capacity  
16 method with the actual usages per customer class?

17 A. Um, okay. If I understand your question right,  
18 you're asking me if the company and the Staff's method  
19 does contain a base usage portion?

20 Q. Base component with the actual usages by  
21 customer class.

22 A. Um, from the parent, yes, they do have that.  
23 However, the end result actually produces a similar or  
24 identical allocator to -- or noncoincident peak demand  
25 allocator or a coincident peak demand allocator.

1           Q.       So the answer to my initial question, do they  
2   contain the base component with the actual usage by  
3   customer class is, yes, they do?

4           A.       Apparently.  Not in the end result.

5                    After you're crunching through the black box,  
6   the end result doesn't really consider that part.

7           Q.       Ms. Hu, are water systems designed and built to  
8   provide maximum hourly peak needs?

9           A.       Um, I believe maximum demand is one important  
10   driving force of the water system design.

11          Q.       So are they designed and built to provide  
12   maximum hourly daily peak?  Are water systems designed and  
13   built to do that?

14          A.       Well, that's what I said.  It is one of the  
15   most -- well, most important factor.  However, there are  
16   other factors too.

17          Q.       Okay.  Ma'am, I wasn't asking about other  
18   factors.

19                    My question is, are water systems designed and  
20   built to provide maximum hourly daily peaks?

21          A.       I would have to say this is partially correct,  
22   not entirely correct, because a water system is also  
23   designed to provide yearly annual usage.

24          Q.       Ms. Hu, I understand there are other reasons  
25   and other uses and things for water systems.  But my

1 question is, are they designed and built to provide  
2 maximum hourly peak needs?

3 A. Well, then my answer is still, yes, it is  
4 partially correct, not entirely correct.

5 Q. I'm not asking --

6 JUDGE THOMPSON: Mr. Franson, I believe the  
7 witness is attempting to answer your question.

8 Now I know that you want a yes or no answer but  
9 the witness is not willing to give a yes or no answer, and  
10 I think you're stuck with the answer that the witness is  
11 willing to give.

12 MR. FRANSON: Yes, Your Honor. However, I do  
13 strongly believe my question does call for a yes or a no  
14 answer. And unless you're directing me otherwise, I'd  
15 like to try it one time.

16 JUDGE THOMPSON: I am directing that the  
17 witness be permitted to answer the question as the witness  
18 believes is appropriate.

19 MR. FRANSON: Thank you, Your Honor.

20 BY MR. FRANSON:

21 Q. Ma'am, would you agree that one of the purposes  
22 of a water system is to -- when you design and build one,  
23 is to be able to provide maximum hourly peak needs?

24 A. Yes.

25 Q. Are water systems designed and built to provide

1 maximum daily peak needs?

2 A. Again, yes, it is one of the factors.

3 Q. Are water systems designed and built to provide  
4 average usage need?

5 A. Yes, it is one of the factors.

6 Q. Ma'am, you have talked about there being other  
7 factors. What are those other factors besides the ones  
8 we've already named?

9 A. Um, for example, fire protection. That's the  
10 one that comes up to mind.

11 Q. Ma'am, are the base allocators of the base  
12 extra capacity method defined by the average daily  
13 consumption by the separate classes?

14 A. Yes, I believe so.

15 Q. Is this base usage the base capacity you refer  
16 to?

17 A. Yes.

18 Q. Ms. Hu, if water systems are designed to meet  
19 to provide maximum hourly peak needs, maximum daily peak  
20 and average usage and fire protection, are the average  
21 users needs also taken care of?

22 A. Yes.

23 Q. Ms. Hu, are all of the sizes of the company  
24 mains used by customers to provide maximum hour or peaking  
25 uses, do their company mains, do they provide the maximum

1 hourly or peak usages?

2 A. Can you repeat the question?

3 Q. Certainly.

4 Are all sizes of a company's mains used by

5 customers, are they used to provide maximum hourly or

6 peaking usages?

7 A. I would think so.

8 Q. Are the same transmission and distribution

9 facilities used to provide peaking and base usage?

10 A. I believe so.

11 Q. Ma'am --

12 A. Although I mean, you know, sometimes fire

13 protection needs may be even bigger. I mean, in some

14 cases that may be the driving force too.

15 Q. Do economies of scale exist in all

16 transmission, production, distribution and storage

17 facilities of the company?

18 A. Uh-huh. Yes.

19 Q. Do economies of scale exist for facilities used

20 to provide base usage?

21 A. Yes. I mean, it's not -- economies of scale is

22 a concept that would apply to all capacity-related --

23 Q. So the answer to my question --

24 A. -- cost.

25 Q. -- about economies of scale existing for

1 facilities to provide base usage is yes?

2 A. Yes.

3 Q. Do you --

4 A. There are no, you know, single system or  
5 facility that is there that only provides base usage.

6 Q. Do customers of scale exist for facilities used  
7 to provide peak usages?

8 A. Yes.

9 Q. Now, have you in your studies recognized the  
10 economies of scale associated with peaking facilities and  
11 in your allocations the same way you did for what you  
12 called base costs?

13 A. Yes, I believe so.

14 MR. FRANSON: If I could have just a moment,  
15 Your Honor.

16 JUDGE THOMPSON: Yes, Mr. Franson.

17 BY MR. FRANSON:

18 Q. Ms. Hu, are the allocation ratios that you  
19 state represent single peak allocator based on daily  
20 system peaks or hourly system peaks?

21 A. The example I used in my rebuttal is for the  
22 maximum day. However, I believe the same analysis could  
23 be done for hour peak too.

24 Q. Which would cause the system to be designed to  
25 be bigger, the capacity needed to meet daily system peaks

1 or the capacity needed to meet hourly system peaks?

2 A. Usually hourly peak is greater than daily peak.

3 Q. Ms. Hu, could you -- do you have your

4 surrebuttal testimony handy?

5 A. Yes.

6 Q. Could you turn to page 12 of the surrebuttal

7 testimony?

8 A. Which page? I'm sorry.

9 Q. Page 12.

10 A. Okay. I'm there.

11 Q. Ms. Hu, I believe you said you are on page 12

12 of your surrebuttal which I believe is Exhibit 33?

13 A. Yes.

14 Q. Did you state at the bottom of page 12 that

15 Mr. Hubbs repeated your explanation of the concepts of

16 economies of scale for -- and I believe this is beginning

17 at line 24 -- for most major facilities the construction

18 costs per units of capacity associated with adding extra

19 peak is substantially less than the unit costs associated

20 with base capacity costs.

21 And I believe that may continue on to page 13.

22 A. Yes, I see it.

23 Q. I'm sorry, ma'am?

24 A. Yes, I see it.

25 Q. Okay. Are you speaking of extra peak as being

1 capacity not needed to supply customers or are you  
2 speaking of the extra capacity as that needed to supply  
3 maximum day and maximum hourly needs?

4 MR. COFFMAN: Your Honor?

5 JUDGE THOMPSON: Mr. Coffman?

6 MR. COFFMAN: I want to make sure that the  
7 record is clear. Mr. Franson is quoting from a quote in  
8 the surrebuttal of Ms. Hu. I think the report should  
9 indicate that the words weren't necessarily Ms. Hu's.

10 THE WITNESS: Yes. First I would have to say  
11 that this is not exactly my word. I believe it's  
12 Mr. Hubbs' belief of my explanation.

13 BY MR. FRANSON:

14 Q. Ms. Hu, if I could, let's go back on page 12.  
15 Could you read line 24?

16 A. Mr. Hubbs then repeated my explanation of the  
17 concept of economies of scale that --

18 Q. Okay. And then doesn't the line 25 begin with  
19 a quotation mark?

20 A. Right. I was quoting his.

21 Q. And that is what, in fact, was read earlier  
22 from line -- on lines 25, 26 of page 12 and ending on  
23 line 1 of page 13?

24 A. Yes.

25 Q. And in that you are, in fact, quoting Mr. Hubbs



1 for the purpose of commenting on his -- on something he  
2 said?

3 A. Yes.

4 Q. Okay. Now, ma'am, do you remember my -- do you  
5 remember my question at this point? We went through that  
6 to make sure everybody knows that you're talking -- you're  
7 quoting Mr. Hubbs.

8 So do you remember my question?

9 A. If you could repeat it.

10 Q. On pages 12 and 13, where we've just read, are  
11 you speaking of the extra peak as being capacity not  
12 needed to supply customers or are you --

13 A. No.

14 Q. -- speaking of extra capacity as that needed to  
15 supply maximum day and maximum hour needs?

16 A. I'm not speaking of extra peak capacity as the  
17 capacity that is not needed, no.

18 Q. Okay. Then are you speaking of extra capacity  
19 as that needed to supply maximum day and maximum hour  
20 needs?

21 A. In this context, I believe, yes. I mean, other  
22 context maybe actual capacity for peak -- hourly peak. I  
23 mean, in one context -- in this context maybe extra  
24 capacity for maximum daily peak. I'm not sure if I  
25 answered your question.

1 Q. I think you have, ma'am. Thank you.

2 Could you turn to page 14 of your surrebuttal.

3 And directing your attention to line 8, could you read  
4 that sentence that ends at line 11?

5 A. No matter if a base system was built  
6 separately, cost causation principles require that  
7 customers be responsible for the proportion of the base  
8 cost that are associated with their use of the base  
9 capacity and be responsible for the proportion of the  
10 extra capacity costs that are associated with their use of  
11 the extra capacity.

12 Q. All right. Thank you, Ms. Hu.

13 Does the Staff and company allocate base  
14 capacity and extra capacity based on usage by class?

15 A. That's what I said before. The end result of  
16 their method doesn't really consider the base portion.

17 Q. Ma'am, my question is about the allocation.  
18 Does it allocate -- does the Staff and company allocate  
19 base capacity and extra capacity based on usage by class?

20 I'm talking about allocation, not the end  
21 result.

22 A. Well, when we talk about allocation, it's a  
23 result. Right?

24 Q. No, ma'am. They are not the same thing.

25 I believe the allocation is earlier in the

1 process; is that correct? It generates the result?

2 A. Okay. Um, can you repeat your question?

3 Q. Certainly. Does the Staff and company allocate  
4 base capacity and extra capacity based on usage by class?

5 And, again, I'm talking about the allocation,  
6 not the end result.

7 A. Okay. Yes. Okay.

8 Q. So --

9 A. Yes.

10 Q. Yes. Okay.

11 Ma'am, on page -- if you could turn to page 16  
12 of your surrebuttal testimony, ma'am, there you have a  
13 table where you show a table for the comparison of base  
14 allocator, peak allocator and Mr. Hubbs's base extra  
15 capacity allocator; is that correct?

16 A. Yes.

17 Q. Please explain how you determined the peak  
18 demand factor you show in the allocation factor?

19 A. I believe here it is actually a noncoincident  
20 peak demand method.

21 Q. Is your peak demand factor a -- ma'am, how did  
22 you determine that that was actually a coincident peak?

23 A. Okay. What I have done is first I derived  
24 maximum day capacity from Mr. Hubbs' work paper. He has  
25 class consumption, average daily consumption, maximum day

1 extra capacity.

2 If you'll add average daily consumption and  
3 maximum day extra capacity together, you would get maximum  
4 day capacity. And I use maximum day capacity for each  
5 class to -- to divide it by the total maximum day  
6 capacity, I got the percentage for each class.

7 As an example, for 14,017,167 divided by  
8 16,449,709, you should be able to get .8521.

9 Q. Could you show where Mr. Hubbs developed a peak  
10 demand allocator?

11 A. I don't think Mr. Hubbs developed a peak  
12 allocator.

13 MR. FRANSON: Your Honor, I don't believe I  
14 have any further questions at this time.

15 Thank you.

16 JUDGE THOMPSON: Thank you, Mr. Franson.

17 Mr. Finnegan -- or Mr. Conrad?

18 MR. CONRAD: I'm going to be the --

19 JUDGE THOMPSON: Very well.

20 MR. CONRAD: He doesn't have any questions.

21 Thank you, Your Honor.

22 CROSS-EXAMINATION BY MR. CONRAD:

23 Q. Good morning, Ms. Hu.

24 A. Good morning.

25 Q. Forgive me if -- let me just ask you almost a

1 sidebar question. It's been a long time since I've dealt  
2 with the Wade Dowell's pronunciation. Are you familiar  
3 with that at all?

4 A. I'm sorry. I didn't --

5 Q. The translator who translates Chinese into  
6 English?

7 A. Translator? I guess.

8 Q. I want to pronounce your name correctly, so  
9 forgive me if I don't.

10 A. That's fine.

11 Q. All right.

12 A. I can understand.

13 Q. All right. Is your degree that you mentioned  
14 in civil engineering or is it in some other --

15 A. Economics.

16 Q. -- engineering field?

17 Well, let me direct you to page -- I guess it  
18 would be page 1, ma'am, of Exhibit 30, being your direct  
19 testimony.

20 A. Okay.

21 Q. And at line 5 you give the answer, bachelor of  
22 engineering degree in management from Beijing?

23 A. Yes.

24 Q. Good old Beijing U. Is that an engineering  
25 degree?

1           A.       That management of information systems is a  
2   major in the Department of Economic Management. So my  
3   bachelor degree is actually -- I mean, my focus in my --  
4   for my bachelor degree is actually partially economics,  
5   partially engineering and partially computer systems. And  
6   then I have completed master degree in the U.S. for my  
7   economic major.

8           Q.       I understand that. Now, you're not here  
9   testifying as a civil engineer?

10          A.       No. As an economist.

11          Q.       Right. And no claim on your part to any  
12   registration as an engineer in --

13          A.       No.

14          Q.       -- any states?

15          A.       No.

16          Q.       Okay. And before we leave that page, when did  
17   you get your bachelor's degree from Beijing?

18          A.       I believe it's 1989.

19          Q.       And the master's from Northwestern came in?

20          A.       It's 1994.

21          Q.       Let me first ask you, have you employed a name  
22   for your allocation method?

23          A.       No. I refer to my method as a modification to  
24   the BNEC, base and actual capacity, method.

25          Q.       I'll try to say base and extra capacity rather

1     than base and excess.

2           A.       Okay.

3           Q.       Are we on the same --

4           A.       Yes.

5           Q.       -- the same track?

6                    Has that allocation method that you've

7     described in here been accepted by any regulatory

8     commission in any jurisdiction?

9           A.       My understanding is it's generally used for the

10    water industry.

11          Q.       Your allocation method is generally used; is

12    that your testimony?

13          A.       Oh, I thought you were referring to the BNEC.

14          Q.       No. I'm sorry. I apologize if I misled you,

15    and I appreciate we're going to have a small bit of

16    language difficulty so bear with me.

17                    Talking about your modification to the base and

18    extra capacity, has that modification been accepted by any

19    regulatory commission anywhere?

20          A.       No. In fact, I don't think this issue has been

21    raised in many places. That's why, you know, probably our

22    Commission is not aware of this too.

23          Q.       Okay. So the answer to the question I asked

24    you is a no?

25          A.       Right.

1           Q.       Let me ask you to turn to page 5 of your  
2 direct. That's, again, Exhibit 30.

3                   And at lines 15 and 16, you make a reference to  
4 a five-inch pipe size. Do you see that reference?

5           A.       Yes.

6           Q.       To your knowledge is pipe in that size,  
7 five inches, manufactured by anyone?

8           A.       I'm not -- I don't know.

9           Q.       Would you agree with me, ma'am, that water  
10 utilities use many different sizes of pipe?

11          A.       Yes.

12          Q.       And how do you figure what you're  
13 characterizing as the extra capacity of each size?

14          A.       I'm not sure I understand what you mean for  
15 each size. When we talk about capacity, actual capacity  
16 for a pipe -- I'm not sure. I don't think I need to  
17 figure out an actual capacity for a pipe.

18          Q.       Now, what is wrong with my question is that I  
19 didn't give you a base for your comparison; isn't that  
20 correct?

21          A.       I would think so, yeah.

22          Q.       Would you agree with me that if you say that  
23 something is extra, it would have to be extra in excess of  
24 something?

25          A.       I agree.



1           Q.       Okay.  What would be the appropriate size  
2   diameter for a water utility to make an extra capacity  
3   calculation?

4           A.       I'm sorry.  Can you repeat the question?

5           Q.       All right.  I'll try.

6                    What would be the appropriate size diameter  
7   of, say, a pipe, that you would want to use for a water  
8   utility in order to make a calculation of what extra  
9   capacity was in a particular size of pipe?

10          A.       Well, I mean, there is a certain relationship  
11   between the diameter of a pipe and the volume of a pipe.

12          Q.       I understand that.

13          A.       There is a mathematical equation that you can  
14   do that.

15          Q.       But you've referred to extra capacity in a  
16   particular size of pipe.  Correct?

17          A.       If you have the base.

18          Q.       Yes.  What base are you using, ma'am?

19          A.       Now, in this method, in this context, base  
20   capacity, I used the base usage.

21          Q.       But your economies-of-scale factor doesn't  
22   relate to the size of pipe and changes in size of pipe?

23          A.       It does.

24          Q.       What base are you using to make that evaluation  
25   as to how much is extra?

1           A.       Well, there are different sizes of pipes. I  
2   don't think you need to --

3           Q.       We covered that.

4           A.       Right. I don't think you need to determine the  
5   diameter for each pipe because we are doing an allocation  
6   in the ballpark.

7           Q.       We went back -- I'll back up.  
8                    We had established, I think, and you agreed,  
9   that water utilities use various sizes of pipe?

10          A.       Yes.

11          Q.       Is there a particular base size of pipe that  
12   you have used?

13          A.       No.

14          Q.       Ms. Hu, have you in this case performed an  
15   economy of scale study with respect to the costs  
16   associated with this company's source of supply?

17          A.       No.

18          Q.       Have you performed such a study with respect to  
19   this company's costs for treatment facilities?

20          A.       No.

21          Q.       If you know, ma'am, what factor determines the  
22   size of piping used in a water treatment facility?

23          A.       I'm sorry?

24          Q.       If you know, what factor determines the size of  
25   piping used in a water treatment facility?

1           A.       I think when I answered the Staff's question, I  
2   said there are a few factors which would include maximum  
3   usage, annual water demand, fire protection.  There may be  
4   other factors, too, that I haven't --

5           Q.       But with respect to the design of the  
6   facility, the water treatment facility itself, what factor  
7   determines the size of piping there, if you know?

8           A.       I would think the maximum demand would be the  
9   major determining factor.

10          Q.       Maximum hourly demand?

11          A.       Maximum day.

12          Q.       Maximum daily demand?

13          A.       I believe so.

14          Q.       Would your square root calculation be  
15   appropriate in the case of the treatment facility?

16          A.       Um, as I said, I didn't do a study for  
17   economies of scale that exist in treatment plant.  I  
18   was using my economies of scale factor as a general --  
19   generalization because nobody else has a better  
20   alternative.

21          Q.       Let me try it again.

22                    Would your square root calculation be  
23   appropriate in the case of a treatment facility?

24          A.       I don't know.

25          Q.       Did you use the square root approach in

1 weighing meter costs?

2 A. No.

3 Q. Ms. Hu, are we dealing here in this case with a  
4 request for rate relief that deals primarily with  
5 expansion of the distribution system or rather with a new  
6 treatment plant?

7 A. In the St. Joe -- in the Joseph district, I  
8 think we are dealing with an increase primarily driven  
9 because of a new treatment plant.

10 Q. In looking at the company's rate and relief  
11 request as a whole, would you agree with me that the  
12 primary driver for that is the new treatment plant in  
13 St. Joseph?

14 A. Yes.

15 Q. Now, the allocation factors that you did use in  
16 your study, what source did you get those from?

17 A. Um, well, because I couldn't get the data from  
18 the company, I used older datas that -- that our former  
19 engineer, Barry Hall, obtained from the company in a  
20 previous case.

21 Q. And the previous case would be the cost of  
22 service docket -- was that WO-98-204?

23 A. I think so.

24 Q. Did you perform any independent evaluation of  
25 those factors for this docket?

1           A.       No. As I said, I intend to do that. However,  
2 I could not get the data from the company.

3           Q.       Let me ask you, please, ma'am, to turn to -- I  
4 believe it will be an attachment to your direct, again,  
5 Exhibit 30, Schedule HH-DIR-1.7. Let me know when you're  
6 there.

7           A.       Yes, I'm here.

8           Q.       Now, does this sheet show the classic  
9 allocators you used in your original cost-of-service  
10 studies for the St. Joseph district?

11          A.       That is the original study which I have updated  
12 in my rebuttal.

13          Q.       I understand. But this was your starting  
14 point. Correct?

15          A.       Yes.

16          Q.       I'd like for you to look at the line or the row  
17 that says, base only factor. Do you see that?

18          A.       Yes.

19          Q.       Stop for just a second and explain to me what  
20 that base only factor is intended to represent?

21          A.       It is intended for a base allocator; in other  
22 words, to allocate costs that are associated -- that is  
23 associated with base usage.

24          Q.       And base usage is defined as, in your  
25 terminology?

1           A.       Average usage or total water usage.

2           Q.       So total water usage or its average usage,  
3 average is usually, as I understand it, you take some  
4 number and divide it by another. Are we talking about  
5 total water usage divided by the number of days or by  
6 what, by some other period?

7           A.       If we are talking about average day usage, yes.

8           Q.       I want you to stay in concept here. I want you  
9 to stay with my base only line for just a second.

10          A.       It doesn't really matter when you talk about --  
11 I mean, if you talk about average day, then you use total  
12 divided by the total days. If you're talking about  
13 average hour, then you divide the total by the total  
14 number of hours in a year. It doesn't really matter.  
15 Because we are talking about a percentage, it would be the  
16 same.

17          Q.       All right. Let's move down now a line or two  
18 to where we say base peak day. Do you see that?

19          A.       Yes.

20          Q.       I think it's the very next one.

21          A.       Yes.

22          Q.       What does that represent?

23          A.       This is an allocator, intends to allocate costs  
24 that is associated with facilities that provide both or  
25 satisfy both total water demand and peak day demand.

1 Q. And then let me move you one more row or line  
2 down, the base peak hour factor. What does that  
3 represent, ma'am?

4 A. That is an allocator that is intended to  
5 allocate costs to those -- off of those facilities that's  
6 satisfying both total water demand and peak hour demand.

7 Q. Now, did you use your economies-of-scale factor  
8 to calculate the class factors in these columns?

9 A. Yes, I believe I did.

10 Q. So a moment ago when I asked you if this was  
11 your starting point, what the real answer is, is this  
12 is really where you finished up after working with Barry  
13 Hall's numbers and applying your adjustment factor to  
14 them; is that correct?

15 A. This is not and -- because I have updated but  
16 you're right, it's not the starting point too. Because,  
17 yeah, Mr. Hall's data is my starting point.

18 Q. And just so we're clear -- and I don't want to  
19 get into the language difficulty if we can avoid it --  
20 when you're using the term "updated," you're referring to  
21 some further revision that you've done at a later date in  
22 this case?

23 A. The major thing is the accounting data has been  
24 updated.

25 Q. Okay. But when we're talking here insofar as

1 concepts, the concepts haven't changed?

2 A. You're right.

3 Q. But some very minor input data has changed.

4 Right?

5 A. I agree.

6 Q. Okay.

7 A. Probably not minor input data though.

8 Q. Well, whatever.

9 Let's look at the factors for the commercial

10 class for just a second. The base only factor, would you

11 agree with me, is 19.64 percent?

12 A. Yes.

13 Q. And the base peak day is 19.66 percent?

14 A. Yes.

15 Q. Now, would you agree with me that there is only

16 two-hundredths of a percent difference between those

17 numbers?

18 A. Yes.

19 Q. Is that a very, very small difference, would

20 you agree?

21 A. Yes.

22 Q. So would you agree with me that the base peak

23 day factor for the commercial class would allocate

24 virtually the same number of dollars as would the base

25 factor for that class?



1           A.       From this result, yes. And it is possible if  
2   the commercial class share in their base usage and their  
3   peak day usage or peak day demand are virtually the same,  
4   then this could happen.

5           Q.       Ma'am -- I'm sorry. Forgive me.

6                   MR. CONRAD: Your Honor, could we get that  
7   answer read back. I think we're not clear.

8                   (THE REPORTER READ BACK THE REQUESTED PORTION.)

9                   MR. CONRAD: Thank you, Your Honor, for that  
10   courtesy.

11   BY MR. CONRAD:

12           Q.       Ms. Hu, let me ask you now to return to your  
13   rebuttal, which would be Exhibit 31, and let me direct you  
14   to page 8 of that rebuttal.

15           A.       I'm there.

16           Q.       Line 11.

17           A.       Yes.

18           Q.       Well, actually I guess lines 10 and 11. It  
19   carries over.

20                   And I see there the phrase, so that the  
21   residential class, being the high peak user.

22                   Do you see that language?

23           A.       Yes.

24           Q.       I take it that you acknowledge that the  
25   residential class is the high peak user on the system?

1           A.       Yes.

2           Q.       Now, moving on to page 9 of your rebuttal --

3           A.       Yes.

4           Q.       -- you've made reference to -- and I'm sorry.

5   I don't see the reference right there. But you made

6   reference to the AWWA manual in a couple of places?

7           A.       Yes. Probably not in this page but, yes, in

8   some other pages.

9           Q.       And I apologize for misciting you to that.

10           JUDGE THOMPSON: It's at the bottom of page 8,

11   Mr. Conrad.

12           MR. CONRAD: Thank you very much.

13           JUDGE THOMPSON: Line 19.

14           MR. CONRAD: Thank you.

15   BY MR. CONRAD:

16           Q.       Is His Honor correct with respect to his

17   citation?

18           A.       Yes.

19           Q.       Ms. Hu, have you ever performed a class

20   cost-of-service study according to the AWWA manual?

21           A.       Not exactly.

22           Q.       In what sense -- well, let me ask. In what

23   sense have you departed from the AWWA manual in doing a

24   class cost-of-service study?

25           A.       Well, I proposed a modification to their BNEC

1 method.

2 Q. An easier method?

3 A. To the base and actual capacity method.

4 Q. Okay. And that is what we're talking about

5 here?

6 A. Yes.

7 Q. But insofar as strictly staying within the

8 lines, if you will, of the AWWA manual's method, have you

9 ever done one of those?

10 A. I have done one myself just for the purpose of

11 comparison for this case. I don't know if that answers

12 your question.

13 I haven't -- I haven't submitted any of this

14 kind of cost-of-service study in any other cases, if

15 that's what you're --

16 Q. You did that in this case?

17 A. I did that in this case for my own purpose of

18 comparison.

19 Q. And for purposes of comparison between --

20 within the lines, if you will, AWWA based on extra

21 capacity method and then what you had done?

22 A. In the peak -- or peak allocation method too.

23 I mean, you know, for my analysis.

24 Q. Did you provide that to us?

25 A. No, I didn't.

1           Q.       Did we request from you data that was complete  
2   with respect to all of the studies and the work that you  
3   had done in this case?

4           A.       I think, yes, but that's kind of a  
5   back-of-the-envelope kind of thing. I have not -- I do  
6   not have a formal work paper. I don't know if that's --  
7   and also -- okay. And also, I actually provide my  
8   analysis in my testimony, so I would think that you have  
9   that information.

10          Q.       Now, I hope my reference here is correct. I'm  
11   going to turn to your surrebuttal, page 4, line 7.

12                   For the record, that's Exhibit 32.

13          A.       I'm there.

14          Q.       You there make a reference to the NARUC,  
15   N-A-R-U-C, electric manual. Do you see that reference?

16          A.       Yes.

17          Q.       Does the NARUC electric manual use a square  
18   root to reflect scale economies?

19          A.       No.

20          Q.       Now, also on that same page at lines 10 through  
21   13, you had another criticism of the AWWA manual. Do you  
22   see that?

23          A.       Yes.

24          Q.       And you state there that you're not aware of  
25   any efforts made by the AWWA authors to include certain

1 folks?

2 A. Yes.

3 Q. Do you have a copy of the AWWA manual to which

4 you referred there with you at the stand?

5 A. I think so. Can you give me a minute?

6 Yes, I have it.

7 Q. Is your criticism there that the right groups

8 from your view weren't involved?

9 A. I'm not aware of --

10 Q. You're not aware of the groups being involved?

11 A. Yes.

12 MR. CONRAD: Your Honor, I have an exhibit to

13 mark.

14 JUDGE THOMPSON: Yes, Mr. Conrad.

15 What page?

16 MR. CONRAD: Page V-I.

17 JUDGE THOMPSON: Page V-I, AWWA manual. We

18 will mark this as Exhibit No. 67.

19 (EXHIBIT NO. 67 WAS MARKED FOR IDENTIFICATION

20 BY THE COURT REPORTER.)

21 BY MR. CONRAD:

22 Q. Ms. Hu, if you would compare this page to the

23 corresponding page in the manual that you have.

24 A. Yes.

25 Q. Are you there?

1           A.       Yes.

2           Q.       Is that to your inspection a correct copy of  
3 that page from your manual?

4           A.       It appears to be.

5           Q.       Now, I want you to examine it carefully. So  
6 take the time that you feel you need to make that  
7 comparison.

8           A.       I think it is.

9           Q.       So your testimony is that that is a correct  
10 copy of --

11          A.       Yes.

12          Q.       -- page V-I from the manual to which you refer?

13          A.       I didn't refer to that.

14          Q.       You didn't refer to the AWWA manual?

15          A.       I did. I didn't refer to that page.

16          Q.       I understand that. Did you refer to the  
17 manual?

18          A.       Yes.

19          Q.       Is that a true and complete copy of page V-I  
20 from the manual to which you referred?

21          A.       Yes.

22                 MR. CONRAD: Your Honor, I move the admission  
23 of Exhibit 67.

24                 JUDGE THOMPSON: Any objection to the receipt  
25 of Exhibit 67?

1 (No response.)

2 JUDGE THOMPSON: Hearing no objections,  
3 Exhibit 67 is received and made a part of the record of  
4 this proceeding.

5 (EXHIBIT NO. 67 WAS RECEIVED INTO EVIDENCE.)

6 BY MR. CONRAD:

7 Q. Ms. Hu, let me direct your attention now to  
8 what's been marked and admitted as Exhibit 67. You see  
9 the second name there, T.R. Stack?

10 A. Yes.

11 Q. Please read for me the balance of that person's  
12 identification as given in the acknowledgement?

13 A. Vice-chair, Public Utilities Division, Illinois  
14 Commerce Commission, Springfield, ILL -- Illinois, I  
15 guess.

16 Q. Now, move on down. And you see the name of a  
17 J.E. Robinson about three-fourths of the way down?

18 A. Yes.

19 Q. Is that a gentleman that is identified there as  
20 being from the University of Waterloo, Waterloo, Ontario?

21 A. Yes.

22 Q. Would it be safe, then, to say that there was  
23 representation on the author's committee for the AWWA  
24 manual of regulators?

25 A. Yes, it is --

1 Q. Would it --  
2 A. -- among authors.  
3 Q. I'm sorry. I didn't know you hadn't completed  
4 your answer. I thought it was just a -- go ahead.  
5 A. There are some regulatory and some researchers  
6 involved, I can see from this page, in the committee. But  
7 still, I don't know if in the concept of discussion in  
8 allocation method, I just don't know if they are involved  
9 or not. Because from their text of the discussion in that  
10 section, I really don't see anything that reflects any  
11 consumer advocates or regulatory members' view.  
12 Q. Let's go back to page 4 of your surrebuttal for  
13 a second on the lines that I indicated.  
14 A. Yes.  
15 Q. You stated you're not aware of any efforts made  
16 by the authors of the AWWA manual to include consumer  
17 advocates, regulatory commissions or any other stake  
18 holders.  
19 Are you now aware of the involvement of  
20 regulatory commissions in the preparation of the AWWA  
21 manual?  
22 A. You haven't finished my -- the rest of my  
23 sentence. I did say --  
24 Q. I'll ask the questions, ma'am. And I'll ask  
25 them in the order in the sequence that I choose to do so.



1           Would you just, please, answer them?

2           A.       Yes, I would try my best.

3           Q.       Do you understand the question?

4           A.       Um, again, I was saying that I was referring

5   about a discussion of which allocation method most

6   accurately allocate capacity-related costs.

7           Q.       Are you privy to the discussions that those

8   folks on this list held?

9           A.       I just don't know.

10          Q.       So what is the basis, ma'am, of your statement?

11   Is it just a statement that you're not aware of it?

12          A.       From the text of the discussion.

13          Q.       So your entire statement here that you're not

14   aware of what was discussed at these committees by these

15   people is simply based on your review of the conclusion

16   that they reached; is that correct?

17          A.       My review of the entire discussion, not

18   necessarily the conclusion only.

19          Q.       What discussion did you review?

20          A.       Well, you know, there are quite a few pages.

21          Q.       Is it your contention that these people did not

22   participate in the preparation of that discussion?

23          A.       I did not say that. I just said I don't know.

24          Q.       Okay. Is it your testimony, then, that the

25   AWWA manual to which you have referred has an unfair bias

1 on the part of its authors?

2 A. I do not want to make that accusation. I  
3 simply want to say that it may not include some of the  
4 views or -- I mean, maybe just nobody has realized what I  
5 have discovered.

6 Q. So your testimony here as I understand it right  
7 now is that you -- you have received now a private  
8 revelation that goes beyond what the members of this  
9 committee had received?

10 A. Private revelation?

11 Q. Yes. You said that you had just discovered  
12 something.

13 A. Maybe I'm not using the right word because this  
14 is not really my discovery, because there are other people  
15 who has been aware of this. However, what I'm trying to  
16 say is that those people that -- that -- those AWWA  
17 authors may be not aware of this discovery.

18 Q. Do you know whether any of the AWWA authors  
19 listed on Exhibit 67 were aware?

20 A. I don't know.

21 Q. What is the basis of your testimony then,  
22 ma'am?

23 MR. DORITY: Your Honor, Mr. Conrad has asked  
24 this questions several times and Ms. Hu is consistent.  
25 She's not aware.

1 JUDGE THOMPSON: Mr. Conrad --  
2 MR. CONRAD: Well, we'll leave it at that.  
3 We'll just leave it stand that she's not aware.  
4 JUDGE THOMPSON: Thank you.  
5 BY MR. CONRAD:  
6 Q. Do you understand what a syllogism is, Ms. Hu?  
7 A. No, I don't know the word. I'm sorry.  
8 Q. Have you ever taken any Aristotelian logic  
9 classes at Beijing U?  
10 A. I'm sorry.  
11 Q. If I were to say to you a major premise  
12 that A is a bad thing, B is like A, would an appropriate  
13 conclusion be, therefore, that B is a bad thing?  
14 A. Yeah, I would have to agree to that.  
15 Q. Now, you testify that you believe that a single  
16 peak responsibility method is not an appropriate method to  
17 use; is that correct?  
18 A. Yes.  
19 Q. And then you state, I believe, that you have  
20 proven that base and extra capacity is equivalent to  
21 single peak responsibility method. Correct?  
22 A. Yes.  
23 Q. If it could be shown that the base and extra  
24 capacity method and peak responsibility methods are not  
25 equivalent, would you drop your objection to base and

1 extra capacity?

2 A. I did say that it's similar or identical. So,  
3 I mean, even if it's not -- the number is not exactly the  
4 same, by mixing up noncoincident peak and coincident peak,  
5 the number, of course, because you are mixing oranges with  
6 apples or apples with oranges. So, I mean, the number --  
7 of course, it won't be the same. However, the end result  
8 is still similar and it produces similar effect.

9 Q. Well, I thought I had read your testimony to be  
10 that you had proven that they were equivalent. Did I miss  
11 read your testimony?

12 A. If you use noncoincident peak to allocate  
13 actual capacity and you use total noncoincident peak to --  
14 as to weight, then it will be identical to a noncoincident  
15 peak demand allocator. If you use coincident peak demand  
16 to allocate actual capacity and if you use total  
17 coincident peak demand as to weight, then the base and  
18 actual capacity method would be identical to a coincident  
19 peak demand allocator.

20 Q. But if the two methods are not, in fact,  
21 equivalent, would you drop your opposition to base and  
22 extra capacity?

23 A. What I said is if it produced similar result,  
24 then my opposition is still -- still stands.

25 MR. CONRAD: Your Honor, I have three exhibits.

1 JUDGE THOMPSON: I think we'll take a  
2 ten-minute recess at this time. When we come back, we'll  
3 mark the exhibits.  
4 (A recess was taken.)  
5 JUDGE THOMPSON: We will call this  
6 hypo-ratio 1.70.  
7 Is that what is going to change?  
8 MR. CONRAD: That's probably a good way to do  
9 it.  
10 JUDGE THOMPSON: Okay. And this would be  
11 Exhibit 68.  
12 (Off the record.)  
13 JUDGE THOMPSON: Do you want to mark the other  
14 two now?  
15 MR. CONRAD: Let's go ahead and mark them now  
16 because they're going to look somewhat identical, but I  
17 guess this would be 69 and 70.  
18 JUDGE THOMPSON: Okay. Exhibit 69 is  
19 hypothetical peak ratio of 1.875.  
20 Exhibit 70, hypothetical, two classes peaking.  
21 (EXHIBIT NOS. 68 THROUGH 70 WERE MARKED FOR  
22 IDENTIFICATION BY THE COURT REPORTER.)  
23 JUDGE THOMPSON: We are ready, Mr. Conrad.  
24 MR. CONRAD: Thank you, Your Honor. I  
25 apologize for the paper shoveling.

1 JUDGE THOMPSON: That's quite all right.

2 BY MR. CONRAD:

3 Q. Ms. Hu, I've handed you what have been marked  
4 as Exhibit 68, Exhibit 69 and Exhibit 70. Do you have  
5 those before you?

6 A. Yes.

7 Q. I know they look somewhat the same -- and  
8 that's not by accident, as you'll see -- but let's focus  
9 on Exhibit 68 for just a second.

10 A. Okay.

11 Q. Does that look familiar to you in any way?

12 A. Yes. I believe this is an example that our  
13 attorney presented to the company witness, Mr. Stout.

14 Q. And I would confirm, ma'am, that insofar as  
15 we're able to do so, that is our intent to make that the  
16 same as what you all had produced.

17 Let me now ask you to look at 69.

18 A. Yes.

19 Q. Somewhat holding 68 and 69 together, do you see  
20 the coincident peak demand numbers in the upper right-hand  
21 corner?

22 A. Yes.

23 Q. Do you see that they are different as between  
24 Exhibit 68 and 69?

25 A. Yes.

1 Q. Does it appear from that column and the column  
2 right next to it called noncoincident peak demand, that  
3 the coincident and noncoincident peak demands would have  
4 occurred in that example on the same day?

5 A. Yes.

6 Q. And would you agree at least in that situation,  
7 the system coincident peak allocator -- which is in the  
8 lower right-hand box -- of 80 percent and 20 percent,  
9 80 percent being for residential and 20 percent being  
10 industrial, would be the same as the base and extra  
11 capacity?

12 A. Yes.

13 Q. Okay. Now, is that your point? Is that your  
14 point, ma'am, that the two -- in that situation, the two  
15 methods produce the same result?

16 A. Well, my point is, sometimes they produce  
17 exactly the same result. Sometimes --

18 Q. As -- excuse me.

19 A. -- they produce similar result.

20 Q. Okay. As they do here in this construct, they  
21 produce exactly the same result, don't they?

22 A. Yes, this example they produce the same result.

23 Q. Now, let's look at Exhibit 70. And comparing  
24 the coincident peak demand numbers, you see what has  
25 happened there in the difference between 69 -- Exhibit 69

1 and Exhibit 70?

2 A. Yes.

3 Q. And what we have in Exhibit 70 is we have two  
4 classes peaking on different days, don't we?

5 A. Yes.

6 Q. Now, ma'am, since you did not prepare these and  
7 we did, I'm going to wait until Mr. Harwig takes the stand  
8 to complete the foundation on these exhibits. But at  
9 least insofar as you're able to discern in the short time  
10 you've had to review them, do the calculations appear to  
11 be correct?

12 A. Yes.

13 MR. CONRAD: And if Your Honor please, I'll  
14 hold the offer until Mr. Harwig --

15 JUDGE THOMPSON: I understand.

16 I do have one question of a housekeeping  
17 nature.

18 MR. CONRAD: Absolutely.

19 JUDGE THOMPSON: Did you indicate that 68 is  
20 identical to something that Public Counsel had yesterday  
21 or the day before?

22 MR. CONRAD: If I did that, I misspoke. It is  
23 our intention to make that -- there was a -- and I don't  
24 believe it was marked. I think it was circulated but I  
25 don't believe it was marked. And I also believe --



1 Mr. Coffman can correct me. It was also on -- it looked  
2 like that.

3 JUDGE THOMPSON: Okay.

4 MR. CONRAD: Now, if Mr. Coffman wants to deal  
5 with this --

6 JUDGE THOMPSON: I see it's identical in  
7 format. My question is, is it identical in content to  
8 what Mr. Coffman had the other day?

9 MR. CONRAD: I could ask that question of  
10 Ms. Hu if that would be helpful, Your Honor.

11 JUDGE THOMPSON: Please.

12 MR. CONRAD: Ms. Hu, let's look at Exhibit 68  
13 and let me also show you a document that, while it has not  
14 been marked --

15 JUDGE THOMPSON: Let's go ahead and mark it now  
16 for ease of reference.

17 MR. CONRAD: This is our copy. Do you have  
18 a --

19 MR. COFFMAN: Unfortunately, I don't think I  
20 have a copy of it.

21 (EXHIBIT NO. 71 WAS MARKED FOR IDENTIFICATION  
22 BY THE COURT REPORTER.)

23 JUDGE THOMPSON: And by marking it we're not  
24 assuming it's going to come in, but it makes it easier in  
25 the record here if we know what we're talking about.

1                   We'll refer to this as Exhibit 71 and this is  
2 Public Counsel's document. What should we describe this  
3 as, John?

4                   MR. COFFMAN: Hypothetical example system peak  
5 1.7.

6                   MR. FISCHER: Is that 72, Your Honor?

7                   JUDGE THOMPSON: 71, I have.

8                   MR. COFFMAN: It appears to be similar.

9                   MR. CONRAD: May I continue?

10                  JUDGE THOMPSON: Yes, you may.

11 BY MR. CONRAD:

12                  Q.       Ms. Hu, let me show you what has been marked  
13 just for purposes of identification at this point as  
14 Exhibit 71. Can you identify that document?

15                  A.       Yes.

16                  Q.       Would you please do so?

17                  A.       This is -- this is what our attorney presented  
18 to the company with Mr. Stout as their hypothetical  
19 example with system peak ratio of 1.7 and to customer  
20 groups with maximum day factor of 11.5.

21                  Q.       Now, despite the respect that I have for my  
22 colleague at the bar, Mr. Coffman, did you assist him in  
23 the preparation of that document?

24                  A.       Yes.

25                  Q.       Would you be able to compare what has now been

1 marked for identification as Exhibit 71 to what has been  
2 marked as Exhibit 68?

3 A. Yes.

4 Q. And do they to your eye appear to be identical?

5 A. Yes.

6 Well, it's not identical. I'm sorry. But  
7 it's the same -- like in your -- in Exhibit 68, it's to  
8 the third place after the point and in Exhibit 71 the  
9 calculations appear to be only carried toward the second  
10 place after the point.

11 Q. Well, I apologize for attempting to be more  
12 accurate. But insofar with that exception do they appear  
13 to be the same to you?

14 A. Yes.

15 MR. CONRAD: Your Honor, does that address  
16 your --

17 JUDGE THOMPSON: It does. Thank you.

18 MR. CONRAD: Sure.

19 And, again, if Your Honor please, I would hold  
20 68, 69 and 70 until Mr. Harwig takes the stand.

21 JUDGE THOMPSON: I understand.

22 BY MR. CONRAD:

23 Q. Ms. Hu, let me return you now to perhaps  
24 something a little bit more to your attention here,  
25 page 6 to 7 of your surrebuttal. I believe the material

1 starts toward the bottom of the page and then carries over  
2 to the top of page 7.

3 A. I'm there.

4 Q. You state there that the replacement cost  
5 method is generally accepted as consistent with embedded  
6 cost allocation methodology.

7 Do you see that language?

8 A. Yes.

9 Q. Please identify your basis for that statement.

10 A. In other electric and gas cases that I have  
11 been involved, I've seen parties using replacement cost  
12 for meter costs -- for allocating meter costs or service  
13 costs. That's my basis --

14 JUDGE THOMPSON: I'm sorry, Mr. Conrad. What  
15 lines?

16 MR. CONRAD: Well, I didn't cite Your Honor to  
17 a specific line, but I believe it's actually on line 25,  
18 page 6.

19 JUDGE THOMPSON: Okay. Thank you.

20 MR. CONRAD: And then carrying over to the top  
21 of page 7 --

22 JUDGE THOMPSON: I see.

23 MR. CONRAD: -- was the quotation that I hoped  
24 I had read approximately correctly.

25 JUDGE THOMPSON: Thank you.

1                   Please proceed.

2   BY MR. CONRAD:

3           Q.       Ms. Hu, that is what you mean when you say  
4 something is generally accepted, that you've seen it  
5 before here in Missouri, that some party has come in?

6           A.       Yes.

7           Q.       Now, are you aware of whether the replacement  
8 cost method that you're referring to has been accepted by  
9 any regulatory commission as consistent with embedded cost  
10 allocation?

11          A.       I'm not aware of any particular language  
12 referring to this method. I think most -- most -- in most  
13 cases the Commission accepts one party's cost study and  
14 their result, probably without specifically saying this  
15 portion of that cost study is consistent with something.  
16 I'm not aware of that particular language.

17          Q.       To your knowledge is Missouri a replacement  
18 cost state?

19          A.       I can say one -- I can't say one way or the  
20 other.

21          Q.       Would you agree with me that the use of this  
22 replacement cost method would hypothesize that the system,  
23 whatever utility system it was -- in this case the water  
24 system -- was built anew each time there was a rate case?

25          A.       So to that extent, we are referring to meter

1 costs -- I mean, we are referring to that portion of the  
2 cost that has been -- is allocated by replacement cost,  
3 then you're right.

4 Q. Would that hypothesis reflect reality?

5 A. Probably not. Although I should point out that  
6 it is also -- as I have already pointed out in my  
7 testimony, in this case replacement cost method is being  
8 used by some other parties.

9 Q. Does your definition of scale economies depend  
10 on the use of the replacement method?

11 A. No.

12 Q. Okay. Now, let me ask you, please, to turn to  
13 page 9. I'm sure you'll be glad to know we're just about  
14 done.

15 Surrebuttal, lines 16 through 18, ma'am. Let  
16 me know if you're there.

17 A. Yes, I'm there.

18 Q. Would you agree with me that a customer must be  
19 connected to the system in order to receive water?

20 A. Yes.

21 Q. What if the customer had been connected to the  
22 system but then chose to use no water?

23 A. I would doubt why he choose to be connected  
24 then. If he choose to not use water, why would he want to  
25 be connected?

1           Q.       If a customer were connected but used no water  
2 for whatever reason, would the company still incur costs  
3 on a continuing basis for that customer?

4           A.       Probably not on a continuing basis.

5           Q.       Pardon me?

6           A.       If he doesn't use water, he can be  
7 disconnected. I don't think the company would continue to  
8 incur any more costs to serve this customer.

9           Q.       But if he didn't use any water but the meter,  
10 the service line, all of that is still there, does the  
11 company incur any costs with respect to that meter?

12          A.       First, your premise is kind of out of the  
13 world. Why would a customer do that if he doesn't want to  
14 use water but he wants to be connected?

15          Q.       Well, rather maybe than quibbling with my  
16 question, ma'am, if you'd just try to answer it. Does the  
17 company incur costs with respect to that customer on a  
18 continuing basis?

19          A.       Initially the company incurs costs to install  
20 the meter, to buy the meter. I don't think the company  
21 incur -- or continues to incur costs.

22          Q.       They don't continue to have the investment in  
23 the ground and the meter and the main or in the service  
24 line?

25          A.       For this customer, I don't think they -- they

1 would incur more costs to install another meter.

2 Q. You don't see the return that they earn on the  
3 investment that they have as a continuing cost then?

4 A. Well, when we talk about cost, we are not  
5 talking about return. I don't think return is a cost.

6 Q. You don't see return then as being a cost for  
7 the company?

8 A. No.

9 Q. I see.

10 Would the company in my hypothetical have to  
11 continue to maintain or at least periodically inspect that  
12 installation?

13 A. As I said, if the customer chooses to stop  
14 using water, he can be disconnected and I don't --

15 Q. I understand that's the hypothetical you are  
16 responding to, but that's not the hypothetical that I put  
17 to you, ma'am.

18 A. You're saying this customer don't use water,  
19 still the company goes out every time to inspect the  
20 meter. I don't see this happening.

21 JUDGE THOMPSON: Ms. Hu, I understand that you  
22 don't see this hypothetical as very likely. Nonetheless,  
23 it's important to Mr. Conrad's case that you answer with  
24 respect to this hypothetical, however unlikely you may  
25 believe that is.



1                   Please respond if you are able.

2                   THE WITNESS: Okay. If, as your hypothetical  
3 example shows, that a company goes out to inspect the  
4 meters, yes, there will be a cost.

5 BY MR. CONRAD:

6           Q.       And in order to know that the customer used no  
7 water, the company would have to at least monthly or  
8 quarterly read that meter. Right?

9           A.       Unless the customer tells the company that I'm  
10 not going to use any more water.

11           JUDGE THOMPSON: Is that a yes?

12           THE WITNESS: I'm saying yes, unless --

13           JUDGE THOMPSON: Yes, unless.

14           Thank you.

15 BY MR. CONRAD:

16           Q.       Now, look, ma'am, please, at lines 2 through 4  
17 on the same page where we were.

18           A.       Okay.

19           Q.       And I see there the phrase proper cost  
20 proportions can be allocated, so on and so forth, if the  
21 actual system load pattern is known. Do you see that  
22 sentence?

23           A.       Yes.

24           Q.       Do you agree with me that the actual system  
25 load pattern is based on the ratio of maximum daily use,

1 average use and maximum hour use to average use?

2 A. It probably has more than that.

3 Q. Is that not what your allocators, in fact,  
4 reflect is your view of the actual system load pattern as  
5 measured by the ratio of maximum daily use to average use  
6 and maximum hour use to average use?

7 A. My method reflects all of those factors, but  
8 I'm not saying those factors are the only component of the  
9 actual system load pattern.

10 Q. Right. Let me try once more.

11 Do you agree with me that the actual system  
12 load pattern -- that's the phrase that you've used at line  
13 4 on page 9, the actual system load pattern. Do you agree  
14 with me that that is based on the ratio of the maximum  
15 daily use to the average use and the maximum hour use to  
16 the average use?

17 A. Well, let me make it more --

18 Q. No. Ma'am, please.

19 Just answer my question

20 JUDGE THOMPSON: Your --

21 MR. CONRAD: Your counsel can redirect.

22 JUDGE THOMPSON: I think she did answer that  
23 when you asked it before by saying that she did not agree  
24 with you.

25 MR. CONRAD: Well, I'm sorry. I did not

1 understand that to be -- I did not understand her to  
2 answer the question.

3 Now, the record will stand for whatever the  
4 record is.

5 JUDGE THOMPSON: Pat, why don't you read back  
6 that answer.

7 (THE REPORTER READ BACK THE REQUESTED PORTION.)

8 JUDGE THOMPSON: I understand the answer to say  
9 while those factors are included in her method, there are  
10 other factors included in the load pattern.

11 MR. CONRAD: And I don't think that's -- that's  
12 not at issue. My question was, is it based on those  
13 factors?

14 JUDGE THOMPSON: In that case, please put your  
15 question again.

16 BY MR. CONRAD:

17 Q. Do you agree with me, Ms. Hu, that the actual  
18 system load pattern is based on the ratio of maximum daily  
19 use to average day use and the ratio of maximum hour use  
20 to average use?

21 A. No. I would have to say the ratio of maximum  
22 day to average use and the ratio of maximum hour to  
23 average use is based on the actual system load pattern.

24 MR. CONRAD: Thank you. That's all.

25 JUDGE THOMPSON: Thank you, Mr. Conrad.

1                   Mr. Curtis?

2                   MR. CURTIS: I have nothing for this witness.

3                   Thank you.

4                   JUDGE THOMPSON: Thank you, Mr. Curtis.

5                   Mr. Deutsch?

6 CROSS-EXAMINATION BY MR. DEUTSCH:

7           Q.       Ms. Hu, my name is Jim Deutsch. I represent

8 the City of Joplin.

9           A.       Hi.

10          Q.       I just wanted to get clarification on only one

11 thing and I will try to be brief.

12                   Directing your attention to your rebuttal

13 testimony, do you have that, at page 4? I just wanted to

14 get a clarification from you if I could.

15                   JUDGE THOMPSON: You're referring to

16 Exhibit 31. Correct?

17                   MR. DEUTSCH: I believe that is correct, Your

18 Honor.

19                   JUDGE THOMPSON: Thank you.

20                   THE WITNESS: Rebuttal, page 4?

21 BY MR. DEUTSCH:

22          Q.       Your rebuttal testimony, page 4.

23          A.       I'm there.

24          Q.       And beginning on line 2 there is a question

25 there, have all of the parties to this case filed CCOS

1 studies, class cost of service, I assume, and rate design  
2 recommendations? And your answer there is no and then you  
3 have an explanation. Am I correct that what you're  
4 stating there is that you, on behalf of the Office of  
5 Public Counsel, have done a class cost-of-service study  
6 and that the Staff of the Public Service Commission has  
7 done a class cost-of-service study; is that correct?

8 A. Yes.

9 Q. And that the company has done a class  
10 cost-of-service study, although on a somewhat different  
11 basis because it was not district specific?

12 A. Yes.

13 Q. Okay. Now, referring you back to page 10 of  
14 your direct testimony -- I think that would be Exhibit 30?

15 A. Yes, I'm there.

16 Q. And beginning at the top of the page -- well,  
17 let's start first in the middle of the page. You were  
18 asked a question, what is the relative importance of class  
19 cost-of-service study results in rate design?

20 Could you read for me the first sentence of  
21 your answer there?

22 A. My understanding is that the statutory  
23 obligation of the Commission is to set just and reasonable  
24 rates.

25 Q. And the next sentence?

1           A.       Our CCOS study provides the Commission with a  
2   general guide as to the just rate for the provision of  
3   service that corresponds to costs.

4           Q.       Okay.  Going back up to the top of the page,  
5   then, you mention what your result of your class  
6   cost-of-service study is in the first sentence of your  
7   answer to that question asking you to summarize those  
8   results.  Would you read that one?

9           A.       The result of my COS studies show that for most  
10   districts and for all districts combined, most customer  
11   classes are paying significantly above or below the  
12   proportion of the total costs that are incurred to serve  
13   that class.

14          Q.       Okay.  And skipping down now finally to the  
15   bottom of page 10, Exhibit 30, you're asked for your  
16   opinion as to whether your class cost-of-service supports  
17   the continued use of STP by the company.

18                    Could you read for us your answer beginning at  
19   the bottom of page 10 and continuing on to page 11 at the  
20   end of the sentence?

21          A.       No.  My COS studies show that different  
22   districts are currently paying rates that differ  
23   significantly from the actual cost of serving them.  If  
24   the Commission determines that it is reasonable to move  
25   toward cost of service, within the limit of other

1 considerations, in a case where the possible revenue  
2 increase, the use of single-tariff pricing structure moves  
3 in the opposite direction.

4 Q. Now, do I understand that testimony as a whole  
5 to relate to the observation that you made in the middle  
6 of page 10 about the purpose of your study and just rates  
7 as set by the Commission?

8 A. Yes.

9 Q. Am I correct in understanding that it is your  
10 position on behalf of the Office of Public Counsel that  
11 single-tariff pricing rates that lead to significantly  
12 different costs to different districts that are above or  
13 below the class cost of service are not just?

14 MR. ENGLAND: Objection, calls for a legal  
15 conclusion.

16 JUDGE THOMPSON: Mr. Deutsch?

17 MR. DEUTSCH: She's the one that used the term.

18 I don't know that it is a legal definition as  
19 much as it is a term of art, apparently within the  
20 regulated utility business, and she seems to know what it  
21 is. I'd kind of like to find out if that is what she is  
22 intending to say. Whether, in fact, her opinion on it is  
23 worth anything, I'm willing to leave to the judgment of  
24 the Commission.

25 JUDGE THOMPSON: Mr. Coffman?

1                   MR. COFFMAN: I believe I agree with  
2 Mr. Deutsch. Although Ms. Hu may not be qualified to give  
3 a legal opinion about the statutory definition of just and  
4 reasonable, I believe that she can state it in her rate  
5 design expertise capacity what she believes is just.

6                   JUDGE THOMPSON: Mr. England, I believe  
7 these exhibits were received without any objection and  
8 consequently I'm going to overrule this objection.

9                   You may answer the question if you are able.

10                  THE WITNESS: I'm not a legal staff, so I can't  
11 answer in legal terms. However, as an expert in  
12 economics, I would say that single-tariff pricing in this  
13 case appears to not be able to accommodate different cost  
14 characteristics that appear for each different district.

15                  I'm not -- our office has another rate design  
16 witness. I would think that he can probably answer your  
17 question in a more complete way.

18                  MR. DEUTSCH: I was only asking for your expert  
19 opinion, not your legal opinion and you've given it and I  
20 thank you.

21                  I have no further questions.

22                  JUDGE THOMPSON: Thank you, Mr. Deutsch.

23                  Mr. Fischer?

24                  MR. FISCHER: No. Thank you, Your Honor.

25                  JUDGE THOMPSON: No questions?



1 MR. FISCHER: No questions, Your Honor.

2 JUDGE THOMPSON: Mr. Zobrist?

3 MR. ZOBRIST: No questions.

4 JUDGE THOMPSON: Mr. England?

5 MR. ENGLAND: Thank you.

6 CROSS-EXAMINATION BY MR. ENGLAND:

7 Q. Ms. Hu, following up on that last question and  
8 answer, I believe you prefaced your answer or conditioned  
9 your answer by saying in this case. Do I infer from that  
10 that there may be cases where single-tariff pricing is  
11 appropriate in your expert opinion?

12 A. I would have to say consideration has to be  
13 given on a case-by-case basis. I would have to review  
14 each case.

15 Q. Okay. So it would be possible, then, that in  
16 the future in a case involving this company, Public  
17 Counsel could support single-tariff pricing for this  
18 company. Correct?

19 A. I can't say that it's impossible.

20 Q. Okay. Fair enough.

21 I'd like to jump back a little and make sure I  
22 understand how you go about designing, ultimately, the  
23 proposed rates for each of the customer classes. And my  
24 rudimentary understanding is that it's a two-step process  
25 in very general terms.

1           The first step is to take the costs and  
2   allocate them to the various districts.  Would that be  
3   correct?

4           A.       Yes.

5           Q.       And in that regard, did you do that or has your  
6   office accepted the allocation of costs to districts  
7   that's been performed by Staff in this case?

8           A.       We adopted the Staff's allocation.

9           Q.       Okay.  And to the extent that the company has a  
10   disagreement with Staff in that allocation as it relates  
11   to certain corporate expenses, we would have a  
12   disagreement between the company and the Public Counsel as  
13   well.  Correct?

14          A.       Yes.  I would think so, although I don't  
15   think the company has their allocation.  The company  
16   only provides -- only supplemented a company-wide  
17   cost-of-service study.

18          Q.       Okay.  Well, I think it appears at least in the  
19   testimony of Mr. Stout.  Have you reviewed that?

20          A.       Yes.  I agree.

21          Q.       Okay.  But to your knowledge that made --  
22   that's the only disagreement between the company and the  
23   Staff with regard to allocation of cost to district?

24          A.       The only difference in method?  Because, I  
25   mean, the company has their company-wide cost-of-service

1 study and the Staff has a district-specific  
2 cost-of-service study.

3 Q. Let me rephrase. If the company were to do a  
4 district-specific cost study, do you understand the only  
5 difference that would result would be the allocation of  
6 corporate costs?

7 A. That could be true.

8 Q. Okay. Now, once you've accepted the allocation  
9 of costs to district, this is where you do your analysis  
10 and make your recommendations. Correct?

11 A. Yes.

12 Q. Because you then perform what we've called a  
13 class cost-of-service study that allocates those  
14 district-specific costs to each of the customer classes?

15 A. Yes.

16 Q. Okay. And generally speaking, there are six  
17 customer classes. Correct?

18 A. Yes.

19 Q. Okay. And if we have seven districts,  
20 would it be fair to say that your study produces roughly  
21 42 separate rates for each class of service within each  
22 district?

23 A. My study does not produce rates. We have a  
24 rate exam witness and he has taken my study into account,  
25 and I believe he also considered other considerations such

1 as impact, affordability and probably more.

2 Q. You're correct. Let me ask it in a  
3 hypothetical nature.

4 If you were to design rates to recover the  
5 costs that you have identified by class by district, it is  
6 likely that you would have 42 separate rates. Correct?

7 A. Yes. Or probably more if -- in blocking rate  
8 design, I would have customer charge, I would have usage  
9 charge. So if you are talking about rate as a series of  
10 charges, then, yes.

11 Q. Okay. I'm just talking about by class.

12 A. Okay.

13 Q. By district. My understanding there would be  
14 42, roughly?

15 A. Yes.

16 Q. And that compares roughly with single-tariff  
17 pricing that we have today which is basically six rates by  
18 class?

19 A. Yes.

20 Q. Okay.

21 A. Well, I don't think right now you have it by  
22 class.

23 Q. Okay. You're correct. By volume?

24 A. Right. So it's not exactly six.

25 Q. It's less than six, isn't it?

1           A.       Probably.

2           Q.       Better than I thought. Thank you.

3           A.       Or actually you can say one, because it's

4 single.

5           Q.       It's getting better.

6                   JUDGE THOMPSON: Maybe we can settle this case

7 after all.

8 BY MR. ENGLAND:

9           Q.       I don't believe that Mr. Conrad asked you this

10 question. I apologize if he did. But in your opinion as

11 an economist is replacement cost the same thing as

12 marginal cost?

13          A.       No.

14          Q.       Did I understand you to say in response to a

15 question from Mr. Conrad that you do not consider the

16 return on the company's investment to be a cost that

17 should be recovered from ratepayers?

18          A.       Okay. Here is the rate base and then we will

19 have -- we will have to give a certain return to that rate

20 base, and then plus expenses. That's what the company

21 should recover --

22          Q.       So --

23          A.       -- from the customers.

24          Q.       So you do agree that there is a return,

25 whatever this Commission says it is, that is allocated to

1 the customers for recovery through rates?

2 A. Yes.

3 Q. Okay. In your discussion with Mr. Conrad  
4 regarding the AWWA manual, would you agree with me that  
5 the notion of economies of scale existed at the time that  
6 manual was developed?

7 A. Yes.

8 Q. Can I turn you to your Tables 1, 2 and 3, I  
9 believe, in your rebuttal testimony, pages 5 and 6.

10 JUDGE THOMPSON: You're referring to  
11 Exhibit 31, Mr. England?

12 MR. ENGLAND: I'm sorry. Yes, sir.

13 And I believe there are four tables.

14 THE WITNESS: I'm there.

15 BY MR. ENGLAND:

16 Q. And I believe you present these to compare  
17 certain -- at the very least the positions of the Public  
18 Counsel staff and company?

19 A. Yes.

20 Q. You also have a Table No. 1 which shows current  
21 revenues?

22 A. Yes.

23 Q. Okay. And I want to try -- I'm going to ask  
24 you some questions about these tables to make sure I  
25 understand what is going on here. But if I read them

1 correctly, in Table No. 1 you show current -- I'm focusing  
2 just now on the total company line.

3           You show total company revenues of roughly  
4 30,500,000. Do you see that?

5       A.       Yes.

6       Q.       Okay. That is the revenues that the company  
7 currently experiences today?

8       A.       That's my understanding.

9       Q.       Okay. Now, in Table 2 where you summarize your  
10 cost of service, that is, your office's cost of service,  
11 again, focusing on the total line, you show total revenues  
12 of 36,200,000, roughly?

13      A.       Total cost of service?

14      Q.       Yes?

15      A.       Yes.

16      Q.       The very top left-hand box there.

17      A.       Yes.

18      Q.       Okay. And what I understand that number  
19 to be is the total revenue requirement that your office  
20 is recommending for the company in this case; is that  
21 correct?

22      A.       Yes.

23      Q.       Okay. So if I were to subtract from the  
24 36,200,000 the existing revenues of 30,500,000, we would  
25 see or we would get the overall increase that you were

1 proposing in this case before any phase-in?

2 A. I believe, yes, although it is really not my  
3 position to discuss revenue requirements.

4 Q. I understand.

5 A. Because I'm taking our accounting staff's  
6 number to do my study.

7 Q. Okay. But that is your understanding of the  
8 number they gave you?

9 A. That is my understanding, yes.

10 Q. Now, look at Table No. 3, if you would, please.  
11 And, again, the total number up in the far or top  
12 left-hand corner there.

13 A. Yes.

14 Q. Do you see the total for Staff, this is the  
15 Staff's cost of service?

16 A. You have 34,400,000. Roughly?

17 A. Yes.

18 Q. Again, subtracting that -- or excuse me.  
19 Taking that and subtracting current revenues of roughly  
20 30,500,000 would indicate roughly what Staff's proposed  
21 increase is in this case. Correct?

22 A. Um, I can't speak for the Staff. However,  
23 this is my understanding that these numbers are from  
24 Mr. Hobbs' original cost-of-service study that he filed in  
25 his direct. And I think that they have incorporated the



1 phase-in of the St. Joe plant.

2 Q. That's my -- that's my -- that's where I'm  
3 trying to go with these questions.

4 For purposes of your comparison, you have  
5 compared a total revenue requirement that your office  
6 recommends and, for that matter, that the company  
7 recommends in Table 3?

8 A. Yes.

9 Q. With a phase-in amount, something less than, if  
10 you will, what Staff believes is the appropriate revenue  
11 requirement for this case?

12 A. The purpose of these tables are not to compare  
13 the total revenue or any class share of the total revenue.  
14 The purpose of these tables are to compare the  
15 percentages.

16 Q. Okay. I understand that, but by the same  
17 token, using the revenue figure that you have for  
18 Staff understates what their total revenue requirement  
19 recommendation is in this case, doesn't it?

20 A. It is smaller than what they recommended for  
21 the total.

22 Q. Okay. And insofar as you're looking at total  
23 revenues, it really isn't a fair comparison with Table 2  
24 and 3 where you were looking at total revenues recommended  
25 by those parties, those respective parties?

1           A.       Yes.  You cannot compare the total revenue to  
2   total cost of service.

3           Q.       The other thing I note -- now, let's talk about  
4   the relative percentages, and I just want to hit the  
5   residential.

6                    The other thing I note from this, and you  
7   make a conclusion in your testimony somewhere, that  
8   currently company experiences approximately 65 percent of  
9   its revenues from the residential class.  That is shown  
10  there in that top line of Table 1 --

11          A.       Yes.

12          Q.       -- third column, I believe.

13          A.       Yes.

14          Q.       Okay.  If we go with your -- and I'm staying  
15  at a company level, total level.  If we go with your  
16  class cost-of-service study, coupled with Staff's  
17  district-specific cost allocation, you're only allocating  
18  56 percent of those revenues to residential.  Correct?

19          A.       Yes.

20          Q.       And, similarly, looking at Staff's -- the  
21  figures on Table 3 for Staff, they're allocating  
22  63 percent to residential based on their class  
23  cost-of-service study.  Right?

24          A.       That's my understanding.  They have updated  
25  their cost-of-service study.  I have not -- I don't have a

1 number for their updated cost of service study.

2 Q. And the company's, at least, is total number  
3 and that is 61 percent. Right?

4 A. Yes.

5 Q. So the real impact of what you're proposing  
6 here is to shift more revenues or revenue requirement  
7 obligations away from the residential class to other  
8 customers?

9 A. Yes. I believe this is indicated by all  
10 parties cost-of-service study.

11 Q. But that happens, does it not, Ms. Hu, whether  
12 or not you utilize a district-specific pricing mechanism  
13 or a single-tariff pricing mechanism?

14 A. That could happen, although for each district,  
15 the shift may be different or in a different percentage.

16 Q. Correct.

17 But I guess what I'm saying is, even if you had  
18 done your class cost-of-service study at the total company  
19 level, you would be shifting, certainly, more revenues  
20 away from the revenue -- excuse me -- residential class  
21 than the other parties, than Staff and the company?

22 A. Yes.

23 Q. Okay. And I understand that varies by district  
24 when you go to the district. And I understand further  
25 that that's caveated, if you will, with the fact that we

1 really don't have the total revenues here on Table 2 for  
2 the Staff position.

3 A. (Nods head.)

4 Q. I'm afraid you're going to have to say yes or  
5 no for the court reporter.

6 A. Yes.

7 Q. Thank you.

8 Do you know if the Public Counsel's revenue  
9 requirement recommendation or rather -- excuse me --  
10 revenue deficiency recommendation in this case is the  
11 roughly 5,700,000 shown as the difference between the  
12 amount in Table 1 and Table 2, or that has been updated  
13 again in the surrebuttal testimony of OPC Witness  
14 Trippensee?

15 A. I believe that it has a minor update.

16 Q. Okay. You haven't reflected that in any of  
17 your studies, have you?

18 A. I haven't.

19 Q. Finally, with respect to, again, a question  
20 from Mr. Conrad, did you say that you were not aware of  
21 this Commission ever adopting a class cost-of-service  
22 study consistent with the one you have presented here  
23 today?

24 A. I don't think the Commission has ever seen this  
25 method.

1           Q.       How about other commissions? Are you aware of  
2 any other state regulatory commissions that have adopted  
3 the method that you're proposing to the Commission in this  
4 case?

5           A.       The only information that I've got so far is  
6 that the City of Austin in Texas, I was informed by our  
7 consultant for that city saying that they are considering  
8 to adopt this methodology.

9           Q.       But they haven't to your knowledge adopted it;  
10 is that correct?

11          A.       Yes.

12          Q.       And you're not aware of any other state public  
13 utility commission that has adopted it?

14          A.       No.

15          Q.       Okay. And this is the first class  
16 cost-of-service study you have performed for a water  
17 utility; is that correct?

18          A.       Yes.

19               MR. ENGLAND: Okay. Thank you.

20               I have no other questions.

21               JUDGE THOMPSON: Thank you, Mr. England.

22               Questions from the Bench?

23               Vice-Chair Drainer.

24       QUESTIONS BY VICE-CHAIR DRAINER:

25          Q.       Good morning, Ms. Hu.

1           A.       Good morning.

2           Q.       Are you having fun?

3           A.       Oh, yes.

4           Q.       I just a have a few questions. And I guess the  
5 first one is really following up on what Mr. England asked  
6 you, because in your surrebuttal testimony on page 5, you  
7 discuss on lines 9 through 12, you say many regulatory  
8 commissions have already been moving away from a single  
9 peak demand method in electricity and gas rate cases.  
10 And you believe it's time we move away from that with  
11 respect to water.

12                   Have any commissions to your knowledge adopted  
13 the method that you're proposing here for gas or  
14 electricity cases?

15          A.       No, I don't believe this method has been  
16 presented.

17          Q.       Okay. And did I understand that your answer to  
18 Mr. England with respect to water and your method was that  
19 in Austin they're considering it but that has not yet been  
20 decided?

21          A.       Yes.

22          Q.       Okay. With respect to a question that was  
23 asked by Mr. Conrad, at the very bottom of page 6 of your  
24 surrebuttal testimony, that sentence that goes to the top  
25 of page 7, you state that despite its use for marketing

1 cost concepts, the replacement cost method is generally  
2 accepted to be consistent with the entire embedded cost  
3 allocation methodology.

4 Can you give me a cite, a specific cite to  
5 where I can see that the replacement cost method is  
6 consistent with the entire embedded cost allocation  
7 method?

8 A. No, I cannot give you a cite.

9 Q. Okay. On page 10 of your testimony -- I'm  
10 still with surrebuttal. On page 10 -- now, let me see.  
11 Around, I guess, line 9 through 13, you have a sentence  
12 that you state that there has been criticism by many  
13 researchers and experts?

14 A. Can you again give me who those -- who are  
15 those researchers and experts who have criticized the  
16 method, the zero intercept method?

17 A. Um, I've seen quite a few testimonies in  
18 various electric and gas cases. And also I believe I've  
19 seen articles in the public utilities Fortnightly  
20 (phonetic sp) journal.

21 Q. Can you give me the names of any of those  
22 researchers or experts at this time?

23 A. I don't recall the names. It's my general  
24 knowledge. And also, I do have -- I did have a cite from  
25 our Commission that in Case No. EO-88-158 that our

1 Commission has rejected this method.

2 Q. But that was a case that was back in 1988?

3 A. Yes. That's what I've been saying, that this  
4 method are not that popular right now.

5 Q. I believe in your testimony -- this is a  
6 general characterization so correct me if I'm wrong --  
7 you did ask this Commission to look to the present and be  
8 innovative, not to be tied to the past. Correct?

9 A. Yes.

10 Q. So that might hold true for past cases that  
11 were decided?

12 A. Yes.

13 Q. Okay. Now I notice that you are ABD, all but  
14 your dissertation?

15 A. Yes.

16 Q. Are you working on your dissertation?

17 A. Not really, because I'm so involved in this  
18 work so far.

19 Q. Do you have a dissertation topic?

20 A. I do. It's -- it has not -- it's not really  
21 related to the line of work I do. It's about the choice  
22 of foreign investment and exporting. I do consider  
23 economies of scale factor in that dissertation. Actually  
24 I have written part of it, the dissertation. I just  
25 didn't have time to finish it.



1 Q. That's quite all right.

2 That is a curiosity question basically.

3 Then, in general, I would like to ask, were you  
4 in the hearing room when there was some discussion about  
5 the elasticity, the price elasticity?

6 A. Yes, I was.

7 Q. And as an economist, I would like to ask you  
8 your opinion. Is the price of water basically relatively  
9 inelastic for the consumer?

10 A. I would have to say that -- I haven't seen the  
11 report that Mr. Stout referred to, but I believe that his  
12 explanation is -- looks convincing to me, that if in the  
13 short term, the customer has a certain price elasticity  
14 that their behavior may change, follow a price increase.  
15 However, in the long term it may go back.

16 The only one modification I want to add is that  
17 there still would be a little bit long-term elasticity  
18 because both industrial customers and residential  
19 customers would have a way to adopt some kind of water  
20 conserving equipment, so that they can use a little bit  
21 less water.

22 If the price increases, this will encourage  
23 them to do so.

24 Q. Well, but it is still going to be relatively  
25 inelastic as compared to buying a McDonald's hamburger or

1 Wendy's hamburger. You can't just drive down the block.  
2 I mean, it's still relatively inelastic or is that --  
3 A. Yes, I agree.  
4 Q. Would you agree with that?  
5 A. Yes.  
6 Q. Okay. Then with respect to your class  
7 cost-of-service study and how it's to be used, would it be  
8 correct for me to take from your testimony that it is but  
9 one tool to be used in setting the rates for all customer  
10 classes?  
11 A. Um, I believe that it should give the  
12 Commission a general guidance --  
13 Q. Yes.  
14 A. -- about the direction.  
15 I don't recommend a commission go entirely to  
16 cost of service, because there are other factors --  
17 Q. Okay.  
18 A. -- involved.  
19 Q. And if the -- I recognize that the Office of  
20 the Public Counsel represents the residential ratepayers  
21 and small business. Correct?  
22 A. Yes.  
23 Q. Would you, in your opinion, believe that in  
24 representing the residential ratepayers, that a factor  
25 that should be looked at is in a small community?

1           A.       Yes.

2           Q.       An industrial customer may basically be the  
3   employment for that community and should their -- should  
4   they experience rate shock, it could cause not only  
5   conservation in the long run, but in the short run  
6   employment impact. And that could hurt their residential  
7   customers who then have no job.

8                   Should that be at least a factor that is  
9   considered by the someone who is representing the  
10   residential ratepayers?

11          A.       If the rate has increased so much that they  
12   would have to close their factory, yes, it will have an  
13   impact to residential customers.

14          Q.       In the long run, you discuss that they could do  
15   water conservation, both residential and industrial.  
16   Isn't it possible that to get to your point of closing  
17   that another long-term solution for an industrial company  
18   would be to close that factory and to go where their  
19   inputs are a lost cost?

20          A.       Well, I was referring to --

21          Q.       No. I'm -- answer my question.

22          A.       I'm sorry.

23          Q.       Is it possible that when an industrial user, if  
24   one of their inputs is water and their cost raised  
25   significantly, that in the long run they may choose to

1 close that factory and go somewhere else?

2 A. Yes. If the costs increased significantly.

3 It's not -- by our facian -- I believe their proposal that  
4 our office has, it has a facian (phonetic sp)  
5 recommendation. It doesn't have that big of an impact.

6 Q. Once all costs are phased-in whether it's  
7 residential or any commercial class, once the phase-ins  
8 are done, though, there will be a total impact to each  
9 class?

10 A. That is not -- we can't avoid it because of the  
11 investment by the company.

12 Q. Can you tell me, have you any studies or  
13 information that says that phase-ins, if there is an  
14 annual increase over five years, that residential  
15 customers prefer that?

16 Do you have any studies that show that they  
17 prefer that?

18 A. Well, first, I'm not a rate design witness, so  
19 I haven't really done a study.

20 Q. And I appreciate that.

21 I know that you were not the rate of return  
22 expert and you've used their 8.24, that that is what was  
23 given you?

24 A. Yes.

25 Q. Have you done any analysis working towards your

1     dissertation or other readings on rates of returns for  
2     companies in doing investments?

3           A.       Not too much.

4           Q.       Not too much. But have you done some?

5           A.       Well, I mean, in general reading I've come  
6     across the subject but I haven't really specifically done  
7     any study --

8           Q.       Okay.

9           A.       -- with this topic.

10          Q.       And finally, you answered that there is a  
11     difference between replacement cost and marginal cost.  
12     Please define and tell me what those differences are.

13          A.       Marginal cost talks about when you add one  
14     additional unit to whatever -- to the capacity -- to the  
15     company's system.

16          Q.       Okay. And, please, in this answer, do tell me  
17     how it relates to this case.

18          A.       Okay. For example, if we were talking about  
19     capacity related cost --

20          Q.       Yes.

21          A.       -- marginal cost would be zero, I think,  
22     because when you add one more user to this system, the  
23     company may not need to add any treatment plant or any  
24     storage facility, especially when there are so much excess  
25     capacity existing in the system. So marginal costs would

1 very possibly be zero in this case.

2 Q. Because you're looking at the large investment,  
3 whether it's a compensation or to the main plant?

4 You're not looking at if they have to lay pipe  
5 to a new subdivision?

6 A. Um, that could be true too.

7 Q. So there could be some minimal marginal cost to  
8 put plant into ground for a new house?

9 A. Yes, that could be, yes.

10 Q. But when you were talking about marginal costs,  
11 you were talking about a significant marginal cost such as  
12 adding major facilities?

13 You were talking plant?

14 A. I'm talking about marginal costs would be what  
15 you said, yes, they would have to lay pipes to a new  
16 subdivision. However, those marginal costs would not be  
17 able to cover those costs to have the company install a  
18 big treatment plant, because it's not marginal.

19 Q. Okay. And the replacement cost is?

20 A. Replacement cost is, say, when you want to  
21 place a meter at current price, at current time, what  
22 would be the cost of a meter.

23 VICE-CHAIR DRAINER: Well, thank you. I  
24 appreciate your answers.

25 THE WITNESS: Thank you.

1 JUDGE THOMPSON: Thank you, Vice-Chair Drainer.  
2 Commissioner Murray?  
3 COMMISSIONER MURRAY: Thank you.  
4 QUESTIONS BY COMMISSIONER MURRAY:  
5 Q. Good morning, Ms. Hu.  
6 A. Good morning.  
7 Q. When you did your class cost-of-service study  
8 did you consider the effects on the residential customers  
9 of the public water supply districts?  
10 A. Um, well, cost-of-service study is -- I mean,  
11 I just try to reflect as best as I can to reflect -- to  
12 reflect that actual cost. So I don't really look at end  
13 result. I -- I want my study to tell me what is the end  
14 result.  
15 Q. So you did not look at the end result of  
16 increase in volumetric rates on the ultimate end-use  
17 residential customer?  
18 A. Not in doing my study. I would agree with you,  
19 that you should look at the end result when you do rate  
20 design. But in cost-of-service study, I view it more like  
21 try to get what is the actual cost.  
22 COMMISSIONER MURRAY: Okay. Thank you.  
23 JUDGE THOMPSON: Thank you, Commissioner  
24 Murray.  
25 Commissioner Schemenauer?

1                   COMMISSIONER SCHEMENAUER: Thank you, Your  
2 Honor.

3 QUESTIONS BY COMMISSIONER SCHEMENAUER:

4           Q.       Good morning, Ms. Hu.

5           A.       Good morning.

6           Q.       I just have a few questions. In your  
7 surrebuttal testimony on page 6 and 7, at the bottom of  
8 page 6 and then going on the top of page 7, you say  
9 replacement cost is generally accepted to be consistent  
10 with the entire embedded cost allocation methodology?

11          A.       Yes.

12          Q.       Are replacement costs generally less than,  
13 equal to or more than embedded cost? And I'm just  
14 speaking in generality.

15          A.       Um, I would say it's generally higher because  
16 of the increase in labor costs, because labor cost is  
17 involved in installation of a lot of capacity facilities.  
18 However, when we use it to allocate cost, we are actually  
19 talking about a ratio. So the absolute value may not be  
20 important.

21          Q.       Okay. Okay. I understand.

22                   Then on the bottom of page 7, the top of  
23 page 8 in your surrebuttal, again -- and I want to make  
24 sure I'm clear on the ratio you're using versus the ratio  
25 that the -- I guess it's the American Waterworks



1 Association, BNEC method is.

2 A. Yes.

3 Q. Does BNEC method, the ratio they use is the  
4 ratio of the excess capacity to -- their excess capacity  
5 to base capacity. And the ratio you're using is the  
6 excess cost to base cost?

7 A. Yes.

8 Q. Okay.

9 A. Or the cost of extra capacity -- excess  
10 capacity or extra capacity.

11 Q. Thank you.

12 And, again, my final question is, on page 10  
13 of your direct, you summarize the result of your class  
14 cost-of-service study, and as I read that, it appears the  
15 residential class is paying more -- disproportionately more  
16 than they should pay; on the other hand, the industrial  
17 class and the sale for resale class in all districts are  
18 paying less than their appropriate share.

19 A. Yes.

20 Q. This is based on your study?

21 A. Oh, based on my study. And also, I believe,  
22 the company's study and the Staff study all have the same  
23 conclusion.

24 Q. The same conclusions?

25 A. Yes.

1 COMMISSIONER SCHEMENAUER: Okay. Thank you.

2 That's all I have.

3 JUDGE THOMPSON: Thank you, Commissioner

4 Schemenauer.

5 Commissioner Simmons?

6 COMMISSIONER SIMMONS: Thank you, Your Honor.

7 QUESTIONS BY COMMISSIONER SIMMONS:

8 Q. Good morning, Ms. Hu.

9 A. Good morning.

10 Q. I just have one question and I believe it was  
11 in response to a question that was asked earlier.

12 I believe you said that you cannot compare  
13 total revenues with total cost of service. Was that your  
14 statement? Do you recall that?

15 A. Yes. I mean, it's -- on the context of talking  
16 about my Table 1 to Table 4 in my surrebuttal -- rebuttal  
17 testimony?

18 Q. Yes.

19 A. Yes.

20 Q. I would like for you to explain it to me just a  
21 little bit, if you could.

22 A. The current revenue is designed to recover the  
23 costs that that was when the company -- I mean -- okay.  
24 Current rate revenue was designed or determined in the  
25 last rate case. And in this rate case there is a very

1 significant increase in the company's cost, because the  
2 company -- I mean, one important factor is the company has  
3 built a new water treatment plant. And there are other  
4 major additions too.

5 So current revenue will not be able to recover  
6 all of the current costs of the company because the  
7 company has incurred more costs.

8 Q. More costs?

9 A. So if you compare current revenue with current  
10 costs, it won't be the same.

11 COMMISSIONER SIMMONS: Okay. Thank you.

12 That's all I have.

13 JUDGE THOMPSON: Thank you, Commissioner  
14 Simmons.

15 QUESTIONS BY JUDGE THOMPSON:

16 Q. Ms. Hu, I'm looking at Table 1 on page 5 of  
17 Exhibit 31, your rebuttal testimony?

18 A. Yes.

19 Q. I'm also looking at Table 2 on Schedule  
20 HH-DIR-2.2 attached to your direct testimony, Exhibit 30.  
21 Do you see those two tables?

22 A. Give me a few minutes. Table 2. Okay.

23 I think I'm there.

24 Q. Okay. Both of those tables are labeled summary  
25 current rate revenue by district by class?

1           A.       Yes.

2           Q.       And this question will be in that category of  
3 naive questions. I'm simply wondering why the numbers are  
4 different.

5           A.       Um, in the first in the first Table 2 that I  
6 presented in my direct, I think I got the numbers from the  
7 company's work papers.

8           Q.       Okay.

9           A.       And in the second Table 1 I got a number from  
10 the Staff and I believe it is more accurate.

11          Q.       So it is your opinion that the information as  
12 presented in your rebuttal is more accurate?

13          A.       Yes.

14          Q.       Okay. Then I also have a question, turning to  
15 the next page of your rebuttal testimony and looking at  
16 Table 4, which is a summary of the class cost-of-service  
17 using the company's suggested revenue requirement?

18          A.       Yes.

19          Q.       Why did you not present that using all of the  
20 detail that you did in the other three tables on page 5  
21 and on page 6?

22          A.       Because the company has not submitted a  
23 cost-of-service study for each of their districts. They  
24 only have the result for company-wide; they don't have the  
25 result for each district.

1 Q. So what you're saying is it is not possible at  
2 this time to present this with similar detail?

3 A. No.

4 JUDGE THOMPSON: Okay. Thank you. That's all  
5 of the questions that I have.

6 Any further questions from the Bench?

7 (No response.)

8 JUDGE THOMPSON: Recross based on questions  
9 from the Bench?

10 Mr. Franson?

11 MR. FRANSON: Thank you.

12 RECROSS-EXAMINATION BY MR. FRANSON:

13 Q. Ms. Hu, could you turn to page 14 of your  
14 rebuttal testimony, which I believe is Exhibit No. 31.

15 A. Yes.

16 Q. Now, the question beginning at line 8 is,  
17 has the equivalency of the two -- of these two methods  
18 been recognized anywhere else in the country?

19 Are you referring in that question to the base  
20 extra capacity method and the pure peak responsibility  
21 allocation method?

22 A. Yes.

23 Q. Then in your answer you answer, yes, and then  
24 you cite a study in Footnote No. 1 at the bottom of the  
25 page; is that correct?

1           A.       Yes.

2           Q.       And, in fact, that was a report dated  
3   October 1, 1993.  Is that also correct?

4           A.       Yes.

5           Q.       Was that the basis for the City of Austin,  
6   Texas considering the equivalency of these two methods and  
7   adopting your modifications to the base extra capacity  
8   method?

9           A.       No.  Their recent information that I got from  
10   the consultant is --

11          Q.       Was that this same consultant?

12          A.       No.  They are having a second round.  I  
13   wouldn't call it a rate case.  I mean, they are  
14   reconsidering their rates for second round right now.

15          Q.       But at least this initial report has been  
16   available to the City of Austin, Texas since August of  
17   1993?

18          A.       I would think so.

19          Q.       And you don't know whether it was rejected one  
20   time and now it's coming up again or whether they're still  
21   dealing the with the same matter since 1993?

22          A.       My understanding would be they have not adopted  
23   in 1993 but they are considering to adopt this methodology  
24   right now.

25          Q.       But you don't know that since -- whether or not

1     since 1993 this methodology that you are proposing to this  
2     Commission has been considered or rejected in a prior case  
3     in the City of Austin, Texas?

4             A.       Considered, yes.   Rejected, I don't know.

5             MR. FRANSON:   No further questions, Your Honor.

6             JUDGE THOMPSON:   Thank you, Mr. Franson.

7             Mr. Conrad?

8             MR. CONRAD:   No questions, Your Honor.

9             JUDGE THOMPSON:   Mr. Curtis?

10            MR. CURTIS:   None, Your Honor.   Thank you.

11            JUDGE THOMPSON:   Mr. Deutsch?

12            MR. DEUTSCH:   Just one clarification.

13    RE CROSS-EXAMINATION BY MR. DEUTSCH:

14            Q.       In response to a question from Commissioner  
15    Schemenauer concerning your conclusions on page 10 of your  
16    direct examination that I believe we also discussed during  
17    my cross-examination, and dealing with the conclusion you  
18    reached about the significant differences under current  
19    situation between districts and customer classes, did I  
20    understand you to say in response to Commissioner  
21    Schemenauer that with regard to that with regard to that  
22    particular finding as to those significant differences,  
23    that, in fact, your study reaches the same conclusion as  
24    both the Public Service Commission Staff study and the  
25    company's study?

1           A.       Yes.

2                   MR. DEUTSCH:  Thank you.

3                   No further questions.

4                   JUDGE THOMPSON:  Thank you, Mr. Deutsch.

5                   Mr. Fischer?

6                   MR. FISCHER:  Yes, Your Honor, just briefly.

7  CROSS-EXAMINATION BY MR. FISCHER:

8           Q.       Good morning, Ms. Hu.  My name is Jim Fischer  
9   and I'm representing some rural water districts around the  
10  St. Joseph area that serve principally residential  
11  customers.

12                   I wanted to follow up on a question from  
13  Commissioner Murray, whether you had considered the impact  
14  on residential customers in those water districts.  As an  
15  economist, would you expect consumers to look at their  
16  alternatives for water supply in the event their rates  
17  went up 268 percent or more?

18           A.       Yes.

19           Q.       And as I understand it, that is what the  
20  Staff's cost-of-service study shows that the rate impact  
21  could be to my clients.  Is it correct that because of  
22  your economy of scale adjustment your impact on my clients  
23  in your cost-of-service study would likely be even more  
24  than that?

25           A.       Um, I don't think our rate design produces a



1 result that is even higher than 268 percent.

2 Q. That's because you phase it in and cap it but  
3 your cost-of-service study results themselves, is it  
4 correct that those would be higher?

5 A. My cost-of-service study is likely to produce a  
6 higher result.

7 Q. Okay.

8 A. However, our rate design also considered other  
9 factors, though, that the shift has mitigated.

10 Q. Okay. As an economist, if the consumers did  
11 experience a 268 percent increase, would you expect they'd  
12 look around at the possibility of digging wells as an  
13 alternative in the rural areas?

14 A. Yes, they would look at alternatives. I would  
15 expect that.

16 Q. And if that happened in substantial numbers,  
17 would you also expect that would have additional rate  
18 pressures on the other consumers for those little  
19 companies?

20 A. You're talking about if they switched to other  
21 alternatives?

22 Q. Yes.

23 A. I mean, when they look at it, they may not  
24 decide that this one is better than the other one.

25 Q. Okay. You're correct. Let's assume they do

1 switch.

2 A. If they do switch, then the customers that are  
3 left to the system would have a prior per-unit cost to  
4 bear.

5 MR. FISCHER: Okay. Thank you very much.

6 That's all I have.

7 JUDGE THOMPSON: Thank you, Mr. Fischer.

8 Mr. Zobrist?

9 MR. ZOBRIST: Just briefly.

10 CROSS-EXAMINATION BY MR. ZOBRIST:

11 Q. Ms. Hu, I'm Carl Zobrist. I represent the City  
12 of St. Joseph.

13 I believe in response to a question by  
14 Vice-Chair Drainer you stated that you did not recommend  
15 that the Commission go to a cost-of-service type of  
16 methodology in setting the rates; is that correct?

17 A. It is correct that I don't recommend the  
18 Commission go all of the way to cost-of-service study. I  
19 recommend that the Commission should also take into  
20 account other considerations such as rate impact,  
21 affordability.

22 Q. Do you, therefore, believe that it is proper  
23 for the Commission to consider distinctions among rate  
24 classes based upon determinations other than strictly cost  
25 of the service supplied to the ratepayers?

1           A.       Yes.

2                   MR. ZOBRIST: Thank you. Nothing further.

3                   JUDGE THOMPSON: Thank you, Mr. Zobrist.

4                   Mr. England?

5                   MR. ENGLAND: Thank you.

6   RE CROSS-EXAMINATION BY MR. ENGLAND:

7           Q.       I have a couple of questions following up on

8   questions by you, Judge.

9                   Ms. Hu, looking again at Table 1 in your

10   rebuttal testimony -- and I believe it's Table 2 of

11   Schedule HH-DIR-2.2, were those the schedules you were

12   comparing for Judge Thompson?

13          A.       Yes.

14          Q.       And I believe that you indicated that the total

15   revenues in Table 1 attached to your rebuttal testimony

16   was more accurate. Correct?

17          A.       Yes.

18          Q.       Okay. Would you agree with me that the total

19   revenues as shown in Table 1 of your rebuttal testimony

20   also represent more current information regarding actual

21   revenues?

22          A.       Yes, I agree.

23          Q.       And, in fact, that number has been agreed to by

24   at least Public Counsel, Staff and company --

25          A.       Yes, I agree.

1           Q.       -- as a result of the prehearing conference  
2 this in this case?

3           A.       Yes, I agree.

4           Q.       For purposes of a starting point, the  
5 30,500,000 figure is the most accurate for purposes of  
6 current revenues. Correct?

7           A.       Yes.

8           Q.       Okay. Thanks.

9                    One other line of questioning. You also  
10 indicated in response to Mr. Thompson -- Judge Thompson,  
11 excuse me -- that it was not possible to give the kind of  
12 detail behind the company's cost of service because it had  
13 not done a district-specific cost of service?

14                   Do you recall that?

15           A.       Yes.

16           Q.       My understanding is that when we filed this  
17 case, although we didn't file it with the Commission, we  
18 did provide to the parties our own development of costs by  
19 district. Is that your understanding as well?

20           A.       Um, yes.

21           Q.       So that information is in your work papers at  
22 least as provided to you by the company?

23           A.       Yes. However, because it's not formally  
24 submitted, I don't want to speak for the company and  
25 include it.

1 Q. I guess maybe I'm quibbling but when you say  
2 it's not possible, it would be possible but it's just not  
3 made part of the record at this point in time?

4 A. It would be possible, yes.

5 MR. ENGLAND: Okay. No other questions.

6 JUDGE THOMPSON: Thank you, Mr. England.

7 Redirect, Mr. Coffman?

8 MR. COFFMAN: Thank you.

9 REDIRECT EXAMINATION BY MR. COFFMAN:

10 Q. Ms. Hu, you were, I guess, shown the  
11 acknowledgement page from a version of the AWWA M-1 rate  
12 manual?

13 A. Yes.

14 Q. It was marked as Exhibit 67.

15 And you acknowledged under Mr. Conrad's  
16 cross-examination that there was a representative from a  
17 university and a representative from a public utility  
18 commission on --

19 A. Yes.

20 Q. -- the large subcommittee --

21 A. Yes.

22 Q. -- that reviewed the work in that report?

23 A. Yes.

24 Q. Does it appear on that exhibit that there is  
25 any consumer advocate agency represented?

1           A.       I'm not aware of. I don't think there -- let  
2 me have another look so that my --

3                   MR. COFFMAN: May I approach the witness?

4                   JUDGE THOMPSON: You may approach, Mr. Coffman.

5                   MR. COFFMAN: I handed the witness my copy of  
6 Exhibit 67.

7                   JUDGE THOMPSON: Would you like to use mine?

8                   MR. COFFMAN: No, it's fine.

9                   THE WITNESS: It appears that there is no  
10 consumer advocates in this list.

11 BY MR. COFFMAN:

12           Q.       Is there any indication among those lists of  
13 experts that there is anyone representing a residential  
14 consumer interest?

15           A.       I don't think I see any.

16           Q.       Okay. I'll take that back. I'm completed with  
17 that.

18                   You were asked several questions about your  
19 notion or as Mr. Conrad described it, your revelation, the  
20 conclusion that you reached in your professional opinion  
21 that the traditional base extra capacity method should be  
22 modified to be more accurate or fair.

23                   What initially led you to the conclusion that  
24 there should be a modification of the traditional base  
25 extra capacity method?

1           A.       Um, it is my observation that the base and  
2   actual capacity method actually produced an end result  
3   that it's very similar to our coincident peak demand  
4   allocator or a noncoincident peak demand allocator.

5                   Actually if I could use the examples that  
6   Mr. Conrad presented to me in his line of questioning, I  
7   think this example is a really good example that shows  
8   that what has been absent from the example is the non --

9           Q.       Excuse me. Which exhibit are you referring to?

10          A.       Exhibit 68, 69 and 70.

11          Q.       Okay. I'm sorry. Go ahead.

12          A.       Now, if you develop the noncoincident peak  
13   demand allocator for each case, you would see 80 percent  
14   for residential and 20 percent for industrial. And  
15   looking at the base and extra capacity allocator, all of  
16   them are very similar.

17                   The first example is Exhibit 68, BNEC measured  
18   produced 79.412 percent to residential, compared to their  
19   NCP, noncoincident peak demand measured, 80 percent.

20                   And in the second example in Exhibit 69, the  
21   BNEC measured is exactly the same with both the coincident  
22   peak demand allocator and a noncoincident peak allocator.  
23   And the third example in Exhibit 70, the BNEC measured is  
24   79.734, where the NCP measured is 80 percent.

25                   So, um, I mean, if our purpose is to properly

1 balance base usage and peak usage, you would expect  
2 something in between. And here our example average usage  
3 residential is 75 percent and the noncoincident peak  
4 demand is 80 percent.

5 I mean, because of the method of cranking  
6 through the black box, the end result actually leans very  
7 heavily toward the upper end and actually it produced very  
8 similar result to pure peak demand method. That's the  
9 reason that led me to question this method.

10 Q. In other words, you're saying that the base  
11 extra capacity method is weighted too heavily towards the  
12 peak use and should be modified to recognize more fairly  
13 the base use?

14 A. And actually one reason that end result is like  
15 this, it's because the BNEC method doesn't use a weighted  
16 average of average -- base usage and peak usage. Instead  
17 it uses an average of base usage and extra capacity. And  
18 that extra capacity is so skewed so that it offset almost  
19 any weight to be put on base usage.

20 So that end result actually turns out be very  
21 similar to pure peak demand allocator.

22 Q. Ms. Hu, is there any reason to believe that the  
23 hypothetical examples illustrated in Exhibit 68, 69 and 70  
24 would be uncharacteristic of reality or outside the realm  
25 of possibility?



1           A.       Oh, I believe in 68 -- well, let me look here  
2   at these in Exhibit 60 -- I'm sorry -- 70, the residential  
3   peak demand appeared to be the same with noncoincident  
4   peak demand. This could happen. This -- I mean, or not  
5   happen. Because I would think residential noncoincident  
6   peak demand would happen probably more likely in the  
7   weekend when everybody goes out to water their lawn.

8                   If it's very dry and hot they probably want to  
9   take in extra baths. You know, they probably do a formal  
10  cooking, a formal dinner, they cook a formal dinner. I  
11  mean, all of those would not be happening in a week day.

12                  However, I would tend to think a system peak, a  
13  system peak could happen in a weekday because in weekend,  
14  most -- many commercial customers would be closed.  
15  Probably a lot of industrial customers would be closed and  
16  the school would be closed. And even if all of the  
17  residential customers go out to use water, the  
18  noncoincident peak demand off residential in this  
19  company's case only represents about, like, 57, 58 percent  
20  of the system peak.

21                  So it's not enough. Other people has  
22  to be using that water; in other words, my conclusion is,  
23  it is possible that residential noncoincident peak demand  
24  does not happen in a system peak day. I mean, it could be  
25  true that they still use a lot of water but they could be

1 a little bit smaller than -- less than their class peak.

2 Q. Have you seen an example, Ms. Hu, in any other  
3 cost-of-service studies that you've examined in your work  
4 with the Office of Public Counsel where residential usage  
5 on the system peak was smaller than the noncoincident peak  
6 demand?

7 A. I have not seen anything in the water because  
8 this is the first water case that I've done. I did --  
9 well, I do have one example from the NARUC electricity  
10 manual, that in that -- in that manual it has an example,  
11 I believe, the load data is from --

12 MR. CONRAD: I'm going to object. Excuse me.

13 I'm going to object because that's well beyond  
14 what the question was asked by counsel. He asked if in  
15 her experience and in doing cost-of-service studies, and  
16 she's now into the NARUC electric manual. That's not her  
17 experience.

18 JUDGE THOMPSON: Do you care to respond?

19 MR. COFFMAN: I think that the question goes  
20 to the issue of whether the comparison of the system  
21 peak to noncoincident peak demand which was the subject  
22 of Mr. Conrad's cross-examination.

23 JUDGE THOMPSON: The objection is overruled.

24 Please complete your answer.

25 THE WITNESS: I would think that as my

1 experience working for the electric -- in the electric  
2 area, that I've seen one example that presented in the  
3 NARUC electricity cost-of-service study manual. This  
4 example, I believe, is from Southern California Edison  
5 Company and it does have smaller residential coincident  
6 peak demand than the residential noncoincident peak  
7 demand. It's still pretty large but it's smaller than the  
8 noncoincident demand.

9 MR. COFFMAN: That's all of the questions I  
10 have on redirect.

11 Thank you.

12 JUDGE THOMPSON: Thank you, Mr. Coffman.

13 Before I let Ms. Hu go, I will just point out  
14 to counsel that there are many, many references to work  
15 papers which evidently are not in the record and which no  
16 one plans to put into the record. And I would point you  
17 to Ms. Hu's testimony, her direct, on page 4 starting on  
18 line 13, where she refers to information contained in work  
19 papers and says, I have used this information because it  
20 was readily available and contains the level of detail  
21 necessary to perform a CCOS study.

22 The reason I direct your attention to that  
23 is I would like counsel to consider the level of detail  
24 necessary for this Commission to decide this case and to  
25 write a decision which will be acceptable on judicial

1 review. I would like you to think about putting these  
2 work papers into the record and I will leave you to think  
3 about that.

4 Another thing I'd like you to think about is  
5 the schedule appearing on page 5 of the proposed list  
6 of issues, order of witnesses and order of cross, where  
7 Ms. Hu was planned for Tuesday morning, as was Mr. Busch.  
8 So we are now more than a day behind our schedule. And I  
9 will leave counsel to think about that as well.

10 I believe this is an appropriate place to break  
11 for lunch. It is 20 minutes to 12. We will return in  
12 90 minutes, which would be, I believe, 10 minutes after 1.

13 Thank you.

14 (Off the record.)

15 JUDGE THOMPSON: Mr. Coffman, I believe your  
16 next witness is Mr. Busch.

17 MR. COFFMAN: We all agreed to let Mr. Landon  
18 go first this afternoon.

19 JUDGE THOMPSON: So we had.

20 MR. COFFMAN: I do have another matter to  
21 raise.

22 JUDGE THOMPSON: Okay.

23 MR. COFFMAN: I was approached by a member of  
24 the public who has joined our gallery, Representative Rich  
25 Chrismer, representing St. Charles area. He would like

1 the opportunity to provide some testimony here and I  
2 agreed to let you know that he was here.

3 JUDGE THOMPSON: Okay. Are you going to call  
4 him as a witness?

5 MR. COFFMAN: I didn't know whether that would  
6 be appropriate or not. We used to call witnesses at  
7 public hearings and there is some precedent, I know, for  
8 letting witnesses from the public appear at the  
9 evidentiary hearing in, I guess, most recently, the United  
10 Water Missouri case.

11 JUDGE THOMPSON: This is a new one for me and  
12 I'll have to confer at the break with more learned counsel  
13 than myself.

14 MR. ENGLAND: I'm not sure I have an objection.  
15 I certainly have a concern, particularly since, as you  
16 pointed out right before lunch, we're not progressing on  
17 the schedule as we had hoped. So we are behind.

18 So I'm a little concerned that this might put  
19 us even further behind. That's my main concern. The  
20 other thing I'd like to suggest -- are we on the record.

21 JUDGE THOMPSON: Yes.

22 MR. ENGLAND: I'd be perfectly willing to --  
23 and I don't know what the court reporter as well as  
24 everyone else's schedule is, but move these proceedings  
25 into the evening a little bit if that can help us get back

1 on track.

2 JUDGE THOMPSON: Well, I'm not prepared to move  
3 it into the evening. I don't know how the Commissioners  
4 feel and certainly I can consult them. If they want to  
5 do, we'll do what they want to do, of course. In general  
6 we don't do that.

7 I do have some additional days that I've  
8 blocked off on a calendar. I didn't want to tell you guys  
9 that. I thought Mr. Conrad might find some other  
10 questions that haven't been already asked. But we have  
11 another four days that I've blocked off during the week  
12 that was originally the move week.

13 That was -- it was originally the move week  
14 when the Commission was going to be moving its offices  
15 from this building to the Governor Hotel. I believe it's  
16 the week after next. And I've blocked off some days. Of  
17 course, everybody may not be available those days, I  
18 suppose.

19 MR. COFFMAN: That is, I believe, the week  
20 Public Counsel is scheduled to move in the same building,  
21 downstairs.

22 JUDGE THOMPSON: I don't see how that could  
23 possibly interfere with this advocacy. These days that's  
24 a very feeble excuse.

25 MR. COFFMAN: If I may suggest, we do have

1 several days set aside for the true-up hearing.

2 JUDGE THOMPSON: We have a week, I believe.

3 MR. COFFMAN: Which I'm sure that would be more  
4 than ample, but that is getting a little later. Squeeze  
5 in the briefing schedule.

6 MR. ENGLAND: That is fine. But as you know,  
7 depending on what the issues are and who the witnesses  
8 are, there may be availability problems for those folks  
9 that come from out of town.

10 JUDGE THOMPSON: I appreciate that. It is  
11 always difficult to try a complicated case for all of  
12 these reasons. And we'll just have to resolve them as  
13 best we can.

14 Now, this is Mr. Landon?

15 MR. CURTIS: Yes

16 JUDGE THOMPSON: And you are whose witness?

17 MR. CURTIS: The municipal and industrial  
18 intervenors?

19 JUDGE THOMPSON: Okay. Thank you.

20 My notes didn't indicate that.

21 Proceed, Mr. Curtis.

22 MR. CURTIS: Has Mr. Landon been sworn in?

23 JUDGE THOMPSON: No, he has not.

24 I apologize.

25 (Witness sworn/affirmed.)

1 JUDGE THOMPSON: Will you spell your name for  
2 the reporter, please?

3 THE WITNESS: Landon, L-a-n-d-o-n.

4 JUDGE THOMPSON: Please proceed.

5 JAMES S. LANDON testified as follows:

6 DIRECT EXAMINATION BY MR. CURTIS:

7 Q. Please state your name.

8 A. It's James S. Landon.

9 Q. Are you the same James S. Landon who has caused  
10 to be filed before this Commission surrebuttal testimony  
11 which has been premarked as Exhibit 63?

12 A. Yes, I am.

13 Q. Mr. Landon, with regard to your surrebuttal  
14 testimony, do you have any additions or corrections to  
15 make?

16 A. Yes. On page 4 it's been brought to my  
17 attention that I was using an old estimate on the cost of  
18 the plant in Warrensburg. On line 9 and 16, the more  
19 updated figure is 4.2 million versus the 5.2 that is in  
20 the written testimony.

21 Q. So you're suggesting strike 5.2 and --

22 A. And make it 4.2.

23 Q. -- substitute 4.2?

24 A. That would be fine.

25 Q. Are there any other additions or corrections?



1           A.       No, not at this time.

2           Q.       Mr. Landon, if I were to ask you the questions  
3       that have been asked in your written surrebuttal testimony  
4       today, would your answers be true and the same?

5           A.       Yes, they would be.

6           Q.       Okay.  Would those answers be true and correct  
7       to the best of your knowledge and belief?

8           A.       Yes.  Exactly.

9                   MR. CURTIS:  At this time I would offer Exhibit  
10       No. 63 and tender Mr. Landon for cross-examination.

11                   JUDGE THOMPSON:  Thank you, Mr. Curtis.

12                   Do I have any objections to the receipt of  
13       Exhibit No. 63?

14                   (No response.)

15                   JUDGE THOMPSON:  Hearing none, Exhibit No. 63  
16       is received and made a part of the record of these  
17       proceedings.

18                   (EXHIBIT NO. 63 WAS RECEIVED INTO EVIDENCE.)

19                   JUDGE THOMPSON:  Cross-examination,  
20       Mr. Franson?

21                   MR. FRANSON:  Your Honor, no questions.  
22                   Thank you.

23                   JUDGE THOMPSON:  Mr. Coffman?

24                   MR. COFFMAN:  No questions.

25                   JUDGE THOMPSON:  Mr. Conrad?

1 MR. CONRAD: Thank you, Your Honor.

2 CROSS-EXAMINATION BY MR. CONRAD:

3 Q. In the effort of being pithy and germane, let  
4 me get right to the pithy and germane part.

5 Mr. Landon, have you ever heard of a citizens  
6 advisory counsel?

7 A. Sure. We have one in Warrensburg that was  
8 established by the water company.

9 Q. At a public hearing in St. Joseph, a member of  
10 that committee in that jurisdiction described in his  
11 experience as that of a rubber stamp committee. Would you  
12 characterize your experience in Warrensburg as being that  
13 of a rubber stamp?

14 MR. ENGLAND: Objection. I believe this is not  
15 necessarily -- well, maybe friendly but it certainly is  
16 eliciting information that wasn't in any of the prefiled  
17 testimony and to which we will not have an opportunity to  
18 respond.

19 JUDGE THOMPSON: Response, Mr. Conrad?

20 MR. CONRAD: Well, I believe that Mr. Landon  
21 speaks of this in his direct at page 4.

22 JUDGE THOMPSON: You mean in his surrebuttal

23 MR. CONRAD: Excuse me. Yes, surrebuttal.

24 And I just simply wanted to ask him to compare  
25 the situations as he understood them between what his

1 experience was and what has been reported with respect to  
2 St. Joe, and that's all.

3 JUDGE THOMPSON: Could you read to me the  
4 language on page 4 of the surrebuttal to which you're  
5 referring?

6 MR. CONRAD: Page 4 starting at line 2 -- well,  
7 let me -- in response to a question as follows, please  
8 describe the process results of that case. And that case  
9 is referenced to WR-97-237 and the spin-off case from  
10 that, which I believe was 98-203, from January and through  
11 November of '99, PSC staff committee Warrensburg  
12 representatives -- it isn't characterized here as a CAC,  
13 that is why I was asking -- met a plant specialist from  
14 CMSU, along with engineers from local businesses and civic  
15 leaders, they met, reviewed alternative solutions to what  
16 was recognized as a very real problem with the odor, taste  
17 and hardness and so on.

18 And I was just simply, as I said, going to ask  
19 him frankly, one, if it's -- if it can be answered in one,  
20 that's fine. Does this -- compare what his experience was  
21 with what we've had in St. Joe?

22 MR. ENGLAND: Well, I have another objection  
23 then.

24 JUDGE THOMPSON: What is your other objection?

25 MR. ENGLAND: My other objection is lack of

1 foundation, because this witness hasn't been qualified to  
2 know what happened in St. Joseph and I don't think he  
3 knows what happened in St. Joseph, so he's not capable of  
4 comparing the two processes.

5 MR. CONRAD: He can talk about what his  
6 experiences were.

7 JUDGE THOMPSON: Mr. Coffman would like to --

8 MR. COFFMAN: Yes.

9 As far as whether that was a proper question in  
10 Mr. England's claim that he won't have a chance to cross,  
11 the statement I believe Mr. Conrad is referring to was a  
12 statement made in the transcript of this case in the  
13 public hearing in the City of St. Joseph and company  
14 counsel was there and chose not to cross-examine that  
15 witness. So . . .

16 MR. ENGLAND: Well, let the record reflect  
17 company counsel as well as other counsel present were  
18 prohibited from cross-examining public witnesses.

19 MR. CONRAD: And let the record reflect that  
20 that is not factual.

21 JUDGE THOMPSON: Anyone else have anything to  
22 add on this?

23 MR. ENGLAND: Yes, I do.

24 It still goes to the element of surprise and  
25 the, I think, attempt to bootstrap into this proceeding at

1 a terminally late date additional evidence to which we may  
2 not have an opportunity to adequately respond.

3 JUDGE THOMPSON: Okay. Thank you.

4 I believe the question is permissible because I  
5 believe the question basically is whether Mr. Landon would  
6 characterize the citizens advisory group or the group to  
7 which he referred in his surrebuttal in that manner.

8 In that sense I believe the question is  
9 perfectly fair and he can answer it yes or no, however he  
10 chooses to answer it. In the event, Mr. England, that you  
11 feel unduly prejudiced, you may move for an opportunity to  
12 supplement your company's testimony.

13 MR. ENGLAND: Fair enough.

14 JUDGE THOMPSON: Do you know the question,  
15 Mr. Landon?

16 THE WITNESS: The question is whether the  
17 citizen advisory committee was a rubber stamp. Right?

18 JUDGE THOMPSON: Yes, sir.

19 THE WITNESS: I -- I think it's important to  
20 clarify some things, because there was two different  
21 committees and actually quite a process we went through.  
22 And the group that was described here in my written  
23 testimony is not the citizens advisory committee.

24 There was actually a citizen advisory committee  
25 that was put together by the water company that was an

1 informational basis, good dialogue back and forth.

2 JUDGE THOMPSON: Okay.

3 THE WITNESS: The --

4 JUDGE THOMPSON: Mr. Landon, I think that  
5 changes the basis on which we've permitted the question.  
6 You were not referring to the citizens advisory committee  
7 in your surrebuttal?

8 THE WITNESS: Let me talk about the one that I  
9 was referring to if that's okay.

10 JUDGE THOMPSON: Just a moment. The reason I  
11 stop you is not to be rude, sir, but to see if Mr. Conrad  
12 wants that question answered with respect to a group other  
13 than the citizens advisory group.

14 Mr. Conrad, would you like that answered?

15 MR. CONRAD: If I can recall -- and my memory  
16 is often flawed, we had started out and asked if he had  
17 had or if he was familiar with the CAC concept. He  
18 indicated he was.

19 He's now indicating that there is some  
20 different group and so I guess I would want to know if  
21 there was a different group beyond the CAC, what that  
22 group was and what his experience was.

23 THE WITNESS: It was a very positive experience  
24 and very positive for the water company also. The civic  
25 leaders here could be the CAC, and that was one group,

1 once again, that was good dialogue. Because water is such  
2 a technical issue, we asked local industries if they  
3 wouldn't mind having their engineers look over the  
4 proposals that were being presented to us from the water  
5 company. And so that was kind of a technical group, if  
6 you would, that wasn't geared towards citizen input but  
7 was more geared toward the technical issues of what would  
8 be a good process based on their engineers' experiences.

9               There was also other -- another process of  
10 meeting in front of City Council, at formal City Council  
11 meeting, where the water company made presentations, we  
12 made presentations at the formal meeting, plus at work  
13 sessions.

14              So we went through quite a little process.  
15 The CAC was more just information back and forth. I don't  
16 feel it was -- rubber stamp probably isn't -- they weren't  
17 really asked is this okay or not okay. They were just  
18 part of the input into that. I don't think anybody ever  
19 tried to tell the water company what to do.

20              We were just trying to gain ownership and have  
21 involvement in the process so that when it came time to  
22 having to pay the bill, that we would say, yes, we agree  
23 to this -- this outcome. And I think that is exactly what  
24 happened in Warrensburg as -- when it was all said and  
25 done, we said we were in agreement with the proposal and

1 the actual improvements made by the water company.

2 BY MR. CONRAD:

3 Q. Mr. Landon, if you know, was this a different  
4 process than was utilized in St. Joseph?

5 A. I will have to tell you I do not know the  
6 process used in St. Joseph.

7 MR. CONRAD: That is fine.

8 Thank you, Your Honor.

9 JUDGE THOMPSON: Thank you, Mr. Conrad.

10 Mr. Deutsch?

11 MR. DEUTSCH: No questions, Your Honor.

12 JUDGE THOMPSON: Thank you, Mr. Deutsch.

13 Mr. Fischer?

14 MR. FISCHER: No questions, Your Honor.

15 JUDGE THOMPSON: Mr. Zobrist?

16 MR. ZOBRIST: Just a few.

17 CROSS-EXAMINATION BY MR. ZOBRIST:

18 Q. Mr. Landon, I'm Carl Zobrist. I represent  
19 the City of St. Joseph. In your surrebuttal testimony on  
20 page 5, you commended the Commission for acting to  
21 establish the Warrensburg water quality docket which was  
22 WO-98-203; is that right?

23 A. That's correct.

24 Q. And then in concluding your surrebuttal on  
25 page 7, you recommended that the Commission require the



1 company to meet in a formal manner such as it did in the  
2 case I just referenced if the company planned to build a  
3 plant that constituted the 20 percent increase over the  
4 existing rate base in in any particular district; is that  
5 correct?

6 A. That's correct.

7 Q. Would you also recommend to the Commission that  
8 whatever tariff pricing mechanism they implemented, that  
9 they establish some kind of a monitoring or evaluation  
10 system to assess the effects of the effectiveness of that  
11 system?

12 A. Um, I think probably the best answer to that  
13 is, yes. Water, sewer, all utilities, it's very dynamic  
14 and I think it's important that we all are involved in  
15 evaluating where we are today, where we need to be in the  
16 future, whether that is quality, quantity, general meeting  
17 the needs of the public.

18 So -- and obviously with a private water  
19 company, the Public Service Commission and Staff should be  
20 very much involved in that.

21 Q. And do you also believe it would be appropriate  
22 based upon your experience that the Commission consider  
23 implementing a process to assess the utility's efforts in  
24 educating customers about the nature and purpose of water  
25 rates and involving them in the rate-making process?

1           A.       Well, I guess I'm not going to address how  
2   the Commission should be involved in that. But I would  
3   recommend that the water company -- and not just the water  
4   company -- all your private utilities try to establish a  
5   partnership with the community and keep them involved  
6   because these are necessities of life and they can't go  
7   down the street and buy it from someone else.

8                   So it's real important that you have that local  
9   commitment and involvement in the process. So I would  
10  encourage the water company to always try to keep the  
11  citizens, the elected officials involved in what is going  
12  on there.

13                 MR. ZOBRIST: Thank you. Nothing further.

14                 JUDGE THOMPSON: Thank you, Mr. Zobrist.

15                 Mr. England?

16                 MR. ENGLAND: Just a couple of questions.

17  CROSS-EXAMINATION BY MR. ENGLAND:

18           Q.       Good afternoon, Mr. Landon.

19           A.       Good afternoon.

20           Q.       You talked of the process involved in what I  
21  refer to as the Warrensburg taste and odor issue?

22           A.       Right.

23           Q.       And my understanding is there were several  
24  alternatives examined by the company; is that correct?

25           A.       That's correct.

1           Q.       One of which was initially pursued was a carbon  
2   introduction, I think, of activated carbon into the  
3   process; is that right? Is that your recollection?

4           A.       That's my recollection, yes.

5           Q.       And the pilot study didn't prove that out?

6           A.       Exactly. They -- they actually went through a  
7   process to test it before they built the plant. And based  
8   on their evaluation and what they presented to us, thought  
9   that was not the best alternative and therefore went a  
10   different direction. And we supported that different  
11   direction.

12          Q.       Well, in my understanding they ultimately then  
13   went with ozonation; is that right?

14          A.       Right.

15          Q.       It's also my recollection that the company  
16   filed an initial report preferencing, if you will, the  
17   activated carbon, but then after the pilot study filed a  
18   revised report, if you will, switching gears and saying  
19   that ozonation now appeared to be the best choice.

20                   Are you aware of those studies?

21          A.       Right. Right.

22          Q.       What I'm not aware of -- I recall that the City  
23   of Warrensburg asked additional time to respond to one or  
24   both of those studies. Was there any formal response by  
25   the City of Warrensburg accepting, rejecting, accepting

1 with qualification the company's final conclusions. Do  
2 you know if you ever filed anything in that case, sir?

3 A. I know I wrote a letter to our attorney, Lee  
4 Curtis describing the fact that we were very satisfied  
5 with the process and were supporting it, yes. And I can  
6 also address the other issue that you talked about as far  
7 as starting with the one process and going to the other.

8 It was interesting because the engineers that  
9 helped us review it from the private plant there in  
10 Warrensburg actually said that the one that they were most  
11 familiar with was ozonation and that this other one was  
12 something that they actually had to call up some other  
13 places to find out. So they were very comfortable with  
14 both of them and actually, I think, maybe a little more  
15 comfortable with ozonation, so I think it worked out very  
16 well.

17 Q. But, in fact, the activated carbon, at least in  
18 the initial study, was a less-expensive alternative, was  
19 it not?

20 A. We -- I think I have those numbers here as far  
21 as what was presented. Yes, slightly less, yes.

22 Q. Now, let me get back to the formal filing. Are  
23 you aware of whether or not your letter or any other  
24 formal document got filed in that case indicating your  
25 concurrence in the company's course of actions?

1           A.       Once again, we did not ever file anything  
2       formally except through our attorney and so you'd have  
3       to -- I'd have to refer to him, actually.

4           Q.       So if nothing did get filed, you don't know  
5       why; is that right?

6           A.       That's correct. I don't know if anything was  
7       filed formally or not, to tell you the truth. I don't  
8       recall. I do know that at one point I did write a letter  
9       saying that we were happy with the process, actually  
10      appreciated the fact that the Commission allowed us to  
11      handle it locally and go through a process locally to gain  
12      ownership and involvement from the community so that we  
13      wouldn't have to have a fight about it after the plant was  
14      built. It was very, very positive.

15                   MR. ENGLAND: Thank you, sir. No other  
16      questions.

17                   JUDGE THOMPSON: Thank you, Mr. England.

18                   Questions from the Bench?

19                   Chair Lumpe?

20      QUESTIONS BY CHAIR LUMPE:

21           Q.       As you described your experience as positive,  
22      warrensburg still supports district-specific pricing; is  
23      that correct?

24           A.       Right. One of the things in that process we  
25      made real clear wasn't always popular, particularly with

1 some of the manufacturers who have high water bills, but  
2 taste and odor as one of them said in a local hearing,  
3 that the batteries cannot taste the water. That -- we  
4 said up front that if this plant is built, then the rates  
5 in Warrensburg would have to go up, because the ratepayers  
6 would end up paying for higher quality and City Council  
7 wrestled with that as to exactly how much is it worth.  
8 Some people were in agreement, some people were in  
9 disagreement. But when it came down to the final  
10 analysis, they were unanimously supporting the concept  
11 with the idea that, yes, we would pay for this ourselves.

12 Q. If STP were to be adopted, you would consider  
13 part of the task that all of the districts know in advance  
14 of specific capital projects of the all of the districts.  
15 Is that correct?

16 A. Yes. That's one of our objections is because  
17 that's very distasteful for us. The idea that we would  
18 go to St. Joe or any other community in Missouri and  
19 start talking about what they need in the way of water  
20 improvements just isn't part of what we're used to.

21 That is a very local issue. And we do not  
22 feel that one community should be going to another  
23 community about their water, their sewer, their other  
24 infrastructure. However, if people in Warrensburg are  
25 going to have to pay for that infrastructure, then

1 obviously we would feel like we have a right to have a say  
2 about what actually takes place in other communities.

3 And that is one of the things we're trying to  
4 avoid is actually going to other communities and pitting  
5 one against the other and us fighting over, you know, why  
6 would people in St. Joe come to Warrensburg and tell us  
7 what kind of water system we want. We wouldn't like that;  
8 we don't want to go there either.

9 But, once again, if you're going to pay for it,  
10 you're going to be inclined to want to see what the  
11 improvements are.

12 Q. So beyond a local advisory committee, some sort  
13 of group that represents the seven districts would be or  
14 at least there would be a plan that all of the districts  
15 would be made aware of that this is what we're planning  
16 for each district and then have some input into it. Is  
17 that what you're talking about?

18 A. No. Not at all. If you -- I'm talking about  
19 not having uniform rates or the single-tariff pricing so  
20 we don't have to have that kind of group. And if you do  
21 have that kind of group, I don't see how that would work  
22 as far as -- it's just going to be dysfunctional, because  
23 we're all going to have our own interest and that is why  
24 you come to the State level such as Public Service  
25 Commission, where you don't have that local interest.

1                   But if we're going to get seven, eight  
2 communities together and try to figure out who gets the  
3 plant this year and who gets it next year, my experience  
4 in public process is that won't work.

5           Q.       Okay. Three years ago when I was at the  
6 hearing in Warrensburg, there were comments to the -- that  
7 Warrensburg would like to buy out the system. Do you hear  
8 those kind of comments still today?

9           A.       You still hear the comment of we wouldn't have  
10 to be doing this if the city had bought out the system  
11 when the current company purchased it a few years ago.  
12 Yes, I still hear those.

13                   I -- that is not the direction we're headed  
14 right now. We are trying to work with the water company  
15 and be a partner in the process because it's not realistic  
16 to take it over unless they wanted to have that happen.  
17 So we're not pursuing it.

18                   We are really changing gears and really it got  
19 started with your order that, you know, to work on water  
20 quality there and try to work with them and be, once  
21 again, I guess I'm overusing the term, but really being  
22 involved and a partner in the process.

23           Q.       So you still would prefer to have the local --  
24 what is the word I want? Have the local in charge and pay  
25 for -- each local locality pay for its own?



1           A.       Very much so. Water is a very local issue. I  
2 mean, you know, like the other utilities, they're not  
3 interconnected. The water and sewer both are many times  
4 operated on municipal level and that is what really what  
5 I'm used to. And people still refer to it as city water  
6 even though it's not owned and operated by the city.

7                   They -- you hear comments about, well, we  
8 didn't get to vote on that, because we had a rate increase  
9 in sewer and the voters had to approve it. And so it went  
10 through the vote process and the voters approved it and  
11 then we were able to issue the bond and raise the rates  
12 based on their approval.

13                  So I think that is exactly what they're looking  
14 for, so I'm encouraging all of to us try to develop  
15 systems so the community has that involvement before it  
16 comes to you. And then with the idea that you are going  
17 to set the rates, we understand that, that's the way it  
18 should be but hopefully we'd come in together and say,  
19 yes, we agreed with this up front. This is exactly what  
20 we asked for. We had the cost. We had all of the  
21 information up front and actually say, please adopt the  
22 proposal of the water company

23           Q.       One final question.

24                   There are common costs and economies of scale  
25 because of these common costs and then the issue of the

1 infrastructure, so it seems to be an issue -- a different  
2 issue.

3           You do not -- or do you, object to the  
4 economies of scale that various common costs could  
5 provide?

6       A.       Not at all. It makes sense that those would  
7 all be spread out evenly. I mean, a lot of the things  
8 that -- the administrative process, what I call overhead  
9 or centrally located, spreading that out equally is very  
10 appropriate and we have no objection.

11           It is the high dollar capital improvements  
12 that really have an impact on the rates that you receive  
13 absolutely no benefit from if it happens in another  
14 community that -- no benefit, we don't want to pay the  
15 cost.

16           CHAIR LUMPE: Okay. Thank you, Mr. Landon.  
17 That's all I have.

18           JUDGE THOMPSON: Thank you, Chair Lumpe.  
19 Commissioner Murray?

20           COMMISSIONER MURRAY: Thank you.

21 QUESTIONS BY COMMISSIONER MURRAY:

22       Q.       Good afternoon, Mr. Landon.

23       A.       Hello.

24       Q.       Do you have an opinion as to whether we should  
25 be looking at making any adjustment to the allocation of

1 costs between the various customer classes in this  
2 proceeding?

3 A. I would tell you from my own experience and, in  
4 general, I haven't really thought about it as far as this  
5 case. And, in general, when I've operated water and  
6 sewer, we believe that you had a unit rate and that the  
7 people who used more obviously were going to pay for more,  
8 just because of how much they used but you did not have  
9 any kind of sliding scale up or down.

10 I've seen it go both ways. It's really a  
11 public policy and I don't have a real strong opinion. But  
12 if it is to occur, make sure it's based on the local  
13 customers and not customers outside of that base.

14 Q. Regardless of whether we adopt single-tariff  
15 pricing or district-specific pricing in this proceeding,  
16 do you think that the various customers should receive  
17 similar or equal rate increases?

18 A. Within the single district or throughout the  
19 state?

20 Q. Well, I'm saying regardless of which proposal  
21 we adopt. I'm just thinking in terms of between the  
22 various customer classes.

23 Have you given that any thought?

24 A. Yeah. Once again, if it's -- I think each  
25 district should pay for itself. And that one district

1    should not subsidize another.  I -- as far as a commercial  
2    customer will get a different rate than a residential  
3    customer, haven't given it a lot of thought.  My initial  
4    thought is, no, it should all be the same.

5               As far as should the rates be different in  
6    one community versus another community, I would tell you  
7    probably yes.  Because a cost of providing water in one  
8    community versus another is going to be different.  And  
9    that if it's higher cost in one community, then the rates  
10   are going to be higher.  That is just all part of it.

11              There might be other benefits, natural gas,  
12   electricity, you know, a lot of other things that come  
13   into play that might be different also.  I don't know.  
14   I'm shooting in the air now.  But I definitely think that  
15   the individual community should pay for the costs.

16              COMMISSIONER MURRAY:  Okay.  Thank you.

17              JUDGE THOMPSON:  Thank you, Commissioner  
18   Murray.

19              Commissioner Schemenauer?

20              COMMISSIONER SCHEMENAUER:  Thank you, Judge.

21   QUESTIONS BY COMMISSIONER SCHEMENAUER:

22       Q.       Good afternoon, Mr. Landon.

23       A.       Good afternoon.

24       Q.       The argument that has been put forth in this  
25   case is that St. Joseph has paid 11 percent premium on

1 their bills for years to support other districts,  
2 including Warrensburg. And now that they have this large  
3 liability they would like to spread some of that to the  
4 other districts. What do you think about that?

5 A. Well, first of all, that's false. We were  
6 subsidized at one point. In fact, we actually supported a  
7 17 percent rate increase, and I don't know if that is what  
8 was finally approved. I don't recall. But that was the  
9 number that I know was proposed when our experts indicated  
10 that Warrensburg ratepayers were not paying what it cost  
11 to provide water in Warrensburg.

12 However, as a result of within the last four or  
13 five years, three rate increases, the numbers that were  
14 presented to this Commission at a previous rate -- rate  
15 hearing was that right now Warrensburg is subsidizing  
16 other communities to the tune of over \$100,000 a year. I  
17 believe the figure was \$118,000.

18 And so right now we are actually subsidizing  
19 other communities and other communities are not  
20 subsidizing us. That is an old argument that occurred  
21 five years ago when I first came here. We concurred. We  
22 supported the idea that we would have a higher rate  
23 increase so we'd pay our own way, been very consistent  
24 throughout.

25 But right now we are actually putting in more

1 money into the coffers than it is costing to provide the  
2 service in Warrensburg based on the information I've  
3 gotten from the documents from the Public Service  
4 Commission.

5 Q. So you're not buying that argument?

6 A. I'm not buying the argument that other  
7 communities are subsidizing us at this point, no. And  
8 even if they -- even if they were subsidizing us, the  
9 numbers are so different and it still is bad news to have  
10 one community subsidizing the other and then, well, it's  
11 my turn so now I'm going to get everything I can get.  
12 That whole concept doesn't make the infrastructure  
13 improvements realistic.

14 The whole idea there is, well, if everybody  
15 else is going to improve it or pay for those improvements,  
16 and I've been paying for theirs, then that's where you get  
17 the term, well, I want it gold-plated then. I want the  
18 top shelf because I've had to pay for theirs. Now it's my  
19 turn and I'm not going second best.

20 And I think that is exactly what starts  
21 happening when you take turns. And people I talk to,  
22 that's -- they're saying, well, when my turn comes around,  
23 I'm going to get everything I can get. And this is bad  
24 public policy and it escalates the whole cost of the  
25 system for all of us.

1           Eventually we'll all have higher rates than  
2 they should be.

3           Q.       The term subsidization actually I guess refers  
4 to the profits generated by one district that are in  
5 excess of the authorized rate of return to the company.  
6 And you feel like Warrensburg right now is generating  
7 revenues above the authorized rate of return from Missouri  
8 American Water?

9           A.       The terminology you used is foreign to me.  
10 The numbers I've seen is what it costs to provide water;  
11 in other words, if you would go district specific, this is  
12 the cost, and the revenue generated by Warrensburg  
13 customers is higher than that cost, an annual rate of  
14 about \$118,000 a year.

15          Q.       Okay. And I don't know what the  
16 district-specific cost would be, if that includes the rate  
17 of return or not. I don't know either because --

18          A.       I do -- I do not know about the rate of return.

19          Q.       When we were in Warrensburg a few weeks ago for  
20 the public hearing, some of the citizens were still  
21 complaining about the bad odor and taste of the water. Is  
22 it improving any? I mean, the ozonation plan has been  
23 online since, I think, March; is that right?

24          A.       March, April, yes, it's my understanding.  
25 I'm not the best person to ask that, because, you know, I

1 provided you with bottled water. That's what I was in my  
2 office, my home system is filtered very well, personal  
3 choice. So let me tell you what I hear in the community.

4 The people have been there forever and ever who  
5 said they never had any objection to the water, they're  
6 used to it, et cetera, say that it still tastes the same.  
7 There has been a few people who have actually had the  
8 taste test, where they smell one cup of the old water and  
9 one cup of the new water and they said they were amazed as  
10 to the difference.

11 I think the real tell of this is our visitors,  
12 our new residents, our students, Whiteman Air Force Base,  
13 et cetera, that comes in and says, ooh, yuck. Or my  
14 mother, when she comes in and says, we've got to stop at  
15 the store before we get to your house to get water, then,  
16 you know, I know I'm in trouble.

17 But if we can avoid that, then we've been  
18 successful. If we haven't been totally successful, maybe  
19 we need to look at what the next step is. But do that in  
20 a local level and decide locally as to whether or not we  
21 need to do more things at the treatment plant, do the same  
22 thing all of the time with our sewer and other  
23 infrastructure.

24 Q. And then the last question. Your testimony  
25 indicates that Warrensburg, the City of Warrensburg



1 doesn't object to a rate increase to pay for the new plant  
2 that has been put in place there and am I assuming  
3 correctly that also they're not going to object to a rate  
4 increase to pay for inflationary expenses of the company  
5 that are normal?

6 A. That would -- you know, I can't ever promise  
7 you what the future is going to hold, because, as you  
8 know, you have different counsel, different communities.  
9 But right now that is the basis, yes. We will not object  
10 if we are not subject to paying for improvements in our  
11 communities and we're paying just the cost for providing  
12 water service in Warrensburg.

13 That would include inflationary increases in  
14 the future. We do the same with our sewer rates and other  
15 costs. But we have to justify them and you have a staff  
16 that we could work with to make sure that happens.

17 COMMISSIONER SCHEMENAUER: Okay.

18 Thank you. That's all.

19 JUDGE THOMPSON: Thank you, Commissioner  
20 Schemenauer.

21 Commissioner Simmons?

22 COMMISSIONER SIMMONS: No questions, Your  
23 Honor.

24 JUDGE THOMPSON: Thank you.

25 Any further questions from the Bench?

1                   Redirect, Mr. Franson?

2                   MR. FRANSON: Your Honor, I don't have any

3 recross at this time.

4                   JUDGE THOMPSON: Recross, of course.

5                   Mr. Coffman?

6                   MR. COFFMAN: I believe my colleague, Ms. Cook,

7 has a couple of questions.

8                   MS. COOK: Just a couple.

9                   Thank you, Your Honor.

10                  JUDGE THOMPSON: Ms. Cook?

11 CROSS-EXAMINATION BY MS. COOK:

12                  Q.       Sir, you attended the public hearing that was

13 held by this Commission in Warrensburg on May 31st, I

14 believe?

15                  A.       Yes.

16                  Q.       And if I recall, that is where you and I met?

17                  A.       Right.

18                  Q.       Would you agree with me that there were several

19 citizens who testified under oath that they still have

20 problems with the taste and odor in the Warrensburg water?

21                  A.       Yes. And I apologize. I don't think I

22 answered that question fully that there are still people

23 who have indicated that they do not like the taste and it

24 still has an odor, yes.

25                  Q.       And you've mentioned that you believe a large

1 percentage of those might be newcomers or visitors to the  
2 area and that locals may be used to the taste?

3 A. That's kind of what -- what you hear in  
4 formally with people, the people that have grown up with  
5 the water have a different opinion about it than the ones  
6 that are relatively new to the community.

7 Q. Do you happen to recall or would you agree with  
8 me that, I believe, the final witness at that hearing had  
9 been a resident of Warrensburg since having been a student  
10 at CMSU and that she testified under oath that in her side  
11 of town the tap water is has an odor and a bad taste and,  
12 in fact, makes her, quote, choke and need to vomit?

13 A. Yes

14 MR. ENGLAND: Objection.

15 MS. COOK: That's all I have, Your Honor.

16 JUDGE THOMPSON: What is your objection,  
17 Mr. England?

18 MR. ENGLAND: It's too late.

19 JUDGE THOMPSON: Mr. Conrad?

20 MR. CONRAD: No questions, Your Honor.

21 Thank you.

22 JUDGE THOMPSON: Mr. Deutsch?

23 MR. DEUTSCH: No questions, Your Honor.

24 JUDGE THOMPSON: Mr. Fischer?

25 MR. FISCHER: Yes. Just a couple.

1 CROSS-EXAMINATION BY MR. FISCHER:

2 Q. Mr. Landon, my name is Jim Fischer and I  
3 represent some of the water districts around the  
4 St. Joseph area.

5 In answer to a question from the Bench you  
6 mentioned that you didn't feel it was appropriate for  
7 Warrensburg to have to watch over the shoulder to see  
8 about the capital investments in other communities; is  
9 that right?

10 A. That's right. And vice versa.

11 Q. And one of the proposals that is being  
12 discussed in this docket is the idea that there would be a  
13 surcharge if the company had a new capital improvement  
14 that met a specific threshold for size and that there  
15 would be a surcharge on that community. Otherwise if they  
16 were smaller investments, they would be spread throughout  
17 the company's service territory.

18 Would you see the same problem of pitting one  
19 community against another needing to look over your  
20 shoulder if you were subject to a surcharge of that type?

21 A. I guess I'm not real sure what you mean by the  
22 surcharge. You mean a surcharge to pay for the additional  
23 costs?

24 Q. Yeah, if it was large enough, there would a  
25 surcharge; if it didn't meet a specific threshold then it

1 would be subject to being borne throughout the service  
2 territory.

3 A. Yeah. I -- to me it sounds I'm going answer  
4 that in my simplistic manner because I'm not an  
5 accountant, an expert. And that is, once again, if that  
6 surcharge means that Warrensburg ratepayers pay for the  
7 cost of providing water service in Warrensburg, I would  
8 support it. You can call it anything you'd like. But as  
9 far long as each district, their customers pay for their  
10 improvements in their district, yes.

11 And, once again, also to highlight on that,  
12 that if there are some common costs or minor improvements,  
13 we're always going to have that fire hydrant that needs to  
14 be replaced, et cetera, that that could be part of a  
15 uniform rate. I don't have any objection to that. It's  
16 the major capital improvements.

17 Q. And is it your understanding, sir, that in the  
18 past the Commission has used the single-tariff pricing  
19 approach where investments in Warrensburg or Joplin or  
20 wherever would be borne throughout the service territory?

21 A. Well, it's -- my understanding is that the  
22 Commission was heading in that direction but never  
23 formally adopted that principal. And that the last rate  
24 case that it was not adopted and that they would make a  
25 decision on the rate structure at this case.

1                   And so we do not support the concept that  
2   it's been uniform for us in our improvements. Our major  
3   improvements is in this rate case also. We haven't had  
4   any other major rate -- major improvements. Yes, they  
5   painted the tower and there has been some of those type of  
6   improvements but our major treatment improvement is right  
7   here before the Commission now.

8                   So to say that, well, last time we supported it  
9   and we're not this time is false. We've been very  
10  consistent throughout. I've had the privilege of paying  
11  Mr. Curtis many, many years to make the same argument.

12         Q.       I understand.

13                  Whatever system is used by the Commission for  
14  reflecting capital improvements and rates, do you think it  
15  would be helpful from your perspective if it was  
16  determined in advance the methodology for paying for those  
17  capital improvements on a going-forward basis?

18         A.       You mean that before the improvements are  
19  actually implemented or constructed that it's understood  
20  up front how they're going to be paid for?

21         Q.       Yes.

22         A.       Absolutely. I mean, what we have to do is we  
23  have to go to the voters. And when you go to the voters,  
24  you have to show them, what are they going to get and how  
25  much is it going to cost. If you don't show them those

1 two things, they're not going to approve it.

2 Now, if you can show them those, and they see a  
3 value in that and that the improvement and the cost of  
4 those improvements are consistent, then my experience is  
5 the voters will usually approve the proposal. So I think  
6 it's always important, that is, getting the community  
7 involved to give them an idea, an estimate of what the  
8 costs are going to be.

9 Now, when you're talking a private utility  
10 company, we're also well aware of the fact that that  
11 ultimate decision will not be made at that level but it  
12 would be the Commission afterwards. But if it works well,  
13 and the system works, then the community should not be, as  
14 a whole -- you're always going to have some people object  
15 to any rate increase. That's a given. But as a whole the  
16 community should not be objecting; they should actually be  
17 embracing it.

18 I mean, a good example of that is at the  
19 groundbreaking for our plant improvement, the mayor spoke.  
20 There was other community leaders there that spoke. I  
21 mean, we were part of it and very -- and you're not going  
22 to see the mayor get up now and say, well, but I don't  
23 want to pay for it. I got up and said this was a great  
24 idea, but I'm not going to pay for it. He's not doing  
25 that.

1           Q.       So if I understand your testimony, it's  
2   critical that you know in advance how you're going to pay  
3   for that and not be asked to set the rules after the  
4   construction is already completed?

5           A.       In my public process, yes. I understand where  
6   you're -- I think I understand where you're headed,  
7   because of the system with the Public Service Commission,  
8   where the rates are set afterwards. But even in that  
9   system I do believe, as it happened in Warrensburg, it is  
10  an excellent idea to let people know up front and get  
11  their involvement and support before you then bring it to  
12  the Commission at the appropriate time

13                   MR. FISCHER: Thank you. That's all I have.

14                   JUDGE THOMPSON: Thank you, Mr. Fischer.

15                   Mr. Zobrist?

16                   MR. ZOBRIST: No questions?

17                   JUDGE THOMPSON: Mr. England?

18                   MR. ENGLAND: Thank you.

19  RE CROSS-EXAMINATION BY MR. ENGLAND:

20           Q.       Mr. Landon, when was the last time, if you  
21  know, Warrensburg's water rates were actually set on their  
22  district-specific cost?

23           A.       Well, you know, district specific, my opinion  
24  it was -- it has always been district specific to some  
25  degree. And, once again, I -- I don't know exactly what



1 the rate structure has been. I do know that the rates  
2 have not been uniform. If you look at the different  
3 communities, the information I have they've never been  
4 uniform totally.

5 So as far as I've concerned they've always  
6 been somewhat district specific. I will say that we now,  
7 because of three rate increases in the last four or five  
8 years, our rates are substantially higher and we're  
9 paying more than our fair share than we were before. So  
10 adjustments have been made and I understand that. Exactly  
11 yes or no or exact date for your question, I do not know.

12 Q. Well, I asked the question because I think it  
13 was in response to Commissioner Schemenauer, you  
14 referenced a point in time where Warrensburg, you  
15 believed, was a contributor, if you will, of more revenues  
16 than the cost associated with serving Warrensburg. And I  
17 guess I just wanted to know if you know when was the last  
18 time your rates were actually set by this Commission based  
19 on your costs?

20 A. I do not know the answer. I don't know the  
21 basis of the Commission setting the rates exactly.

22 MR. ENGLAND: Okay. Thank you, sir.

23 No other questions.

24 JUDGE THOMPSON: Thank you, Mr. England.

25 Redirect, Mr. Curtis?

1 MR. CURTIS: Yes. Just a couple of questions.

2 REDIRECT EXAMINATION BY MR. CURTIS:

3 Q. I believe Mr. Zobrist and also Chair Lumpe  
4 asked you regarding your recommendation of the Commission  
5 utilizing a procedure such as it did for Warrensburg in  
6 the water quality case for capital improvements in any one  
7 district more than 20 percent of the existing rate base?

8 A. Right.

9 Q. I believe Chair Lumpe and Mr. Zobrist also  
10 asked you whether that would be -- is that your  
11 recommendation whether the Commission adopts a specific  
12 pricing mechanism or does uniform rates? And my question  
13 is, is your recommendation premised on DSP?

14 A. In my opinion, yes. Because if you go with  
15 uniform rates and you get us all in the room from all of  
16 the communities, that process would not work as far as  
17 having Warrensburg try to decide whether it would be  
18 appropriate to build something in any of the other  
19 communities.

20 So the idea here is that you would -- when a  
21 proposal was being made by the water company that was  
22 significant, that the community have an opportunity to  
23 take a look at it and get feedback or have input into it.

24 Q. So you don't think that procedure would really  
25 work if the Commission were to adopt uniform rates?

1           A.       No. It just you're not going to -- you're not  
2 going to get people together and agree and you're not  
3 going to have people traveling to St. Louis County in the  
4 future possibly with the idea we're going to tell them  
5 from Warrensburg what improvements they're going to have.  
6 I just don't see from a public process how that would  
7 work.

8           Q.       Now, with regard to this local process for  
9 major plant improvements in each district on a DSP basis,  
10 you're not suggesting that this process be a run like a  
11 plum sight for the local people, are you?

12          A.       No. And I think the water company  
13 representatives would agree that we didn't try to tell  
14 them what to do. We knew we weren't going to have -- and  
15 that's where the rubber stamp question comes from.

16                   We didn't approve anything. We knew we didn't  
17 have that authority. We weren't trying to say you had to  
18 bring it to city -- the City Council didn't take a vote.  
19 They didn't have an ordinance or resolution or anything  
20 like that in front of them. It was just all nodding,  
21 yeah, it sounds good to us.

22                   And so we know that these are company  
23 decisions. We know the rates are set by the Public  
24 Service Commission. What we're just saying is, let us  
25 have some input it up front before huge capital costs

1 occur and you can't turn the clock back and then say,  
2 well, now we don't like it.

3 Let's have that input up front and then if the  
4 decision is still made to go ahead with it, then we have  
5 the Commission to have that discussion.

6 MR. CURTIS: I have nothing further.

7 JUDGE THOMPSON: Thank you, Mr. Curtis.

8 I believe this witness can be excused.

9 MR. CURTIS: That's correct.

10 JUDGE THOMPSON: You are excused, sir. You may  
11 step down.

12 We will take a five-minute recess at this time.

13 Mr. England?

14 MR. ENGLAND: Would now be a good time to  
15 address at least one late-filed exhibit I believe we have?

16 JUDGE THOMPSON: Could we address that after  
17 recess?

18 MR. ENGLAND: Sure. Thank you.

19 (A recess was taken.)

20 JUDGE THOMPSON: Representative Chrismer?

21 REPRESENTATIVE CHRISMER: Yes, Your Honor.

22 JUDGE THOMPSON: We're going to give you an  
23 option, sir. You can either come forward and take the  
24 stand and be sworn and testify now, in which case counsel  
25 may choose to examine you, or if you would prefer, you may

1    reduce your statement to writing and mail it to the  
2    Commission and it will go into the file like many other  
3    written statements and letters we've received and will be  
4    available for review by all parties.  Whichever option you  
5    choose.

6                REPRESENTATIVE CHRISMER:  If I could, could I  
7    come forward, sir?

8                JUDGE THOMPSON:  Yes, sir.  You would prefer to  
9    testify today?

10               REPRESENTATIVE CHRISMER:  Yes, sir.

11               JUDGE THOMPSON:  Please take the stand, sir.

12               (Witness sworn/affirmed.)

13               JUDGE THOMPSON:  Please state your name.

14               THE WITNESS:  I'm Representative Rich Chrismer  
15    of the 16th District in St. Charles County.

16    REPRESENTATIVE RICH CHRISMER testified as follows:

17    QUESTIONS BY JUDGE THOMPSON:

18        Q.       Sir, are you presently a customer of Missouri  
19    American Water Company?

20        A.       No, I'm not.

21        Q.       Do you have some other reason to believe that  
22    the proposed rate increase will affect you?

23        A.       It will affect the people I represent, Your  
24    Honor.

25        Q.       Please proceed, sir.

1           A.       First of all, I want to thank Your Honor and  
2   the Commission members for allowing me to give the time.  
3   I will not be specific in any other area other than the  
4   rate design.

5                   I'm here on behalf of the people of the  
6   St. Charles county who I represent part of. I was not  
7   able to make your meeting in St. Charles, which I thank  
8   you so much for having that. I was out of the state at  
9   the time and I apologize for not making it at that point.

10                  The purpose of the Public Service Commission in  
11   many minds of the people who have contacted me since this  
12   decision was going to be made on their behalf by you has  
13   been shock. Not by you but by the thought their rates  
14   would increase at an incredible number.

15                  We look at the St. Charles County current rate  
16   holders, the current rate is \$21.91. The proposal would  
17   raise it to \$33.79. People in my community, people  
18   throughout the state, people throughout this country are  
19   fair. They really are good people. But to have an  
20   increase of that magnitude for a service that they are not  
21   going to be provided, they are not going to receive  
22   anything for their rate increase, is far beyond what we  
23   believe is fair.

24                  There is a proposal of a single-tariff pricing  
25   district-specific pricing. I did talk to my constituents

1   that called me and told them the difference.  They did not  
2   say they had an objection to a rate increase.  Rate  
3   increases are common in our county and they are all over  
4   the state on a myriad of issues and myriad of services.

5               I told them about the district specific and  
6   they thought that was much more fair.  If our community  
7   decided to put something forward that would need your  
8   approval, they would understand from the way we have  
9   structured our community, our county, that they would be  
10  paying a fair rate, but they would be receiving something  
11  for the price.

12              Have other communities helped pay for the roads  
13  that go through St. Charles County?  Of course they have.  
14  And so that's why the people do not have a problem with  
15  district-specific pricing, once I explained it to them.  
16  They do not understand single-tariff pricing at all  
17  because of the increased price.  It is rate shock that all  
18  of us relate to.

19              One of the questions that was asked by my  
20  constituents -- and I provide it to you and I know the  
21  answer -- is why didn't we in St. Charles County have the  
22  opportunity to have some say-so in the type of water  
23  system that was put into St. Joe.  Some people here have  
24  used the golden price versus maybe copper.

25              The reason that I've been told and maybe the

1 Commission and you, Your Honor, can clarify this for me is  
2 that normally communities do not have real input into  
3 systems other than to come before the Commission and say,  
4 we do not like the prices that we're going to be charged  
5 the. But as far as building the infrastructure, the  
6 communities evidently do not have any input.

7           If I'm wrong, I'd like to know that. Because  
8 we did not have any input into what type of structure  
9 St. Joe was going to put in. The cost sharing is  
10 something that is common in our country. And the people  
11 of our county feel that they do not mind paying an  
12 increase, a modest increase, if it's going to help the  
13 State -- not necessarily won't be helping Warrensburg; it  
14 won't be helping St. Charles.

15           But we are -- the people that I've talked to  
16 are of the opinion that we should help people. People I'm  
17 sure helped -- other communities did help St. Charles as  
18 it was growing and is continuing to grow. But fair is  
19 fair. If we're looking at a proposal by the Public  
20 Counsel of an increase from \$21.91 to \$23.71, it is an  
21 increase and people on fixed incomes have a concern about  
22 increases when they're not going to receive any benefit.

23           But as you go, as I have, on to talk to many  
24 people over the years I've represented my community,  
25 education is a good example. People, our senior citizens,



1 maybe they do not have children or grandchildren, maybe  
2 they have but they pay increased taxes, they pay increased  
3 property tax and they, in one sense, do not get any  
4 benefit out of it. But they do understand that the  
5 benefit is through the community. And so they pay  
6 personal property tax increases. They pay bond issue.  
7 They vote for them. Because they want better schools.

8 But they are getting some benefit. These  
9 people do not believe that a 50-plus rate increase is  
10 going to benefit them at all. They don't mind some  
11 sharing such as the Public Counsel position is 88.21 or  
12 8 percent generally something that they don't necessarily  
13 care for. No one likes to see their rate increase.

14 But if there is going to be a need for that, it  
15 should be a scaled-back position, something similar to the  
16 Public Counsel. And if St. Joe or the water company can  
17 help me understand and help the State understand that  
18 they're going to give my customers, my constituents, the  
19 people of my county, almost a 55 percent rate increase  
20 with very little or no benefit, I'd sure like to have  
21 someone explain it to me.

22 Thank you very much, Your Honor.

23 JUDGE THOMPSON: Thank you, Representative  
24 Chrismer.

25 Questions from the Bench?

1                   Chair Lumpe?

2                   CHAIR LUMPE: I have no questions for  
3 Mr. Chrismer.

4                   JUDGE THOMPSON: Vice-Chair Drainer?

5                   VICE-CHAIR DRAINER: I want to thank you for  
6 your comments, sir. I would like to tell you so you don't  
7 feel a lack of response from Commissioners, you have  
8 raised some questions you'd like answers to. We have  
9 obviously every party here today and our staff that can  
10 speak to you. We are not allowed in the course of a  
11 hearing to be responding to questions from any witness.

12                   So please do not think we are being  
13 discourteous to you if we do not have a running dialogue  
14 with you. It's just not something that our Judge will  
15 allow us to do. Having said that, we'll take your comment  
16 into consideration.

17                   Thank you.

18                   THE WITNESS: Thank you very much. And  
19 probably the numbers of the commissions are probably not  
20 used to me being brief. Three of the members I had the  
21 honor of serving with and I was never very brief.

22                   JUDGE THOMPSON: Thank you, Vice-Chair Drainer.  
23 Commissioner Murray?

24                   COMMISSIONER MURRAY: I have no questions.

25                   JUDGE THOMPSON: Commissioner Schemenauer?

1 COMMISSIONER SCHEMENAUER: No questions.  
2 Thank you for your comments.  
3 JUDGE THOMPSON: Commissioner Simmons?  
4 COMMISSIONER SIMMONS: No questions.  
5 Thank you very much.  
6 JUDGE THOMPSON: Thank you for being brief.  
7 Questions from counsel before you go?  
8 Thank you, sir.  
9 (Off the record.)  
10 JUDGE THOMPSON: Mr. England has something he'd  
11 like bring up.  
12 MR. ENGLAND: Unlike my colleague, Mr. Curtis,  
13 I just brought a bunch of copies to the hearing room and  
14 would like to get them off of my hands as quickly as  
15 possible. This is the late-filed exhibit requested by  
16 Commissioner Drainer of Witness Stout regarding rate  
17 design comparison.  
18 JUDGE THOMPSON: Let's go ahead and mark it.  
19 (EXHIBIT NO. 72 WAS MARKED FOR IDENTIFICATION  
20 BY THE COURT REPORTER.)  
21 JUDGE THOMPSON: Let's go on the record. First  
22 of all, we have Exhibit 72, a late-filed exhibit requested  
23 by the Commission and Mr. England has tendered that.  
24 Any objections to receipt of Exhibit 72?  
25 MR. CONRAD: Your Honor, please, I don't know

1     that we would end up having an objection, but I'd like to  
2     have our consultant have an opportunity to look at it.

3                 JUDGE THOMPSON:   Very well.   Why don't we do  
4     this.   We will defer deciding whether this will be  
5     received into the record until sometime tomorrow?

6                 MR. CONRAD:   That would be fine.

7                 JUDGE THOMPSON:   So everyone can have their  
8     people review this.   And I should also add in the event  
9     that -- it's my understanding Mr. Stout prepared this?

10                MR. ENGLAND:   That's correct.

11                JUDGE THOMPSON:   In the event that anyone wants  
12     to cross-examine Mr. Stout with respect to this exhibit,  
13     you'll need to make a motion to that effect at the time  
14     that we determine whether or not the exhibit will be  
15     received.   How is that?

16                Okay.

17                MR. CONRAD:   Accepted.

18                MR. FRANSON:   Your Honor, could we make a note  
19     and hopefully everyone will agree that before, I'll say,  
20     pass towards tomorrow to another subject, from rate design  
21     to whatever is next, that this Exhibit 72 is dealt with  
22     prior to that time?

23                JUDGE THOMPSON:   I will do my best to remember  
24     that, if you'll promise to help me.

25                MR. FRANSON:   Yes, sir.

1 JUDGE THOMPSON: Also, Mr. England, could I get  
2 you just to identify on the record the schedule that you  
3 mentioned to Chair Lumpe as responsive to her request for  
4 a different late-filed exhibit so that it will be on the  
5 record?

6 MR. ENGLAND: Earlier in the proceeding Chair  
7 Lumpe had requested information again of Witness Stout  
8 regarding as I understand, the costs of the company broken  
9 down between those that are directly assignable to the  
10 districts and those that are what we have termed common  
11 and joint and are allocated to the various districts.

12 It is my understanding that Table 1B, four  
13 pages, attached to the direct testimony of Mr. Stout and  
14 denominated as Schedule WMS-1 contains that information.  
15 But as I indicated off the record, if there is additional  
16 information that the Chair would like, we'd be happy to  
17 provide it.

18 JUDGE THOMPSON: Thank you, sir. I think we  
19 finished all of the housekeeping matters we need to take  
20 up.

21 (Witness sworn/affirmed.)

22 JUDGE THOMPSON: Please be seated and spell  
23 your name for the reporter.

24 THE WITNESS: My name is James Busch,  
25 B-u-s-c-h.

1 JUDGE THOMPSON: Thank you.

2 Mr. Coffman?

3 JAMES A. BUSCH testified as follows:

4 DIRECT EXAMINATION BY MR. COFFMAN:

5 Q. Would you state and spell your name for the  
6 record?

7 A. My name is James A. Busch, B-u-s-c-h.

8 Q. And by whom are you employed?

9 A. I'm employed by the Office of Public Counsel.

10 Q. In what capacity?

11 A. I am a public utility economist.

12 Q. And are you the same James A. Busch that has  
13 caused to be filed in this matter direct, rebuttal and  
14 surrebuttal testimonies labeled Exhibits No. 27, 28 and 29  
15 respectively?

16 A. I am.

17 Q. Do you have any corrections to your direct  
18 testimony?

19 A. Yes. I have some corrections to my direct  
20 testimony.

21 On page 10, line 2, near the end of that line  
22 it says recover revenues equal only a 10 percent. Only  
23 should be the word two, t-o. So that should read that  
24 would recover revenues equal to a 10 percent -- actually  
25 the A should be gone too -- equal to 10 percent above its

1 current revenues.

2 Q. Okay. Do you have another correction?

3 A. Yes. On page 11, line 13, I have the word  
4 estimated. That should be estimate. The D should be  
5 omitted. And I have two more corrections. On page 12,  
6 line 16, the answer reads utilizing STP approach, the word  
7 almost was omitted before the word every. So almost every  
8 customer. And on line 23 of that same page, 80 percent  
9 should be 70 percent.

10 MR. FISCHER: What was the last one?

11 THE WITNESS: On line 23 where it says  
12 80 percent, that should be 70 percent.

13 And we've -- I think we sent on the letter  
14 acknowledging them on Schedule JAB-2 that there was some  
15 corrections to that schedule, so we just submitted the  
16 whole schedule as a corrected Schedule JAB-2.

17 MR. COFFMAN: Your Honor, at this point I have  
18 copies of a revised Schedule JAB-2. I believe this has  
19 been submitted to all of the parties and sent to the  
20 Commission, but I have extra copies if anyone has not yet  
21 replaced that schedule.

22 JUDGE THOMPSON: We need one more copy here at  
23 the Bench.

24 Have the parties -- were they given this  
25 sufficiently in advance to respond or object or review it?

1 MR. ENGLAND: Some weeks ago.

2 JUDGE THOMPSON: Okay. Very good.

3 MR. COFFMAN: We sent it out the next day after  
4 testimony was filed or shortly thereafter.

5 JUDGE THOMPSON: The corrections you went  
6 through before, they were all to the direct?

7 MR. COFFMAN: That's correct.

8 JUDGE THOMPSON: Okay. Thank you.

9 MR. COFFMAN: I suppose I need to submit three  
10 copies to the reporter as well and I have two here.

11 (EXHIBIT NO. 73 WAS MARKED FOR IDENTIFICATION  
12 BY THE COURT REPORTER.)

13 BY MR. COFFMAN:

14 Q. Mr. Busch, do you have any corrections to your  
15 rebuttal or surrebuttal testimonies?

16 A. No.

17 Q. Okay. With the corrections that we have just  
18 gone through with the questions and answers contained in  
19 Exhibits 27, 28 and 29 still be your testimony today based  
20 upon your knowledge, information and belief?

21 A. Yes.

22 MR. COFFMAN: I would then tender Mr. Busch for  
23 cross-examination and offer into the record Exhibits 27,  
24 28, 29 and 73.

25 JUDGE THOMPSON: Thank you. Do I hear any



1 objections to the receipt of Exhibits 27, 28, 29, 73?

2 (No response.)

3 JUDGE THOMPSON: Hearing none, those exhibits  
4 are received and made a part of the record of this  
5 cross-examination.

6 (EXHIBIT NOS. 27 THROUGH 29 AND NO. 73 WERE  
7 RECEIVED INTO EVIDENCE.)

8 JUDGE THOMPSON: Mr. Franson, I believe you're  
9 up first.

10 MR. FRANSON: Thank you, Your Honor.

11 CROSS-EXAMINATION BY MR. FRANSON:

12 Q. Afternoon, Mr. Busch.

13 A. Good afternoon, sir.

14 Q. Have you been present during some of the  
15 testimony in this hearing?

16 A. Yes.

17 Q. And have you heard some of the testimony and  
18 reviewed some of the testimony that was filed about the  
19 feeling of some people that St. Joseph, the City of  
20 St. Joseph over the last few years has been subsidizing  
21 the other districts?

22 A. Yes, I believe there has been testimony to that  
23 effect.

24 Q. And as part of your studies and as an  
25 economist, have you had the opportunity to review the

1 documentation both from Public Counsel and Staff and the  
2 company and any others regarding that question?

3 A. What are you --

4 Q. Well, any cost-of-service studies, anything  
5 that is generated that talks about the actual cost of  
6 service to the district?

7 A. Yes. I've reviewed the cost.

8 Q. Is the St. Joseph district currently paying  
9 above or below its cost of service?

10 A. I believe St. Joe is currently paying slightly  
11 above their cost of service.

12 Q. And do you know whether or not in the last  
13 several years the City of St. Joseph has, in fact, been  
14 subsidizing other districts by paying above their cost of  
15 service?

16 A. Um, I think they have probably been subsidizing  
17 probably since about '95 when they were merged with  
18 Missouri City Waters.

19 Q. So before that they weren't part of Missouri  
20 City Waters or Missouri American Water Company?

21 A. St. Joseph was a part of Missouri Water  
22 Company, along with Joplin. And then there was a merger  
23 that added the other five districts in, I believe, 1995.  
24 That was the first rate case of which St. Joseph was a  
25 part of the seven districts that we are now currently

1 discussing.

2 Q. I'd like to direct your attention to two  
3 places. The first one is page 8 of your direct and then,  
4 once you get there, I need to direct your attention to  
5 page 5 of your surrebuttal. If you could look at both of  
6 those, please.

7 A. I have page 8 in my direct and page 5 of my  
8 surrebuttal.

9 Q. Okay. On page 8 of your direct, there on  
10 line 5, could you read that question?

11 A. On line 5, my question is, what is Public  
12 Counsel's recommendation of the appropriate rate structure  
13 to collect the Commission-approved revenues?

14 Q. And what is the answer to that?

15 A. The answer is, once the Commission determines  
16 the proper costs, rate should be set within the following  
17 guidelines.

18 Q. Okay. Let me stop you just a moment. The  
19 bottom line is, the Public Counsel came up with a proposal  
20 that it views as a compromise between single-tariff  
21 pricing and the district specific?

22 A. Yes, we've come up with this.

23 Q. What is the ultimate goal in the view of the  
24 Public Counsel's office? Is it to always stay somewhere  
25 in between or is it ultimately the district-specific

1 pricing?

2 A. For this company?

3 Q. Yes.

4 A. For this company the goal of Public Counsel is

5 to develop a rate structure that will continue to balance

6 the -- balance the needs of the consumers of all of the

7 districts.

8 Q. Well, at the current time, what is that? Is

9 it district specific or is it something in between

10 single-tariff pricing and district specific or is it

11 single tariff pricing?

12 A. Currently, right now, we are in a compromise.

13 Q. Okay. Now, on page -- well, my question is, is

14 there an ultimate move toward district-specific pricing?

15 Is where that where OPC wants to go?

16 A. We are moving toward district-specific pricing.

17 Q. And that is the specific goal ultimately of

18 Office of Public Counsel?

19 A. Continuing the movement towards?

20 Q. Yes.

21 A. Yeah. We would continue to, yeah, move towards

22 district-specific pricing.

23 Q. Okay. Let me turn your attention in your

24 direct testimony to page 7, lines 1 through 7. Could you

25 review that, please.

1           A.       You said direct, page 7, lines 1 through 7?

2           Q.       Yes. And actually you might go back to page 6,  
3 lines 22 to 23 and review that question. And then if you  
4 could review your answer, please. And please tell me when  
5 you've had that opportunity?

6           A.       I've reviewed it.

7           Q.       Okay. Do I understand correctly that in  
8 order to avoid rate shock in this case specifically in  
9 St. Joseph, it's all right to make ratepayers in other  
10 districts overpay above and beyond their cost of service?

11          A.       I believe the answer to that question is no.

12          Q.       Well, in fact, isn't it true that you say on  
13 page 7, line 6 through 7, the cost of service is simply a  
14 guide used to set rates?

15          A.       I do -- I do say that.

16          Q.       Okay. But is it a guide that can be  
17 disregarded if you so choose to do so?

18          A.       I don't believe that it should be disregarded.

19          Q.       Now, isn't it true that in your direct  
20 testimony you initially recommended a 10 percent rate  
21 increase for the City of Joplin?

22          A.       That is correct, because at that -- at the time  
23 that my direct testimony was being -- was done, we were --  
24 I was basing that on the cost-of-service study done by  
25 Ms. Hu, which was utilizing the company's numbers at that

1 time that we had.

2 Since that time we've had a prehearing  
3 conference which has lowered is the overall revenue  
4 requirement and which has then -- which is reflected in  
5 my rebuttal testimony as our ultimate rate goal.

6 Q. And as part of that, didn't you change your  
7 recommendation so that the City of Joplin will not have a  
8 rate increase at this time?

9 A. In my rebuttal testimony, the City of Joplin  
10 does not get a rate increase.

11 Q. But, however, in your direct on page 8, isn't  
12 it true that you said that no district should receive a  
13 decrease when others receive increases?

14 A. That is part of a statement that I made.

15 Q. Okay. Can that statement stand on its own?

16 A. Could it stand on its own?

17 Q. Yes.

18 A. It could.

19 Q. So isn't it also true that the City of Joplin  
20 is, in fact, already paying well over its cost of service?

21 A. Currently the City of Joplin is paying more  
22 than its cost of service.

23 Q. And isn't it also true if they do not get any  
24 kind of decrease to bring them to their cost of service,  
25 that they will, in fact, be subsidizing other districts

1 within the Missouri American Water Company system?

2 A. Based on the cost-of-service study done by our  
3 office and our rate design philosophy, the City of Joplin  
4 will be providing certain support to other districts by  
5 not receiving a rate increase -- or a rate decrease.

6 Q. Okay. Why is this kind of subsidization okay  
7 and the subsidization for single-tariff pricing is not?

8 A. We have -- this company in these district have  
9 been moved toward single-tariff pricing which has skewed  
10 the revenues collected from the different districts.  
11 When we then move back towards district-specific pricing,  
12 because of various issues that we've talked about like  
13 economies of scale and such, there are certain small  
14 districts that pay -- that the cost of providing service  
15 there is greater.

16 And under the -- one of the goals of a  
17 single-tariff pricing is to have the larger districts  
18 provide certain support for the smaller districts. When  
19 we moved back from an STP which we are currently under to  
20 a district-specific price, those districts are due to  
21 receive or not due to receive -- those districts could  
22 ultimately pay substantially higher rates due to the  
23 movement forward district-specific cost?

24 So in order to alleviate those concerns, if we  
25 could find a situation where we don't necessarily have to

1    increase the rates to a district, they are technically  
2    moving closer to their cost of service and it also  
3    alleviates the concerns of paying -- of the smaller  
4    districts that would have a substantial rate shock, they  
5    would not have that rate shock at this time.

6       Q.       But it's still the form of subsidization --

7       A.       Yes, it is.

8       Q.       -- based on the cost?

9       A.       A form of support.

10      Q.       Okay. Could you turn to page 9, line 23, going  
11    on to page 10, line 3. Could you review that, please.

12               JUDGE THOMPSON: What lines did you say,  
13    Mr. Franson?

14               MR. FRANSON: I'm sorry, Your Honor. Page 9,  
15    line 23 through page 10, line 3, and this is of  
16    Mr. Busch's direct testimony.

17               JUDGE THOMPSON: Thank you.

18               THE WITNESS: Okay. I've reviewed that.

19    BY MR. FRANSON:

20      Q.       Moving on on page 12, lines 1 through 7, could  
21    you review that, please.

22      A.       Okay.

23      Q.       Okay. Is it correct that you propose to go  
24    halfway on the inter-class cost of service?

25      A.       Yes, we propose that currently each class



1 within the district is paying a certain percent of the  
2 cost and that with the class cost-of-service study  
3 performed by our office in order to move them towards that  
4 cost of service, it is a halfway movement.

5 Q. Why do you only go halfway?

6 A. Well, because there are some -- there could  
7 be some substantial increases to certain classes within  
8 certain districts due to single-tariff pricing, again,  
9 because when you look at single-tariff pricing on a  
10 company-wide basis, there are different class cost  
11 structures within each district.

12 So when you combine those all in two just a  
13 company-wide basis then when you shift those out on a  
14 district basis, you could have some substantial shifts.  
15 So to alleviate some of those concerns of high increases  
16 to certain classes within a district, we proposed a move  
17 only halfway at this time.

18 Q. Isn't it true that the residential class  
19 benefits the most from going only halfway in this  
20 particular case -- actually in every case here that we  
21 have, in every single district, isn't it residential that  
22 benefits the most?

23 A. I believe because of the -- due to our class  
24 cost-of-service study, the residential consumers would  
25 benefit regardless of any type of shift towards

1 district-specific class cost of service.

2 Q. My question is, the residential class, do they  
3 benefit the most of any other class in each district or do  
4 you know the answer to that?

5 A. I think they probably benefit. The  
6 residential, I think, benefit in each district.

7 Q. Do they benefit more than any other class?

8 A. Yes, yes.

9 Q. So they benefit the most?

10 A. Yes.

11 Q. Is that why you're only recommending the going  
12 halfway toward actual cost of service?

13 A. No.

14 Q. On your rebuttal testimony can we go to page 3,  
15 lines 3 through 4.

16 A. Rebuttal 3 through 4?

17 Q. Yes, sir.

18 A. Yes, sir.

19 Q. And have you had an opportunity to review that,  
20 as well as the question that begins on page 2, lines 20  
21 through 23 and carrying over on lines 1 and 2 of page 3?

22 A. Yes I reviewed that.

23 Q. Okay. What is the primary goal of  
24 single-tariff pricing in your opinion?

25 A. In my opinion I would believe the -- the

1 ultimate goal?

2 Q. Yes. Or --

3 A. Or the goal?

4 Q. Yes.

5 A. The goal of single-tariff pricing would be to  
6 spread the costs out among all of the customers within a  
7 company.

8 Q. And let me ask you of rate making in general.  
9 What is the primary goal of rate making in general?

10 A. I would believe that the primary goal of rate  
11 making in general is to try to come up with economic  
12 efficiency but also looking to equity and affordability  
13 concerns.

14 Q. Okay. Have you had the opportunity to review  
15 the testimony of Mr. Hubbs, specifically his rebuttal  
16 testimony?

17 A. I've read Mr. Hubbs' rebuttal testimony.

18 Q. Okay. And Mr. Hubbs' testimony at page 3,  
19 lines 1 through 3, he stated that he is of the opinion  
20 that the major goal of rate making is to design rates to  
21 recover the allocated cost of service from those causing  
22 those costs to be incurred.

23 Do you agree or disagree with that statement?

24 A. I'm sorry. Could you repeat where that was at?

25 Q. Certainly. It's on page 3 of Mr. Hubbs'

1     rebuttal, lines 1 through 3, and the question he's  
2     responding to on page 2 on 20 through 21 is, do you  
3     believe the longer-term stability in rates justifies  
4     continued use the STP? And his response is, no, I do not.  
5     I am of the opinion that the major goal of rate making is  
6     to design rates to cover the allocated costs of service  
7     from those causing those costs to be incurred.

8                     Do you need a copy of Mr. Hubbs' testimony?

9             A.       No, I'm looking at it.

10            Q.       Okay. My question is, do you agree or disagree  
11     with this statement?

12            A.       I disagree.

13            Q.       Why do you disagree?

14            A.       I believe it's a goal of rate making. I do not  
15     believe it's the major goal.

16            Q.       What is the major goal?

17            A.       I think that the major goal would be to balance  
18     economic efficiency with equity and affordability  
19     concerns.

20            Q.       Has the PSC ever made this finding that you  
21     just articulated to your knowledge as the purpose of rate  
22     making?

23            A.       Not to my knowledge.

24            Q.       Okay. In your testimony, you make reference to  
25     equity and fairness. Throughout your testimony actually,

1 but as an example, page 3, line 5, and page 3, line 19, do  
2 you need some time to review that?

3 A. I see those references.

4 Q. What do you mean when you use the word equity?

5 A. Equity in that term is basically fairness to  
6 all.

7 Q. That includes all classes of customers?

8 A. Yes.

9 Q. And how do you personally determine as part of  
10 your work whether or not a rate is equitable?

11 A. We use the -- one of the goals that we -- or  
12 tools that we use is the class cost-of-service studies.

13 Q. But isn't that a subjective matter ultimately  
14 once the class cost of service is done as to what in the  
15 personal opinion of the individual is equitable or not?

16 A. Yes.

17 Q. Is there any difference between the way you  
18 define equitable and just keeping rates as low as  
19 possible?

20 A. Excuse me. Could you repeat, that please?

21 Q. Okay. Is there any difference in your opinion  
22 in the way you look at something as a equitable and  
23 determining that in this case versus just simply keeping  
24 rates as low as possible?

25 A. Is there a difference between -- let me make

1     sure I understand what you're asking.

2             Is there a difference between equitable --

3     Q.     Equitable rates?

4     A.     -- equitable rates --

5     Q.     And simply keeping rates as low as possible?

6     A.     Yes. There is a difference between those two.

7     Q.     What is that difference?

8     A.     Well, because you may have -- because you may

9     not be able to keep the rates as low as possible in

10    certain situations. But it still would be an equitable

11    adjustment.

12    Q.     Would you turn in your rebuttal to page 8,

13    line 7 through 16?

14    A.     Rebuttal 8, 7 through 16?

15    Q.     Yes, sir.

16    A.     Yes, sir. I'm there.

17    Q.     Okay. Could you review line 7 through 16,

18    please, for a moment?

19    A.     Okay.

20             I've reviewed those lines.

21    Q.     Okay. Now, ultimately are these just your

22    arbitrary determinations based on your concept of fairness

23    and affordability or did you apply some other standard

24    when you imposed these limits that you refer to in line 7

25    through 16?

1           A.       I do not have a set standard that I determine  
2 these things for. This was developed as our proposal.

3           MR. FRANSON: I don't believe I have any  
4 further questions, Your Honor.

5           JUDGE THOMPSON: Thank you, Mr. Franson.  
6 Mr. Conrad or Mr. Finnegan?

7           MR. FINNEGAN: Mr. Finnegan this time. Just a  
8 couple of questions, Your Honor.

9 CROSS-EXAMINATION BY MR. FINNEGAN:

10          Q.       Turn to page 4 of your surrebuttal, Exhibit 29.

11          A.       You said page 4, sir?

12          Q.       Page 4.

13          A.       Okay.

14          Q.       The lines 16 through 18.

15          A.       Yes, sir.

16          Q.       Okay. I believe you indicate there that but  
17 for the move to single-tariff pricing, STP, five years  
18 ago, the increases for the districts other than St. Joe  
19 would be relatively minor at this point?

20          A.       Yes, that's what I indicate there.

21          Q.       Do you know what percentage of the increase in  
22 this case is relates to the St. Joseph treatment plant?

23          A.       I don't believe I can recall the exact  
24 percentage but I know it's a rather large percentage of  
25 the increase of this is due to the St. Joseph plant. I

1 know that there is other investment in other districts.

2 Q. I noticed on your direct testimony at page 10  
3 you had a list of improvements in the other districts.

4 A. Uh-huh. Yes. That's on page 10, I believe.

5 Q. And assuming that all of the districts had had  
6 rates set that produced their cost of service, then there  
7 would be a need to increase their cost based on the  
8 investment or to provide a return on the investment from  
9 these investments?

10 A. I'm sorry?

11 Q. If I'm -- I'll start that over again.

12 In the other districts, assuming that their  
13 rates were based on their cost of service under  
14 district-specific pricing at this point in time, then  
15 we're talking about an increase to provide a return in  
16 each district on the investment that was put in those  
17 districts since the last rate case?

18 A. Make sure I understand what you're saying.

19 If we were in the '97 case that they were on  
20 district-specific rates and then they had this level  
21 investment, they would have to have, you know, some sort  
22 of an increase, then, to recover these additional rates.

23 Q. Right.

24 A. Or these additional investments with new rates.

25 Q. Yes.



1           A.       Yes.

2           Q.       And, of course, I think there is some  
3 additional operating expenses and general expenses that  
4 would --

5           A.       Right.

6           Q.       -- be applicable to each of the districts?

7           A.       Yes.

8           Q.       But there would be nothing in there for them to  
9 pay for St. Joseph?

10          A.       There would be nothing in there for them to pay  
11 for the St. Joseph plant.

12          Q.       And St. Joseph at its cost of service if it had  
13 district-specific rates from the last case cost of  
14 service, it would be just seeing an increase based on  
15 plant and whatever else, operating cost?

16          A.       That is correct. That is correct.

17          Q.       But is there any way to show what level this  
18 would be on each of these districts or not?

19          A.       Is there any way to show what that percentage  
20 rate increase would be?

21          Q.       Yes.

22          A.       There may be a way to show that, I didn't show  
23 that.

24                 MR. FINNEGAN: That's all of the questions.

25                 JUDGE THOMPSON: Thank you, Mr. Finnegan.

1                   Mr. Curtis?

2   CROSS-EXAMINATION BY MR. CURTIS:

3           Q.       Mr. Busch, please turn to page 13 of your  
4   direct.

5           A.       Okay.

6           Q.       Looking at line 3 where the question is,  
7   how would you respond to argument that the ratepayers in  
8   St. Joseph district had been subsidizing rate payers in  
9   the other districts. Do you see that?

10          A.       Yes.

11          Q.       And you reference, of course, the merger of --  
12   and I believe that would Missouri Cities Water into what  
13   was, I guess, at that time the Missouri American Water  
14   system in 1995?

15          A.       Yes.

16          Q.       Which districts were composed of the Missouri  
17   Cities Water Company at that time prior to the merger?

18          A.       As far as I know, the Missouri Cities Water  
19   prior to the merger were Warrensburg, Parkville, Platte  
20   County, Mexico, Brunswick and St. Charles.

21          Q.       Correct. And who was in the Missouri American  
22   system?

23          A.       That would be St. Joseph and the Joplin  
24   district.

25          Q.       Okay. So you'd say prior then to 1995,

1 st. Joseph could not have been subsidizing any of the five  
2 Missouri Cities districts?

3 A. That is correct.

4 Q. It could have been subsidizing or being  
5 subsidized only by Joplin, the only other district in  
6 their system?

7 A. If there was any subsidization or support given  
8 prior to that, which I'm not aware of, that could only  
9 come from Joplin.

10 Q. Please refer then to your schedule JAB-3 in  
11 your direct.

12 A. Yes, sir.

13 Q. And what I'd like to do is take a look at,  
14 perhaps, the level of subsidization that has occurred in  
15 St. Joseph. And you have in that last column OPC's  
16 WO-98-204 cost-of-service study. That would be, I guess,  
17 roughly the current cost of service up to this rate case?

18 A. That -- the third column? The one that says  
19 OPC.

20 Q. The third, yes. OPC's, yes?

21 A. I believe that was the cost-of-service study  
22 that was performed by the Public Counsel in the rate  
23 design case that was spun off of the last rate case.

24 Q. Correct. But that reflects, does it not, where  
25 current rates are or at least the cost of service up until

1 any new plant additions in this case?

2 A. According to Public Counsel's cost-of-service  
3 study.

4 Q. Right. And would these be -- and taking a look  
5 at current revenue column, the revenue you have there for  
6 St. Joseph of \$9.5 million --

7 A. Yes.

8 Q. -- is that what they're currently paying?

9 A. I think that -- based on the data I had at that  
10 time, that would be basically what they're collecting --  
11 the company is collecting from the district of St. Joseph.

12 Q. Today?

13 A. Yeah, today.

14 Q. On an annualized basis?

15 A. Uh-huh.

16 Q. Okay. And those were rates that were set by  
17 this Commission in the '97 rate case?

18 A. I believe so.

19 Q. Okay. Can you roughly calculate the total  
20 amount of annual subsidy that St. Joseph would be paying  
21 from this schedule? Would you accept it appears to be  
22 about \$920,000 a year?

23 A. It looks like about 920,000 above their cost --  
24 according do Public Counsel's cost-of-service study, yes.

25 Q. And that has been occurring since the '97 rate

1 case up to present time. So maybe two and a half years?

2 A. Yes.

3 Q. And previous years for '95, '96 and a portion  
4 of '97, post-merger of the two companies, do you know what  
5 subsidization level St. Joe was providing, if any, at that  
6 time?

7 A. I am not aware of any.

8 Q. Take a look at Warrensburg column now.

9 A. Okay.

10 Q. Warrensburg, per your schedule, is currently  
11 paying on an analyzed basis 1.8 million.

12 A. Correct.

13 Q. Is that right?

14 A. Yes. Correct.

15 Q. And their cost of service per the WO-98-204 is  
16 1,613,000. Correct?

17 A. Yes.

18 Q. Would you accept that that is a subsidization  
19 level Warrensburg is paying annually of about \$193,000 per  
20 year?

21 A. It's close to that --

22 Q. Around 200; is that right?

23 A. -- if my math is right.

24 Q. Do you know how many customers there are in  
25 Warrensburg?

1           A.       I believe I had that attached to my direct  
2 testimony on page 2. I think Warrensburg has roughly -- I  
3 think I said 5,207 residential, not quite 600 commercial,  
4 probably just under 6,000 total customers.

5           Q.       And what is the size of St. Joseph?

6           A.       Combined, over 30,000.

7           Q.       Over 30. So would you say that that would be  
8 roughly a magnitude of -- if there are 6,000 total  
9 customers in Warrensburg and approximately 30,000 in  
10 St. Joe, that would be a magnitude of five to one?

11          A.       Yes.

12          Q.       Okay. If we used a five factor and multiplied  
13 that times 193,000, what would you get in the way of  
14 subsidization that Warrensburg is providing on a relevant  
15 scale to St. Joseph?

16          A.       You're asking me to multiply --

17          Q.       Five times 193,000.

18                   MR. ZOBRIST: How about 965?

19                   THE WITNESS: Just under a million?

20 BY MR. CURTIS:

21          Q.       Yeah. \$965,000.

22                   Is that a higher subsidization level than the  
23 920,000 that St. Joe has currently been subsidizing other  
24 districts?

25          A.       I'm sorry. Could you repeat those numbers

1 again?

2 Q. Is Warrensburg subsidy level on an equalized  
3 basis to St. Joe as we have roughly done, approximately  
4 the same or maybe a little above that of St. Joe?

5 A. I think it's pretty close.

6 Q. Okay. If you would refer to page 4 of your  
7 rebuttal testimony, line 5, the question's asked -- are  
8 you there?

9 A. Yes, sir.

10 Q. Line 5, question is asked, does STP promote  
11 efficient investment, and you opine, no, it does not?

12 A. Yes. Not in this case.

13 Q. Okay. Do you think the perception that STP  
14 would be the pricing model had any influence on the  
15 construction of the plant, the new plant that was built in  
16 St. Joe?

17 A. Are you asking me do I believe that STP was a  
18 factor in the building of the plant?

19 Q. The perception in St. Joseph that STP would be  
20 the pricing model.

21 A. I believe that's the perception that the  
22 St. Joseph district had.

23 Q. And do you believe that perception had any  
24 effect on what was actually built and the magnitude of the  
25 plant that was built in St. Joe?

1           A.       I believe so.

2           Q.       Okay. Now, on the converse side, do you  
3 believe that district-specific pricing has a tendency to  
4 promote some physical accountability on a district basis?

5           A.       I think district-specific pricing has a better  
6 chance of promoting physical responsibility on a district  
7 basis.

8           Q.       You have read the recommendation Mr. Harwig  
9 and Mr. Landon regarding their recommendation that the  
10 Commission -- in connection with Commission adoption of  
11 DSP as the pricing mechanism for this company, that the  
12 Commission order the company to conduct proceedings in  
13 each district whenever a major plant is planned in that  
14 district that would be over 20 percent of that district's  
15 rate base? Have you seen that recommendation?

16          A.       I'm familiar with it, yes, some sort of a --  
17 the company coming to the districts to talk about  
18 investments in a district of a certain magnitude.

19          Q.       Do you have an opinion as to whether that would  
20 be a good recommendation for the Commission to accept?

21          A.       Yeah, I believe that would be a good  
22 recommendation that the company and the cities, the  
23 districts get together to discuss any potential investment  
24 within their district that -- of a substantial nature.

25          Q.       Now, if I read your testimony and what you're



1 proposing to the Commission, you and Mr. Harwig are  
2 reasonably close together on your recommendation?

3 A. On our -- yes.

4 Q. On rate design, that is?

5 A. Yeah. I believe our -- we're very close.

6 Q. While Mr. Harwig might want to go more rapidly  
7 to DSP, you are proposing a more gradual approach to DSP.  
8 Is that correct?

9 A. I think that's a fair assessment.

10 MR. CURTIS: I have nothing further.

11 JUDGE THOMPSON: Thank you, Mr. Curtis.

12 We're going to take a ten-minute recess at this  
13 time.

14 (A recess was taken.)

15 JUDGE THOMPSON: Mr. Deutsch?

16 MR. DEUTSCH: Thank you, Your Honor.

17 CROSS-EXAMINATION BY MR. DEUTSCH:

18 Q. Hello, Mr. Busch. My name is Jim Deutsch. I  
19 represent the City of Joplin.

20 A. Good afternoon.

21 Q. And I just have a few questions for you. I  
22 want to reserve judgment as Mr. Franson hasn't on his  
23 assertion that you don't like my friends in Joplin and  
24 give you a chance to redeem yourself.

25 First of all, it's my understanding that -- and

1 you touched upon it with Mr. Franson that you agree that  
2 the City of Joplin, Joplin district, has for some time  
3 subsidized, that is, overpaid beyond its cost of service  
4 to the company to the benefit of other districts; is that  
5 right?

6 A. It's my understanding that revenues collected  
7 from the district of Joplin have been greater than the  
8 cost to provide service.

9 Q. And I've heard various estimates, but I think  
10 Mr. Salser and I agreed, for instance, that it was about  
11 11 1/2 percent or something that they are paying above  
12 their cost of service. Does that sound right to you?

13 A. That sounds right to me.

14 Q. Okay. Now, just to review a little bit so I  
15 can get this straight, in Exhibit 27 on pages 8 and 10 and  
16 in your exhibit JAB-2 as revised, you are -- no. That one  
17 wasn't revised. I think you were recommending originally  
18 a 10 percent increase for Joplin, is that right, in your  
19 direct examination that was based on the company's  
20 cost-of-service study?

21 A. I think -- or the company's numbers based on  
22 our office's cost-of-service study. I think it indicated  
23 a pure cost of service would have been an increase of  
24 roughly 4 percent, and then we moved them up to about a  
25 10 percent increase.

1           Q.       Okay. And then could you tell me, in your  
2   rebuttal testimony in Exhibit 28 at page 8 and in your  
3   Exhibit JAB-1, you then recommended a zero increase and I  
4   take it that it is on the basis of what you just said  
5   about the company's numbers changing. Could you explain  
6   to me what happened there?

7           A.       I believe that during the prehearing conference  
8   there were some issues that were settled and I think as  
9   Ms. Hu testified to her cost-of-service study that between  
10   her direct and rebuttal, we had gotten updated numbers  
11   from the staff and then we utilized those numbers as our  
12   cost-of-service study.

13                   So that explains why our overall  
14   cost-of-service study went down and we were able to  
15   recommend a zero increase for the citizens of Joplin.

16          Q.       Okay. So your analysis and your method did not  
17   change between the direct testimony and the rebuttal  
18   testimony, but the numbers changed?

19          A.       Yeah, the numbers changed.

20          Q.       Okay. Now, tell me again, if you could, what  
21   was the rationale for the method that you chose which  
22   ended up, although you recognized that Joplin has paid  
23   more than its cost of service and recognized the need to  
24   get to a DSP level, why is it again that Joplin then has  
25   to continue to overpay for its cost-of-study?

1           A.       Due to the fact that we've had single-tariff  
2     pricing for the seven districts over the past few years,  
3     when we move -- if you move straight back to DSP, there  
4     are certain districts that are going to see very high rate  
5     increases due to the shift. Not due to any additional  
6     investment in their districts or a substantial investment  
7     in their district, but just because removing the rate  
8     design structure.

9                    So in order to alleviate those rate increases  
10    of that level, we thought if we could, you know, leave  
11    Joplin at no increase, that the additional revenues that  
12    have been collected from Joplin then would help offset  
13    those increases to those smaller districts.

14          Q.       So basically you want to continue the subsidy?

15          A.       I think that what is happening is we're moving  
16    Joplin closer to the true cost of service.

17          Q.       I thought Joplin was supposed to stay where  
18    it's at?

19          A.       But their cost of service because of investment  
20    has gone up since the last rate case. And so since we're  
21    not increasing any of the revenues collected from them,  
22    they are moving closer to their district-specific cost.

23          Q.       That's another thing you might be able to  
24    clarify for me. You talked about these other investments  
25    that have been made in the other districts on a page of

1 your direct testimony. I think it was around page 8 ---  
2 no -- 10. And I do recall yesterday asking questions of  
3 Mr. Salser who also had a similar chart where -- not the  
4 same form -- that indicated that in this rate proceeding  
5 that he had included the company, that is, the investments  
6 that they had made and he even specifically said what they  
7 were boosters and wells.

8 And I could have sworn that he and I agreed  
9 that the Joplin district had \$800,000 in increase as a  
10 part of this proceeding. And looking at your chart here  
11 on page 10, Exhibit 27, it says that we have \$3.6 million  
12 in investment. Where did that come from?

13 MR. ENGLAND: Objection. I don't believe that  
14 counsel correctly characterized Mr. Salser's testimony.  
15 The \$800,000 were the plant additions from the end of the  
16 test period through the true-up period.

17 JUDGE THOMPSON: Response, Mr. Deutsch?

18 MR. DEUTSCH: I didn't recall that being the  
19 case when I was asking Mr. Salser, and I don't believe  
20 that he characterized them that way. But if that is the  
21 case, then that's what I'm trying to find out is what is  
22 the reason for the difference between the numbers.

23 JUDGE THOMPSON: Why don't you restate the  
24 question.

25 BY MR. DEUTSCH:

1           Q.       Where did this number come from and what does  
2   it consist of and what period does it cover?

3           A.       This number was taken --

4                   JUDGE THOMPSON:   Just a moment.   Mr. Coffman?

5                   MR. COFFMAN:   I'm not clear which number  
6   Mr. Deutsch is referring to at this point.

7   BY MR. DEUTSCH:

8           Q.       Exhibit 27, page 10, line 15, Joplin,  
9   3,615,565.   Now, what is that number and where does it  
10   come from, Mr. Busch?

11          A.       That number was taken from page 6, lines 10  
12   through 18 of Company Witness Robert L. Amman, and I  
13   apologize if I mispronounced name, A-m-m-a-n, Junior, his  
14   direct testimony.

15                   I don't necessarily remember exactly what all  
16   that 3.6 million entails.   I just -- I was merely trying  
17   to point out that according to the company there has been  
18   investment in other districts.

19          Q.       Okay.   So is that the investment that you are  
20   referring to in this calculation that you're doing that  
21   although Joplin is 11 1/2 percent over its cost, that a  
22   zero increase brings it somewhere with a zero increase  
23   that compensates for this addition?

24          A.       I would assume that that number, probably plus  
25   some other operation maintenance expenses, is the deriving

1 factor to why I think according to why in my rebuttal  
2 testimony that the citizens of Joplin, their cost of  
3 service is roughly about 9 percent below the revenues  
4 collected as opposed to a 11 percent that it currently is.

5 Q. Okay. Cost of service is approximately  
6 9 percent below the revenue?

7 A. With what I'm proposing, yes.

8 Q. And you mentioned a formula also in conjunction  
9 with this zero increase that no district gets more than a  
10 10 -- let's see. There is no more than 10 percent allowed  
11 above the cost of service, which I guess would be Joplin  
12 because you were saying it's at 9 percent?

13 A. Uh-huh.

14 Q. And no more than a 15 percent per year increase  
15 in rates for any district. How does Joplin ever get to  
16 its cost of service under that formula where it seems to  
17 have a permanent 9 percent above-cost rate?

18 A. I would say that Joplin would be moving toward  
19 its cost of service as a future investment is made within  
20 that district over however many years. I don't --

21 Q. So you don't know how many years?

22 A. I do not know either.

23 Q. Will I be alive? You don't know that either?

24 A. I don't know that either.

25 JUDGE THOMPSON: You may not be alive by the

1 end of this case.

2 BY MR. DEUTSCH:

3 Q. I guess no consideration was given to the fact  
4 that Joplin has been overpaying up to this point of the  
5 cost of service in your formulation as to the fairness of  
6 having them continue to subsidize other districts?

7 A. No. I believe that we did really consider the  
8 citizens of Joplin and tried to, you know, keep the  
9 increase to as little as possible if -- you know, find a  
10 way that we could not get any increase to them. I do  
11 believe that we have taken Joplin into consideration when  
12 we developed our rate design philosophy.

13 Q. You took into consideration the people of  
14 Joplin?

15 A. We took into consideration the people of  
16 Joplin, the people in Brunswick, the people in Mexico, the  
17 people in Parkville.

18 Q. Do you like the people in Joplin less than the  
19 people in Brunswick?

20 A. I have not met anybody from Brunswick and the  
21 people I met in Joplin were very friendly.

22 Q. And did you take into consideration, for  
23 instance, the public acceptance in places like Joplin, for  
24 instance, of this approach?

25 A. Yes, I did. When I was at the public hearings



1 in Joplin, I talked to some of the people and explained to  
2 them what we were doing and they seemed receptive. Not  
3 all of them, I didn't talk to every single person in  
4 Joplin, but I did talk to some of them on an informal  
5 basis.

6 Q. Did you mention to them that just before you  
7 went down there you went from a 10 percent increase to a  
8 zero increase?

9 A. I did not mention that I went from --

10 Q. You didn't mention that?

11 A. No.

12 Q. That might have helped you.

13 A. It might have.

14 Q. Okay. So you mentioned to Mr. Franson that  
15 what you try to do is to continue to proceed towards DSP,  
16 that's the approach taken, to continue to proceed towards  
17 it?

18 A. Yes. We are moving towards district-specific  
19 pricing.

20 Q. But what you're telling me for Joplin is you  
21 don't have a plan for when to arrive?

22 A. We don't have a plan, no, not for the --

23 Q. Okay. Do you feel like some there is somewhat  
24 of a conflict position representing the public in  
25 Brunswick against the people in Joplin?

1           A.       It is very tough to try to represent all of  
2   the -- all of the rate payers of the seven distinct  
3   districts and competing interests that they all have and  
4   try to come up with something that we believe is the best  
5   for all concerned.

6           Q.       Because you're trying to come up with something  
7   fair, aren't you?

8           A.       We're trying to.

9           Q.       But not necessarily something that is right?

10          A.       We think this is right.

11          Q.       And on that subject, you mentioned -- it was in  
12   your testimony and Mr. Franson asked you about it, the  
13   concept of equity and fairness being kind of what  
14   underlies this transfer of wealth from one district to  
15   another and you gave them a definition of equity. Equity  
16   seems to me to mean a whole lot like equal and equal might  
17   be related to nondiscrimination.

18                   Do you feel that this is a nondiscriminatory  
19   approach to setting rates concerning the people in Joplin?

20          A.       I feel that relatively it's a nondiscriminatory  
21   way of doing it.

22          Q.       And relatively how is it nondiscriminatory  
23   against the people in Joplin?

24          A.       The rates were set in the last rate case in a  
25   just and reasonable manner and they are --

1 Q. Right.

2 A. -- and they are not being moved. They are not  
3 being increased. So we're not discriminating against the  
4 citizens of Joplin by causing them to increase their rates  
5 in this case.

6 Q. So you're saying that when the people in Joplin  
7 in the last rate case only got stuck with 11 1/2 percent  
8 above their cost of service, that that was just and  
9 equitable and fair? That's what you just said, isn't it?

10 A. The Commission made a decision that, you know,  
11 that was just and reasonable and fair.

12 Q. So why are you even proposing to go back to  
13 DSP? It sounds like the idea of subsidy doesn't strike  
14 you as particularly unfair.

15 A. Because we think that this movement back  
16 towards DSP is -- is a better movement for this company  
17 and this district at this time.

18 MR. DEUTSCH: I don't have any further  
19 questions of this witness.

20 JUDGE THOMPSON: Mr. Fischer?

21 MR. FISCHER: Thank you.

22 CROSS-EXAMINATION BY MR. FISCHER:

23 Q. Mr. Busch, my name is Jim Fischer and I  
24 represent some of the water districts that serve the rural  
25 areas around St. Joe. I do have just a few questions for

1 you and I'd like to start, if you wouldn't mind, with your  
2 rebuttal Exhibit 28, page 4.

3 A. Yes.

4 Q. At line 8 through 11 you say without the  
5 proposal of STP, greater public opposition to the  
6 construction of the St. Joseph treatment facility would  
7 have likely occurred, because the customers within the  
8 St. Joseph district would have expected to foot the entire  
9 bill instead of having the cost spread over the entire  
10 system. Is that correct?

11 A. That's what I state in my testimony, yes.

12 Q. Are you suggesting in this testimony that  
13 customers in St. Joseph were led to believe that  
14 single-tariff pricing would be used to pay for the  
15 St. Joseph treatment plant?

16 A. I believe that the customers in St. Joseph  
17 thought that STP was going to be the pricing system.

18 Q. Why do you believe that this is true?

19 A. Based from what I understood, that it's --  
20 there are people who -- it's been -- they were under STP  
21 in '97 and I assume that they would probably assume that  
22 they were going forward. And I heard some comments at the  
23 public hearing in St. Joseph that the -- some of the  
24 people in St. Joseph were under the impression from the  
25 company that STP was the rate design system that they were

1 operating under.

2 Q. Were you referring to the CEO of Wire Rope  
3 (phonetic sp) who testified at that local hearing, and I  
4 believe he said that he thought the increase was going to  
5 be in the 30 to 35 percent range?

6 A. I believe -- I think he said that he thought  
7 the increase was 30 to 35 percent. I don't know that he  
8 was the precise one that stated it was a STP approach.

9 Q. Do you know what the approximate rate increase  
10 was that was projected originally when they talked about  
11 the St. Joe treatment plant?

12 A. I've heard 30 to 35 percent increase.

13 Q. Okay. Do you know if the customers in St. Joe  
14 have been informed that there could be 122 percent  
15 increase in their rates if district-specific pricing is  
16 used in this case?

17 A. I have no knowledge that they've been informed  
18 of that.

19 Q. As a representative of the public, has the  
20 Office of Public Counsel informed customers in St. Joe  
21 that there could be 122 percent increase in their district  
22 rates if district-specific pricing is adopted?

23 A. I have no knowledge of our office sending out  
24 any information to the customers in St. Joseph.

25 Q. From your perspective at Public Counsel, would

1 it be helpful to the process if consumers were better  
2 informed regarding the potential rate impacts of  
3 single-tariff pricing, district-specific pricing or other  
4 rate proposals that are being considered by the Commission  
5 in this case?

6 A. I would say that the more knowledge the public  
7 has is better.

8 Q. Okay. And as I understand what you said to the  
9 other counsel in your testimony, the Public Counsel in  
10 this case is supporting a movement away from single-tariff  
11 pricing to district-specific pricing over a number of  
12 years; is that right?

13 A. We are -- we support a movement away from  
14 single-tariff pricing towards district-specific pricing,  
15 yes.

16 Q. I'd like to refer you to your corrected  
17 schedule JAB-2, which I think has been marked as  
18 Exhibit 73. I've got an extra copy.

19 A. I have it here.

20 Q. Okay. There is a reference to the percent  
21 increase for district-specific pricing for the St. Joe  
22 district of 92.68 percent. Is that correct?

23 A. That is correct.

24 Q. Is that your understanding of what the increase  
25 would be under certain assumptions for St. Joe if

1 district-specific pricing was adopted?

2 A. That would be the increase prior to the  
3 prehearing that lowered some of the revenue requirement,  
4 and if the company won its entire plant to be admitted  
5 submitted into rate base and I think it takes into account  
6 our rate of return -- witness's rate of return.

7 Q. So there is a slight reduction from the  
8 original 122 percent. That number that assumed the  
9 company's filed case, this would be the new number in your  
10 mind if we go to district-specific pricing on a flash-cut  
11 basis?

12 A. I don't think that would be the number that we  
13 would go to right now. I think there is another -- I  
14 think we have -- there has been a movement of -- in the  
15 revenue requirement based on the prehearing that lowered  
16 those numbers.

17 Q. Well, I'm not trying to get precisely the  
18 number but I'm just trying to understand what this one is  
19 made up of.

20 A. That was based on the company's filing and the  
21 numbers that were provided by the company prior to the  
22 prehearing, which settled some of the issues that some of  
23 the accounting issues, and that lowered the overall  
24 revenue requirement. Then I also believe that the company  
25 also has stated they dropped \$4 million of the plant

1 because they come under budget which would lower any  
2 increase to the St. Joseph district as well.

3 Q. If the Commission would adopt your phase-in  
4 proposal for this case and use this 92 percent number,  
5 would that number increase at the end of the phase-in  
6 plan?

7 A. Would what number increase?

8 Q. The total impact on St. Joseph at the end of  
9 the phase-in plan, if we use the same assumptions that are  
10 part of that 92 percent number that are included in your  
11 schedule --

12 A. Uh-huh.

13 Q. -- would the total increase, the total rate  
14 impact of the St. Joseph district be somewhat higher due  
15 to carrying costs or anything else?

16 A. Um, no. I think we didn't use that number in  
17 our phase-in that we showed in the rebuttal testimony, but  
18 there will be a decrease at the end of any phase-in period  
19 according to the way that we developed a phase-in that  
20 will get us back to the actual amount of increase as if it  
21 happened at one time.

22 Q. Okay. Does the Public Counsel's phase-in plan  
23 add carrying costs to the revenue deferrals that are a  
24 part of your plan?

25 A. Yes.



1           Q.       Okay.  If we assume, for example, that there  
2       would be 122 percent increase in the rates in St. Joseph  
3       area as the company originally filed the case, under  
4       district-specific pricing, and the company's position on  
5       revenue requirements was upheld and your phase-in plan  
6       that includes carrying costs was also adopted, wouldn't it  
7       be reasonable to expect that at the end of that phase-in  
8       plan, before you maybe went to those rate reductions, that  
9       the actual amount of the increases would be 122 percent  
10      plus carrying costs?

11          A.       There would be an amount above to take into  
12      account the carrying costs and then you have to -- you  
13      would then -- we come back down to get back that you paid  
14      off your loan and you're back to where the level of  
15      increase would have normally been.

16          Q.       I've never understood those automatic rate  
17      reductions but I'll let that go.

18                  Mr. Busch, do you believe that the customers  
19      in the St. Joe area have been given information that the  
20      St. Joseph district rates could go up more than  
21      122 percent at district-specific pricing is adopted?

22          A.       I don't know if any information was given.

23          Q.       Okay.  Do you believe that the customers in the  
24      St. Joseph area would be interested in knowing the  
25      specifics of the Public Counsel's rate design proposal in

1 this case?

2 A. I'm sure they would -- they would like to know.

3 Q. Did Public Counsel prepare a written handout  
4 for interested customers at the St. Joseph hearing?

5 A. Yes, we did.

6 MR. FISCHER: Your Honor, I would like to have  
7 an exhibit marked.

8 (EXHIBIT NO. 74 WAS MARKED FOR IDENTIFICATION  
9 BY THE COURT REPORTER.)

10 BY MR. FISCHER:

11 Q. Mr. Busch, have you had a chance to review  
12 Exhibit 74?

13 A. I have.

14 Q. Does this appear to be the written handout that  
15 the Office of Public Counsel prepared for the local  
16 hearing at St. Joseph?

17 A. It looks to be a copy of the handout that we  
18 handed out at public hearing in the St. Joseph case.

19 Q. Your copy was actually on yellow sheets, I  
20 think, but this is just copies of that; is that correct?

21 A. That's correct, yeah.

22 MR. FISCHER: Your Honor, I'd move for  
23 admission of 74.

24 JUDGE THOMPSON: Any objection to the receipt  
25 of Exhibit 74?

1 (No response.)

2 JUDGE THOMPSON: Hearing none, Exhibit No. 74  
3 is received and made a part of the record in this  
4 proceeding.

5 (EXHIBIT NO. 74 WAS RECEIVED INTO EVIDENCE.)

6 BY MR. FISCHER:

7 Q. Exhibit 74 describes the Public Counsel and  
8 what are the important issues in the case and what happens  
9 at a public hearing and how to contact the Public Counsel  
10 and then there is a sheet talking about the company -- the  
11 revenue requirement of the company versus the Public  
12 Counsel's average residential monthly bill; is that right?

13 A. Correct.

14 Q. Did the Public Counsel handout given to the  
15 interested consumers in St. Joe contain any summary of the  
16 Public Counsel's rate proposal in this case?

17 A. I think you could -- you can infer that the  
18 graph of it was a rate design.

19 Q. That also addresses primarily revenue  
20 requirements. Isn't that correct?

21 A. It's the revenue requirement on top of our rate  
22 design, together.

23 Q. But there is not a specific description of how  
24 you feel about district-specific pricing and single-tariff  
25 pricing in that document. Is that right?

1           A.       I believe that's correct.

2           Q.       Did Public Counsel provide written handouts at  
3 other local hearings, including the St. Charles hearing?

4           A.       Yes, we did.

5                   MR. FISCHER: Your Honor, I'd like to have  
6 another exhibit marked.

7                   (EXHIBIT NO. 75 WAS MARKED FOR IDENTIFICATION  
8 BY THE COURT REPORTER.)

9 BY MR. FISCHER:

10          Q.       Mr. Busch, does this appear to be the handout  
11 that was available at the St. Charles local hearing?

12          A.       Yes, this appears to be a copy of the handout.

13                   MR. FISCHER: Your Honor, I'd move for the  
14 admission of 75.

15                   JUDGE THOMPSON: Any objections to the receipt  
16 of Exhibit 75?

17                   (No response.)

18                   JUDGE THOMPSON: Hearing none, Exhibit 75 is  
19 received and made a part of the record in this proceeding.

20                   (EXHIBIT NO. 75 WAS RECEIVED INTO EVIDENCE.)

21 BY MR FISCHER:

22          Q.       Were similar handouts provided at other local  
23 hearings similar to Exhibit 75?

24          A.       Similar handouts were handed out, yes.

25          Q.       Now, Exhibit 75, the St. Charles exhibit,

1 includes a second page entitled what is Public Counsel's  
2 rate design recommendation; is that right?

3 A. Yes.

4 Q. And that goes through the specifics of how you  
5 feel about district-specific pricing compared to  
6 single-tariff pricing?

7 A. Yes.

8 Q. Mr. Busch, isn't it true that the summary  
9 of Public Counsel's rate design that is included in  
10 Exhibit 75 was not included in Exhibit 74 which was handed  
11 out at the St. Joe hearing?

12 A. It had to be removed. We were at two public  
13 hearings on the same day as the St. Joseph and we had an  
14 error on the rate design recommendation sheet. When we  
15 got to St. Joseph we had to -- we felt we should remove  
16 that to avoid confusion.

17 Q. Okay. So on the night of the St. Joe hearing,  
18 this second sheet that had the Public Counsel  
19 recommendation was taken out?

20 A. Uh-huh.

21 JUDGE THOMPSON: You need to say yes.

22 THE WITNESS: Yes. I'm sorry.

23 JUDGE THOMPSON: That's quite all right.

24 BY MR. FISCHER:

25 Q. Now the Public Counsel's rate design proposal

1 will result in substantially larger increases for the  
2 St. Joseph customers than the continuation of  
3 single-tariff pricing; is that correct?

4 A. I'm sorry. Could you repeat that question,  
5 please?

6 Q. Public Counsel's rate design proposal will  
7 result in substantially larger increases for St. Joseph  
8 customers than a continuation of single-tariff pricing.  
9 Is that correct?

10 A. No, it's not correct.

11 Q. If we adopt single-tariff pricing as a result  
12 of this case, won't the increase to the St. Joe district  
13 be considerably less than if we adopt the Public Counsel's  
14 proposal?

15 A. Not necessarily.

16 Q. Okay. Let's set aside your phase-in and let's  
17 assume that the company's revenue requirement is adopted  
18 and just look at rate design apples to apples.

19 If we adopt single-tariff pricing under those  
20 assumptions or if we adopt the Public Counsel's proposal  
21 to increase the St. Joseph district rates by a percentage  
22 considerably more than the other districts, wouldn't the  
23 rates be lower in St. Joseph under single-tariff pricing?

24 A. Under that hypothesis, yes.

25 Q. Okay. Do you think the public would have been

1 interested in knowing that the Public Counsel wants to  
2 increase the rates in St. Joseph substantially more than  
3 the other districts of the company?

4 A. I don't think that is necessarily a true  
5 statement that we wanted to raise them more.

6 Q. You'd be happy with an across-the-board  
7 increase coming out of this?

8 A. That's not true either.

9 Q. Okay. That's not true either.

10 Why was the sheet that was contained in the  
11 Exhibit 75 removed that night that discussed the Public  
12 Counsel's specific rate design proposal?

13 A. There were some -- it was -- there were some  
14 words that had -- since we were trying to get them done  
15 for two districts in one day, that we -- there was some  
16 confusion as to what the ultimate rate design would have  
17 been since we had another district in there. And it would  
18 have led to confusion to the -- we thought to the citizens  
19 of St. Joe -- or St. Joseph. I'm sorry.

20 Q. It talked about how you didn't want to  
21 subsidize St. Joseph?

22 A. I don't think -- I don't think any of us said  
23 we didn't want to subsidize St. Joseph. I don't think it  
24 was stated in there like that.

25 Q. Well, if you'd turn to Exhibit 75, the last

1 sentence in the first paragraph says, the Office of Public  
2 Counsel believes it would be unfair for customers in other  
3 cities to subsidize the customers of the St. Joseph to a  
4 large degree.

5 A. I apologize. I didn't remember reading that.  
6 But that is not the reason why it was taken out.

7 Q. What was, again, the reason it was taken out?

8 A. There was reference to another district not  
9 receiving an increase.

10 Q. That was Joplin?

11 A. Yes.

12 Q. So you didn't care to let the folks in St. Joe  
13 know that you weren't recommending an increase for Joplin  
14 when you were recommending a substantial increase for  
15 St. Joe?

16 A. The purpose of these was to be district  
17 specific, and we didn't want the people at St. Joseph to  
18 read there would be no increase to you when obviously  
19 we are recommending an increase to the citizens of  
20 St. Joseph.

21 Q. A very substantial one?

22 A. No. We're not recommending substantial  
23 increase to the citizens of St. Joseph.

24 Q. Okay. What is the Public Counsel's position  
25 regarding the company's alternative surcharge approach if



1 single-tariff pricing is not adopted? Are you in favor of  
2 a surcharge like a company has suggested for St. Joe or  
3 not?

4 A. I don't know that I have an opinion today as to  
5 what the Public Counsel's opinion of that is.

6 Q. Okay. So you haven't taken the position on  
7 that proposal?

8 A. No, we have not.

9 Q. Do you consider your rate design proposal to be  
10 similar to the alternative surcharge proposal of the  
11 company in that it would result in a larger increase to  
12 the St. Joseph customers than other districts?

13 A. In that they both provide a larger increase to  
14 St. Joe, it's similar in that regard.

15 Q. Would you consider it a surcharge in that  
16 regard?

17 A. Would I consider what we've done a surcharge?

18 Q. Yes.

19 A. No, I would not.

20 Q. Okay. Why not?

21 A. Because we are not -- since we are moving  
22 towards district specific they are paying their costs.  
23 We're not adding surcharge per se to their cost. We're  
24 not recommending that the other six districts pay the same  
25 amount and then add something to St. Joe. So that's why I

1 would not characterize that as a surcharge.

2 Q. Just an adder for the St. Joseph district?

3 A. They're just paying their cost.

4 Q. Okay. Are you by chance familiar with a case  
5 that the Office of Public Counsel successfully appealed  
6 wherein the Commission placed a surcharge for related fuel  
7 and electric customers in the late '70s?

8 A. I'm not familiar with that case at all.

9 Q. Okay. On page 7 of your direct you state,  
10 Public Counsel's task is to recommend the best policy for  
11 all ratepayers it represents; is that correct?

12 That's your direct.

13 A. Which lines?

14 Q. Let me see it if I can find one.

15 A. Line 9, sir? Public Counsel's task is to  
16 recommend the best policy for all rate payers it  
17 represents?

18 Q. Yeah, that's it.

19 JUDGE THOMPSON: We're in the direct testimony,  
20 Mr. Fischer?

21 MR. FISCHER: Yes. Page 7.

22 JUDGE THOMPSON: Page 7. Thank you.

23 BY MR. FISCHER:

24 Q. Does Public Counsel include the residential  
25 customers in the St. Joseph district in the ratepayers

1    that you're representing in this case on the rate design  
2    issue?

3           A.       Yes, we do.

4           Q.       Under the single-tariff pricing proposal,  
5    however, all residential ratepayers would experience the  
6    same rate increase whether they were in St. Joe or some  
7    other district.  Is that correct?

8           A.       Under single-tariff pricing, residential  
9    customers will receive the same increase.

10          Q.       Of all of the rate design proposals in the  
11   record, does Public Counsel's rate design result in the  
12   lowest rates in St. Joseph residential customers?

13          A.       I believe our proposal comes up with the lowest  
14   for the City for St. Joseph.

15          Q.       That is assuming that Public Counsel's revenue  
16   requirement position is adopted?

17          A.       Yes.

18          Q.       If we assume that the Public Counsel's revenue  
19   requirement is adopted and we decide to implement  
20   single-tariff pricing or the proposal where you've added  
21   some to the district for St. Joseph, which would result in  
22   lower rates for the City of St. Joseph?

23          A.       Could you repeat that, please.

24          Q.       Okay.  Let's assume that the Public Counsel's  
25   revenue requirement is adopted, and then let's assume we

1 have to decide on single-tariff pricing versus the Public  
2 Counsel's compromise proposal. Which would result in  
3 lower rates to the City of St. Joseph?

4 A. I'm not -- I am not completely sure at that  
5 time -- at this time.

6 Q. You're saying that if you know a revenue  
7 requirement -- just assume any number -- we decide between  
8 single-tariff pricing and what you've proposed, you don't  
9 know which is going to result in lower rates to  
10 St. Joseph?

11 A. Well, it depends on the -- what number the  
12 revenue requirement would be.

13 Q. I'm assuming -- let's say X.

14 A. X. Okay.

15 Q. And we just look at the single-tariff pricing  
16 versus the proposal that you've made?

17 A. Uh-huh.

18 Q. Which is going to result in lower rates to the  
19 city or to the St. Joseph district?

20 A. I think it depends on -- I think it depends on  
21 what the rate is, what X is.

22 Q. Let's assume that we adopt the Public Counsel's  
23 revenue requirement -- which I don't recall what it is.  
24 Do you?

25 A. Oh, I believe -- I think I have it in my

1 rebuttal. The revenue requirement for St. Joseph?

2 Q. No. The revenue requirement for the company.

3 A. The company.

4 Q. Well, let's just assume \$10 million to cut this

5 short.

6 A. Okay.

7 Q. Now, if we start with that revenue requirement

8 and now we try to decide what is the rate design, if the

9 choice is the Public Counsel's rate design proposal or

10 single-tariff pricing, my question to you is, which is

11 going to have lower rates in the City of St. Joseph's

12 district?

13 A. So we're assuming -- and just an overall

14 company \$10 million revenue requirement, we have to

15 recover those rates?

16 Q. Correct.

17 A. Based on the seven districts that we currently

18 have?

19 Q. Correct.

20 A. And you're asking me would STP be lower for the

21 company just based on that \$10 million revenue requirement

22 versus a DSP, like our proposal?

23 Q. I'm asking you, yeah, whether the rates in

24 St. Joseph would be lower.

25 A. I think under the DSP, I think that the rates

1 would be lower in St. Joseph.

2 Q. I think we must not be connecting. Let me try  
3 it this way.

4 Single-tariff pricing is basically an  
5 across-the-board equal percentage increase to all of the  
6 districts; is that correct?

7 A. That's correct.

8 Q. The proposal of the Public Counsel does not  
9 result in an across-the-board increase to all of the  
10 districts; is that correct?

11 A. That's correct.

12 Q. It allocates more revenue requirement to the  
13 City of St. Joe, the St. Joseph district than an  
14 across-the-board increase; is that correct?

15 A. In this case we're proposing a higher increase  
16 than an across-the-board? I'm not 100 percent sure. It  
17 may be true.

18 Q. Okay. Well, let's look back at Exhibit 73.

19 A. Okay.

20 Q. If we go to district-specific pricing, doesn't  
21 that significantly increase the rates to the St. Joseph  
22 district above the other districts?

23 A. Under the assumptions that were laid -- that  
24 were set forth in this -- when this schedule was created.

25 Q. And isn't it true that Public Counsel's

1 rate design is a movement in favor in moving toward  
2 district-specific pricing and ultimately, I take it, you  
3 would get to district-specific pricing?

4 A. We are moving towards district-specific  
5 pricing.

6 Q. But you're not willing to concede that your  
7 rate design proposal will increase the rates more in the  
8 St. Joseph district than if the Commission adopts  
9 single-tariff pricing?

10 A. Based on the assumptions that are made in this,  
11 on this Exhibit 73?

12 Q. No. I'm asking just based on the facts that  
13 are in the case as you know them.

14 A. I don't remem-- I don't recall doing if we  
15 would have our revenue requirement doing a single-tariff  
16 pricing, so that's why I don't know.

17 Q. But you know that it's an across-the-board  
18 equal percentage if you do?

19 A. Right. Yes.

20 Q. Is there any way that St. Joseph won't get a  
21 larger increase than other districts if the Commission  
22 adopts your proposal in this case?

23 A. In this case?

24 Q. Yes.

25 A. If they would take less of a plant than even

1 we've discussed or maybe if they got what we suggested.

2 Q. I'm suggesting whatever the revenue requirement  
3 is is what it's going to be.

4 A. Uh-huh.

5 Q. But if they go to the rate design proposal,  
6 was there any way that under your proposal, the district  
7 of St. Joseph will receive an equal percentage increase to  
8 those of other districts?

9 A. I'm trying to understand just so we -- could  
10 you repeat that?

11 Q. Tell me what you're not understanding and maybe  
12 I can help you.

13 MR. COFFMAN: Your Honor, I think that --

14 JUDGE THOMPSON: Mr. Coffman.

15 MR. COFFMAN: Public Counsel's methodology  
16 isn't as mechanistic as either a DSP or STP method. It  
17 involves comparing rate levels and capping certain amounts  
18 and I believe it can be difficult without crunching some  
19 numbers to take a flat revenue requirement without knowing  
20 what districts those numbers came to, to do that. I  
21 believe that is Mr. Busch's difficulty in taking a  
22 hypothetical based on the simple revenue requirement, not  
23 knowing which case --

24 VICE-CHAIR DRAINER: Excuse me. May I say  
25 something?



1 I'm expecting an exhibit from the Office of the  
2 Public Counsel by the end of today and that exhibit should  
3 be showing the revenue requirement that was used by  
4 Mr. Hubbs. When I get that it ought to be real clear what  
5 the rates would be for the customers in St. Joseph and  
6 every other district compared to what the company's rate  
7 design is and what the Staff's rate design is. It should  
8 be real clear because this should be real numbers. It  
9 should show what real customers have to pay.

10 I do expect to get that. And if Mr. Busch  
11 can't answer the question now, he sure ought to be able to  
12 answer the question once that comes and he should be able  
13 to put back on the stand for cross-examination. And I  
14 think that probably should clear this point up.

15 MR. FISCHER: That end my questions, Your  
16 Honor. Thank you.

17 MR. COFFMAN: And that would be based on --

18 VICE-CHAIR DRAINER: Did that answer your  
19 question, Mr. Fischer?

20 MR. FISCHER: Yes.

21 MR. COFFMAN: That would be based on Staff's  
22 revenue requirement, the exhibit.

23 VICE-CHAIR DRAINER: Boy, I hope you knew that  
24 before right now.

25 MR. COFFMAN: Yes.

1 JUDGE THOMPSON: Do you need to go work on that  
2 exhibit?  
3 (Off the record.)  
4 JUDGE THOMPSON: Mr. Coffman?  
5 MR. COFFMAN: I've been informed we do have  
6 five of the seven districts prepared for the requested  
7 exhibit.  
8 JUDGE THOMPSON: Do you have St. Joe?  
9 MR. COFFMAN: Unfortunately.  
10 JUDGE THOMPSON: Go back and do the other two.  
11 MR. COFFMAN: I regret to inform the Bench that  
12 the other two districts are not likely to be done today.  
13 It's been difficult with both of the witnesses preparing  
14 the testimony.  
15 JUDGE THOMPSON: We understand. When do you  
16 believe it is likely that they will be done?  
17 MR. COFFMAN: I'm fairly certain it will be  
18 done tomorrow.  
19 JUDGE THOMPSON: By what time?  
20 VICE-CHAIR DRAINER: 8:15?  
21 MR. COFFMAN: Yeah. We had hoped to receive  
22 input from our chief accountant who has been unexpectedly  
23 out of the office.  
24 JUDGE THOMPSON: I understand that.  
25 MR. COFFMAN: I'm not sure if we can get his

1 time.

2 JUDGE THOMPSON: Because we've only got until  
3 September 14th.

4 VICE-CHAIR DRAINER: Excuse me. But this was a  
5 request made of rate design experts, and isn't Mr. Busch  
6 the rate design expert for your office?

7 JUDGE THOMPSON: I think Mr. Trippensee was.

8 MR. COFFMAN: Mr. Trippensee contributed to  
9 this issue.

10 MR. ENGLAND: One of the other difficulties  
11 with Public Counsel's rate design is that it involves an  
12 interrelationship between the class shifts and district  
13 shifts and we hadn't yet done that; a different cost study  
14 had to be done for each district. It's clearly the most  
15 difficult rate design case that we've attempted to do.

16 JUDGE THOMPSON: We'd like it by noon.

17 MR. COFFMAN: We'll do our best.

18 JUDGE THOMPSON: Thank you.

19 Mr. Zobrist?

20 MR. ZOBRIST: I just have a few questions,

21 Mr. Busch.

22 CROSS-EXAMINATION BY MR. ZOBRIST:

23 Q. Let me approach Mr. Fischer's question from a  
24 different point and if I'm unsuccessful I'll move right  
25 on.

1                   On your rebuttal testimony, on page 8, you set  
2   forth similar to what did you in your direct testimony the  
3   guidelines that Public Counsel recommends --

4           A.       Yes.

5           Q.       -- implementing the compromise rate design; is  
6   that correct?

7           A.       Yes.

8           Q.       And the second guideline that I see you setting  
9   forth at line 9 at page 8 is that the St. Joseph district,  
10   which is the largest which receives the lion's share of  
11   the investment, that district will eventually pay its cost  
12   of service no matter what. Is that correct?

13          A.       That's correct.

14          Q.       Okay. So as I understand it, dispensing of the  
15   phase-in for the moment, Public Counsel's plan is to have  
16   the St. Joseph district eventually pay its cost of service  
17   no matter what. Correct?

18          A.       Yes.

19          Q.       And in Schedule JAB-2, that is listed as a  
20   92.69 percent increase in its revenue. Correct?

21          A.       Correct. Based upon numbers that have now  
22   changed.

23          Q.       All right.

24          A.       Even the company's numbers have changed.

25          Q.       All right. But the 92.68 percent is still the

1 same percent regardless of the underlying numbers  
2 changing?

3 A. No. I believe that they'll have to come down  
4 slightly. I didn't do -- they've come down slightly.

5 Q. But that's in this 90 percent area, is it not?

6 A. I'm not -- I'm not 100 percent sure.

7 Q. Is it more than the roughly 50 percent that the  
8 company has proposed as an increase for all of the  
9 districts on an STP basis?

10 A. For the revenue requirement the company has  
11 proposed?

12 Q. Correct.

13 A. I would assume it's above 53 percent or  
14 50 percent.

15 Q. And for the City of St. Joseph, it would be  
16 substantially above the 50 percent rate?

17 A. It would be above.

18 Q. All right. We've gotten that far.

19 You make a number of other recommendations to  
20 the Commission as far as implementing your rate design; is  
21 that correct?

22 A. Yes.

23 Q. And they are, for example, that there will be  
24 continued revenue sharing for Brunswick, Mexico and  
25 Parkville. Correct?

1           A.       Correct.

2           Q.       And that there will be a 10 percent cost of  
3 service cap imposed on all districts?

4           A.       Yeah. No district would pay above 10 percent  
5 of the cost of service.

6           Q.       And Joplin doesn't pay anything this year.  
7 Correct?

8           A.       Joplin does not get an increase.

9           Q.       And then the combined DSP increase for all  
10 districts will be subject to multi year phase ins except  
11 for the City of Joplin. Correct?

12          A.       And except for St. Charles.

13          Q.       And the phase-in for the city of St. Joseph is  
14 seven years; is that correct?

15          A.       I believe it was a total I have five years  
16 phase-in on our revenue requirement which is what I  
17 provided the phase-in on.

18          Q.       All right. And is the proposal for the city of  
19 St. Joseph 15 percent each year for each year of the  
20 phase-in?

21          A.       Um, no. The proposal is a 15 percent cap, and  
22 then you do district shift or class shifts within the  
23 districts and then, I think, the overall St. Joseph  
24 district increase is based upon what the shifts are.  
25                 And I think this has been updated in my

1 surrebuttal but according to my rebuttal was about  
2 11 1/2 -- 12, 11 1/2, and then a drop of just under a  
3 percent and a drop of about 8 percent.

4 Q. And it's Public Counsel's position that this  
5 series of complicated guidelines is preferable than a  
6 single-tariff pricing mechanism which over the years would  
7 result in averaging for all of the systems. Is that --

8 A. I'm sorry. Could you repeat that?

9 Q. Public Counsel's position is that this  
10 multi-guideline proposal is preferable to a single-tariff  
11 pricing mechanism that would over some period of time  
12 achieve cost saving among the districts?

13 A. We believe that our proposal is favorable to  
14 single-tariff pricing in this case.

15 Q. Let me ask you just one other question.

16 I believe it was Mr. Curtis who asked you about  
17 physical accountability or responsibility under DSP. Do  
18 you recall that question?

19 A. Yes.

20 Q. Isn't it true that regardless of the rate  
21 design that this Commission implements, whether it's STP,  
22 compromised proposal or district-specific pricing, that  
23 this Commission in the law still requires that only  
24 investment that has been prudently incurred be permitted  
25 to go into the rate base.

1           A.       That's my belief.

2           Q.       Have you ever seen anything on single-tariff  
3 pricing theory that says that that permits less physical  
4 accountability in and responsibility for a regulated  
5 public utility?

6           A.       Right off the top of my head, I can't.

7           Q.       Are you aware of any provision in Missouri  
8 statute or in the regulatory order of this Commission that  
9 permits greater or less physical accountability  
10 responsibility based upon tariff rate design?

11          A.       Aware of the Commission --

12          Q.       Aware of the commission permitting less  
13 physical responsibility or accountability depending on  
14 upon the rate design?

15          A.       I think the physical accountability I was  
16 referring to was that the districts could have a say in  
17 what was built. As far as the Commission, no, I was not.

18          Q.       The Commission has the same duties regardless  
19 of what tariff rate increase is adopted, correct, to make  
20 certain only those investments that are prudently incurred  
21 go into rate base?

22                 MR. CONRAD: I'll object. It's a legal  
23 opinion.

24                 MR. ZOBRIST: I'll pass. I think I made my  
25 point.



1                   Thank you. No further questions.

2                   JUDGE THOMPSON: Thank you, Mr. Zobrist.

3                   Mr. England?

4                   MR. ENGLAND: Thank you.

5   CROSS-EXAMINATION BY MR. ENGLAND:

6           Q.       Good afternoon, Mr. Busch.

7           A.       Good afternoon, Mr. England.

8           Q.       I apologize for continuing to beat a dead horse

9   but I'll try to make it brief.

10                   On schedule -- or excuse me -- Exhibit 74,

11   which I believe was the handout for the St. Joseph local

12   hearing, and I'm looking at the last sheet, the table or

13   graph, however you want to characterize that.

14           A.       I'm there.

15           Q.       I think two things are going on there. Correct

16   me if I'm wrong, but you're comparing rate design and

17   revenue requirement as proposed by the company versus rate

18   design and revenue requirement by Public Counsel.

19   Correct?

20           A.       Yeah. Yes.

21           Q.       In other words, the company's proposal to

22   increase rates approximately \$16 million or 50 percent

23   represents the uniform 50 percent increase along the top

24   there?

25           A.       Yes.

1 Q. And Public Counsel has utilized its revenue  
2 requirement or deficiency in this case of \$6 million and  
3 factored in its proposed rate design. Correct?

4 A. Yes.

5 Q. And I assumed a fact that you might not be  
6 aware of, but my understanding in reading Mr. Trippensee's  
7 surrebuttal testimony at page 16 is that Public Counsel's  
8 corrected revenue requirement for the total company is now  
9 \$6 million and change.

10 Do you recall that number?

11 A. I believe there was some increase.

12 Q. Okay. If we want to compare simply rate design  
13 proposals rather than rate design and revenue requirement,  
14 we need to fix on one revenue requirement. Right?

15 A. Are you referring to the schedule?

16 Q. Correct.

17 A. This schedule was -- the purpose was to show  
18 what the company is proposing in this case and what we're  
19 proposing in this case.

20 Q. Right. And as I said, that involves two  
21 factors?

22 A. That's correct.

23 Q. How much of an increase is the company going to  
24 get and then how are you going to design rates to get  
25 there?

1           A.       Correct.

2           Q.       Okay.  And what I'm saying is, that if you  
3   wanted to simply compare the rate designs or the rate  
4   design proposals, you need to look into a revenue  
5   requirement that both parties -- the same revenue  
6   requirement that both parties start with.  Correct?

7           A.       If that's your goal, yes.

8           Q.       Okay.  And the same with Exhibit 75, which,  
9   again, is another handout for the -- is it St. Charles  
10   area -- local hearing?

11          A.       Yes.

12          Q.       That your proposal is a combination of rate  
13   design -- your rate design -- excuse me -- and your  
14   revenue requirement versus the company's rate design and  
15   its revenue requirement?

16          A.       That's correct.

17          Q.       Okay.  In response to a question by Mr. Fischer  
18   regarding what the people in St. Joe were led to believe,  
19   I believe you said that since 1997 the rates in St. Joseph  
20   and throughout the company's district have been based on,  
21   at least, a unified rate; is that right?

22          A.       Yes.

23          Q.       Would you agree with me that that trend was  
24   started in 1995 pursuant to a Commission rate order?

25          A.       I think there was the beginnings of a movement

1 towards a single tariff rate in '95.

2 Q. As a matter of fact, the Commission accepted a  
3 nonstipulation of parties that called for the company to  
4 file its next rate case, the 1970 rate case, on uniform  
5 rates, did it not?

6 Excuse me. Let me rephrase that.

7 In the 1995 rate order the Commission approved  
8 a nonunanimous stipulation regarding rate design that  
9 called for the company to file its next rate case which  
10 was the '97 case on a uniform tariff basis. Correct?

11 A. I think that's correct.

12 Q. In response to some questions by  
13 Mr. Deutsch -- excuse me -- you were talking about  
14 Joplin paying 11 percent above its cost of service.  
15 And I'm looking or -- I want to take you to your  
16 Exhibit JAB-3.

17 A. Okay.

18 Q. And I think Mr. Curtis had some questions of  
19 this as well.

20 Let's look at the Joplin line if we can. The  
21 first column of numbers is the current revenues. Correct?

22 A. Correct.

23 Q. The last column -- or excuse me. I guess the  
24 third column of numbers is the cost of service per the  
25 cost-of-service case. Correct?

1           A.       Yes.

2           Q.       And that is also the same -- the data in that  
3 case was taken from the last rate case?

4           A.       To the best of my knowledge.

5           Q.       Okay. So we can really say that that cost of  
6 service there in that third column was the cost of service  
7 at the time of the company's last rate case?

8           A.       Uh-huh.

9           Q.       If I compare that, the 6.8 million cost of  
10 service with the roughly 7.2 million of revenues, it is a  
11 difference of almost 400,000. Correct?

12          A.       Almost 400,000.

13          Q.       And I guess how do I -- whether I take  
14 11 percent of 6.8 million or 11 percent of 7.2 million,  
15 that number should be somewhere in the neighborhood of  
16 720,000 or 680,000 or above.

17                   Do you see my concern?

18                   I don't see an 11 percent differential between  
19 Joplin's cost of services determined in the last rate case  
20 and the rates it paid as a result of the last rate case.

21          A.       This column was Office of Public Counsel's  
22 cost-of-service study. I do not necessarily know that  
23 that was the cost of service that, I think, Mr. Deutsch  
24 and Mr. Salser were referring to.

25          Q.       Okay. So from your office's perspective,

1 Joplin -- there is no 11 percent differential between the  
2 revenues Joplin pays and its cost of services as  
3 determined in the last rate case?

4 Would that be a fair characterization?

5 A. Based on what these numbers show, yes.

6 Q. At page 4 of your direct testimony, lines 2  
7 through 4 --

8 A. Yes.

9 Q. -- you indicate you're recommending a rate  
10 design that moves away from STP, a rate design that is a  
11 compromise between STP and DSP?

12 A. Yes.

13 Q. Then in your surrebuttal, page 3, beginning at  
14 line 13, I think you sort of restate that position.

15 A. Yes.

16 Q. And down on lines 19, 20 and 21, state -- and  
17 I'm paraphrasing that your schedule clearly I will us  
18 straighten your proposal while moving towards DSP is not a  
19 recommendation to adopt DSP in this case or necessarily in  
20 the do you see that?

21 A. Yes, sir.

22 Q. So I guess I'm a little confused. I thought I  
23 heard earlier that your recommendation was to move toward  
24 DSP and that you expected to get there sometime, although  
25 you don't know when?

1           A.       We are moving towards DSP.

2           Q.       Well, is there ever a time in your opinion that  
3 the Public Counsel will actually get this company to DSP  
4 if you had your way?

5           A.       At this time I don't know. We'd have to look  
6 at the cases as they would come up.

7           Q.       Okay. That leads me to my next question,  
8 because I asked Ms. Hu earlier today -- and I don't know  
9 if you were here or not -- whether or not there might be a  
10 case where Public Counsel would actually recommend  
11 single-tariff pricing.

12                   Let me rephrase that. Whether or not it would  
13 be possible whether Public Counsel would recommend  
14 single-tariff pricing for this company. And she said -- I  
15 think the answer was, nothing is impossible or that is  
16 possible.

17                   Do you recall that?

18           A.       I believe I remember her saying that.

19           Q.       So would you agree that there may be a  
20 possibility that we move back toward and all of the way to  
21 single-tariff pricing under some fact situation for this  
22 company?

23           A.       I don't foresee that happening, but like she  
24 said, anything is possible. But I would seriously doubt  
25 it. It would be very, very slim. I'd hate to rule out

1 and tie our hands completely to where we're going, but I  
2 wouldn't say it's -- it's theoretically possible.

3 Q. And speaking of someone who is concerned in  
4 full employment, I appreciate that answer.

5 On page 5 -- I'm looking at your surrebuttal --  
6 I believe it's lines 21, 22 and 23. You indicate a  
7 movement towards DSP needs to occur but the Commission  
8 should adopt a policy that allows citizens in Brunswick,  
9 Mexico and Parkville to be eased back toward DSP over  
10 time. And I emphasize the words eased back because that  
11 seems to imply that at one time rates were set to recover  
12 the district-specific costs of Brunswick, Mexico and  
13 Parkville.

14 Is my inference correct?

15 A. Yes.

16 Q. Okay. My next question is when was the  
17 last time rates were set for Brunswick, Mexico and  
18 Parkville that were specifically designed to recover the  
19 district-specific costs as we've discussed them throughout  
20 this case?

21 A. I don't know the exact time. There were -- the  
22 movement towards STP occurred in the late '80s, early  
23 '90s.

24 Q. But was there ever a time that you know  
25 of when rates for these districts were set on their



1 district-specific costs?

2 A. It's my understanding that prior to the  
3 movement towards STP in the late '80s and '90s that they  
4 were set on a district-specific rate.

5 Q. You say late '80s and '90s?

6 A. Uh-huh.

7 Q. Can you give me a little more definitive time  
8 frame?

9 A. I think there was a rate case -- there was rate  
10 case in '87 and '89. I don't remember exactly when the  
11 movement occurred. I remember seeing it brought up --  
12 brought to the Commission's attention at that time.

13 Q. Is it fair to say then for at least the  
14 districts that comprise the old Missouri Cities Company,  
15 that rates have not been set on district-specific prices  
16 for approximately ten years?

17 A. There has been a movement towards single-tariff  
18 pricing but not necessarily a complete single-tariff  
19 pricing for those five districts.

20 Q. I understand. My question was that at  
21 least for the last ten years rates for the districts  
22 comprising the Missouri Cities Company were not based on  
23 district-specific prices or costs.

24 A. Again, I'm not familiar exactly what year or  
25 what case that the movement occurred from.

1           Q.       Would you agree with me that under  
2   single-tariff pricing, the company doesn't receive any  
3   more in total revenues than it does under  
4   district-specific pricing?

5           A.       I'd agree with that.

6           Q.       Okay. Let me turn your attention to JAB-R1,  
7   which I believe is attached to your rebuttal testimony.

8           A.       I'm there.

9           Q.       Before we go any further I want to follow up on  
10   my last question.

11                    You agreed with me that we wouldn't collect any  
12   more revenues under single-tariff pricing than we would  
13   under district-specific pricing.

14                    Would you also agree that we don't get any  
15   more earnings under single-tariff pricing than under  
16   district-specific pricing?

17          A.       On a company basis, no.

18          Q.       Schedule JAB-R1.

19          A.       Yes.

20          Q.       If I'm reading this correctly -- let me look  
21   in the top left-hand corner of the numbers that are up  
22   there -- you've got current revenues in that first column  
23   of numbers and they total approximately 30,583,000, which  
24   I understand to be the current revenue number that Staff,  
25   Public Counsel and company have agreed to as a result of

1 prehearing conference?

2 A. I believe that's my understanding of that  
3 number.

4 Q. Then you've got a column entitled cost of  
5 service which totals approximately 36,200,000. Do you see  
6 that?

7 A. Yes, sir.

8 Q. Is it fair on to say that the difference  
9 between those two numbers was the Public Counsel's  
10 recommended revenue deficiency for purposes of this case,  
11 at least at the time this schedule was prepared?

12 A. Yes.

13 Q. Because my next question is, my understanding  
14 is that now there has been a further adjustment upwards in  
15 Mr. Trippensee's surrebuttal testimony to approximately a  
16 \$6 million deficiency rather than the 5.6 or 7 that you've  
17 got, or at least the difference between those two columns  
18 would show.

19 A. That's true.

20 Q. My understanding is that additional revenue  
21 requirement is attributable to the St. Joseph district.  
22 Is that your understanding?

23 A. That's my understanding.

24 Q. Okay. I'm going to switch gears on you.

25 On your direct testimony, page 6, lines 8

1 through 9, 8 and 9.

2 A. Page 6, lines 8 through 9.

3 Q. Yes.

4 A. I'm there.

5 Q. The phrase I'm interested in begins, the claim  
6 that uniform rates help stabilize rates has been proven  
7 false in this rate case. A proposed 53.97 percent  
8 increase in rates is anything but stable.

9 Do you see that?

10 A. Yes, sir.

11 Q. Would you agree with me that but for your  
12 office's proposal to phase-in the rate inputs,  
13 district-specific pricing would otherwise result in  
14 several districts experiencing well in excess of the  
15 50 percent increase?

16 A. Absent the phase-in -- absent the -- above a  
17 50 percent increase?

18 Q. Ignoring the phase-in proposal, would you agree  
19 with me that that district-specific pricing will result in  
20 some districts experiencing even a greater increase than  
21 the 53.97 percent increase proposed by the company?

22 A. No. Not -- I wouldn't -- not on those  
23 assumptions.

24 Q. What other assumptions -- what are we missing?

25 A. Whose revenue requirement are you basing it on?

1           Q.       I'm sorry. I'm assuming the company's revenue  
2       requirement because that is what the 54 percent increase  
3       is based on.

4           A.       I believe that under the company's proposal,  
5       using the revenue requirement, we had some districts go  
6       above. However, I was never claiming that DSP was a --  
7       produced stable rates. I was just arguing the fact that  
8       they claimed that STP does. That's not a stable rate.

9           Q.       So you would agree that DSP doesn't produce any  
10      more stable rates than standard tariff or single-tariff  
11      pricing?

12          A.       At times, but also in these days the reason --  
13      a lot of the reason for the increase in the large increase  
14      was because we were moving away from single-tariff pricing  
15      towards district specific.

16          Q.       So there are a lot of things, a lot of factors  
17      going into the various rate change proposals in this case.  
18      Correct?

19          A.       In this case, yes.

20          Q.       I mean, you've got revenue requirements that  
21      are increasing and you've got rate design policies that  
22      may be changing, all of which converge to create  
23      substantial increases at least in some classes and some  
24      districts rates?

25          A.       There are a lots of factors, yes.

1           Q.       Under Public Counsel's proposal in this case,  
2   how long will it take for the company to recover its full  
3   revenue requirement that you've proposed of roughly  
4   \$6 million?

5           A.       I think after about five years they receive --  
6   after that the phase-in starts to decrease.

7           Q.       Does your schedule JAB-R2-1 show me the  
8   phase-in period, if you will, over which we would recover  
9   the full 6 million?

10          A.       JAB-R2-1?

11          Q.       Yes.

12          A.       R2-1 is -- shows the -- what would happen  
13   during the first year of recovery.

14          Q.       Okay. And I'm sorry. I thought they were  
15   pages numbered sequentially but they're different -- each  
16   of the pages after that then show me years two, three,  
17   four, et cetera. Correct?

18          A.       Yes. Years two, three, four, yeah.

19          Q.       And it appears to me that at least as far as  
20   your schedules go, you go out the one that is unmarked  
21   that has a year eight at the top.

22                   Do you see that?

23          A.       Yes, I see that.

24          Q.       Okay. And I guess what I gathered from these  
25   schedules was that it was going to take us eight years

1 with all of the gives and takes of your phase-in proposal  
2 for us to collect the amount of money that you think is  
3 appropriate for us to get in this case?

4 A. No. That just shows since there are -- a  
5 phase-in proposal that takes into account certain  
6 decreases in rates to get us back to those levels, we  
7 actually hit the level prior to that -- the seven years.

8 This was just showing the effects of the entire  
9 phase-in period.

10 Q. With the automatic reductions added to the tail  
11 end?

12 A. Yes.

13 Q. So you think that we will achieve the  
14 \$6 million in five years; is that right? The full six  
15 million?

16 A. Actually I think -- yeah, prior to even --  
17 prior to five years due to the carrying costs.

18 Q. Well, I guess I meant \$6 million in present  
19 value?

20 A. Okay.

21 Q. It's going to take us five years to get it?

22 A. It will take five years.

23 Q. If our current revenues are 30,500,000,  
24 roughly, would you agree with me that a six -- just an  
25 overall \$6 million increase is approximately 20 or maybe a

1 little less percent?

2 A. I think it's right around 20.

3 Q. Okay. So what you're really saying is that we  
4 need to take five years to get a 20 percent increase in  
5 our revenues, right, through your phase-in?

6 A. In order to help mitigate the increases to  
7 certain districts, yes.

8 Q. Which you've capped at 15 percent. Right?

9 A. Yes, we have.

10 Q. If we did a single-tariff pricing increase of  
11 15 percent across the board, we could get there in two  
12 years, couldn't we, with the 20 percent overall increase?

13 A. Yes.

14 Q. And let's get into actually the specific  
15 proposal on JAB-R2-1, down in the very bottom last line of  
16 the schedule.

17 A. Yes.

18 Q. Under total, this is the first year recovery.  
19 We would achieve 33 -- roughly \$33 million. Correct?

20 A. Correct.

21 Q. If I subtract the current revenues of  
22 30,583,000, my rough math gives me about 2,500,000 in the  
23 first year under your phase-in plan.

24 Does that seem in the ballpark?

25 A. Yes.



1 Q. And, again, comparing that 2,500,000 increase  
2 to the 30,500,000 of current revenues, that roughly is a  
3 7.5 percent increase. Would you agree?

4 A. I don't know.

5 Q. You do agree that the first year we get  
6 2.5 million?

7 A. Yes, I agree with that.

8 Q. And that our current revenues are 30,500,000  
9 roughly?

10 A. Yes.

11 Q. And you'll accept whatever the math is for  
12 percentage purposes?

13 A. I would -- yeah, it's probably close to that  
14 number.

15 Q. Okay. Well, assume that it is roughly  
16 7.5 percent for the first year, what is happening then is  
17 that even though you're limiting increases to 15 percent  
18 where increases might go beyond that, the overall increase  
19 to the company under your phase-in plan really is no more  
20 than approximately 7.5 percent of the first year?

21 A. Yes. That's due to the fact that not all of  
22 the districts like Joplin, getting a zero would lower  
23 that. St. Charles would lower that, yes.

24 Q. Okay. Now, what if the Commission determines a  
25 revenue requirement of \$12 million as appropriate in this

1 case. Does that double the length of time for the  
2 phase-in that you've proposed or does that require you to  
3 rethink your 15 percent limitation and attempt to  
4 collect that under a five -- continue to get that under a  
5 five-year phase-in?

6 A. The length of time of the phase-in, I believe  
7 Mr. Trippensee would be better able to answer to that.

8 Q. Okay. Do you have Mr. Trippensee's testimony  
9 there?

10 A. No, sir, I do not.

11 MR. COFFMAN: May I approach the witness the  
12 witness?

13 JUDGE THOMPSON: You may approach, Mr. Coffman.

14 THE WITNESS: I do now have it.

15 BY MR. ENGLAND:

16 Q. Take a look at the bottom of page 2 of his  
17 rebuttal testimony, please.

18 MR. FRANSON: Is that the one that is  
19 incorrectly marked?

20 MR. ENGLAND: Yes, it is.

21 Yellow for those of you who have color.  
22 Otherwise it says rebuttal up in the far-right corner.

23 THE WITNESS: I'm there.

24 BY MR. ENGLAND:

25 Q. On line 17, Mr. Trippensee says, quote, if the

1 PSC ultimately finds that a specific district should  
2 experience a rate increase in excess of 50 percent as  
3 recommended by the Public Counsel, I would anticipate that  
4 the 15 percent cap would have to be raised for that  
5 district --

6 A. That's what he says.

7 Q. -- period.

8 Let me continue.

9 The reason the cap would need to be increased  
10 is to maintain a reasonable number of years in the  
11 phase-in, end of quote.

12 Now I understand you're not Mr. Trippensee.  
13 But would it seem reasonable to you that he is apparently  
14 concerned with the length of the phase-in period?

15 A. From this statement, yes.

16 Q. Okay. And if we assume -- if that assumption  
17 is correct, then getting back to my original premise, if  
18 the Commission determines that it is appropriate for this  
19 company to achieve an increase in revenues of \$12 million,  
20 roughly twice what you-all have proposed, that probably  
21 means that something has got to give with respect to your  
22 15 percent cap on the phase-in. Correct?

23 MR. COFFMAN: Objection. I believe that this  
24 is beyond the scope of Mr. Busch's testimony and really  
25 would be better directed to Mr. Trippensee.

1 JUDGE THOMPSON: Response, Mr. England?

2 MR. ENGLAND: Well, I believe this witness is  
3 the policy witness, if you will, for the office discussing  
4 the proposed rate design.

5 And it seems to me -- and all I'm really asking  
6 is kind of a what-if scenario. If they get more revenues  
7 than they proposed, how are we going to recover that in  
8 their -- fitting it into their proposed phase-in proposal.

9 And I know he's the witness sponsoring the  
10 phase-in proposal, so it seems kind of appropriate for me  
11 to be asking this question and for this witness to be  
12 answering it.

13 MR. COFFMAN: Your Honor, there is a certain  
14 interrelationship between the three issues, but Ms. Hu did  
15 our class shift proposal, Mr. Busch our district shift  
16 proposal and Mr. Trippensee has focused on the phase-ins  
17 and this really a phase-in question.

18 JUDGE THOMPSON: The objection is overruled.  
19 The witness may answer if he is able.

20 THE WITNESS: You're asking if we go up to a  
21 12 million revenue requirement?

22 BY MR. ENGLAND:

23 Q. Yes, sir.

24 A. I would have to say it would depend upon where  
25 those revenues were to be coming -- were to be collected

1 from.

2 Q. Okay. Then for purposes of my question,  
3 assume that the increase in revenue deficiency from your  
4 6 million to my 12 million is due primarily to the company  
5 being allowed to recover more of the costs of the  
6 St. Joseph plant than you've proposed, so it's all  
7 attributable to the St. Joseph plant.

8 A. Under that scenario, it would probably increase  
9 the amount that needed to be collected from St. Joe, that  
10 district. And I would have to see what the percentage  
11 increase would be to determine if it was a 50 percent  
12 increase.

13 Q. Have you done any kind of analyses of that  
14 type?

15 A. We are -- as soon as Mr. Trippensee gets back,  
16 that is what we need to do for Vice-Chair Drainer's  
17 response that we will have, we will have that data.

18 Q. And that kinds of gets --

19 A. What I've accomplished so far, we have not  
20 changed the phase-in for the five districts we've  
21 completed for that.

22 Q. That is one of the problems with your ability  
23 to respond to Commissioner Drainer's request, isn't it,  
24 because you have to apply some judgment, you've got some  
25 factors that you were applying other than strictly cost in

1 the design of your phase-in and rate caps, rate increase  
2 caps, if you will?

3 A. The main problem with getting within is the --  
4 because of the phase-in and Mr. Trippensee's addressed the  
5 phase-in amounts -- that when we change the revenue  
6 requirement for St. Joseph, then seeing what the -- what  
7 the length of time for that phase-in would be.

8 Q. Is it possible, sir, that the revenue -- the  
9 change in the revenue requirement may not permit you to do  
10 the same rate design that you have for purposes of your  
11 \$6 million deficiency?

12 A. We are very close to the same rate design.

13 Q. Okay. I'm requesting to stick, though, with  
14 your revenue requirement.

15 A. Yes, sir.

16 Q. Even under your proposal in this case with the  
17 phase-in, certain districts will not get all of the way to  
18 district-specific pricing. Correct?

19 A. Correct.

20 Q. Is that the Mexico, Brunswick and Parkville  
21 districts?

22 A. Plus the Joplin and St. Charles districts, yes.

23 Q. They go beyond -- well, excuse me. St. Charles  
24 is at their district-specific costs, if I understand your  
25 proposal. It's not --

1           A.       No. We're taking a little bit of revenues  
2     from -- there is additional revenues from St. Charles in  
3     order to help alleviate the rate shock. We don't want to  
4     take it all from Joplin.

5           Q.       Okay. So St. Charles pays more, Joplin  
6     pays more than its district-specific cost, St. Joe  
7     pays its district-specific cost, Warrensburg pays its  
8     district-specific cost, and the remaining three districts  
9     of Mexico, Parkville and Brunswick pay something less than  
10    their district-specific costs?

11          A.       Correct.

12          Q.       Is there some reason why customers in those  
13    three districts, Mexico, Brunswick and Parkville, in your  
14    opinion are entitled to continue to receive revenue  
15    support but the St. Joe and Warrensburg customers are not?

16          A.       Because we couldn't -- we were moving  
17    Warrensburg's cost of service and it was not a -- it was  
18    substantial -- it was, you know, an increase but it wasn't  
19    an overly excessive -- not overly excessive.

20                 The increases to Parkville, Mexico and  
21    Brunswick were the magnitude of roughly 70 percent,  
22    80 percent and 260 percent if we move strictly to  
23    district-specific pricing. In order to move towards  
24    district-specific pricing, we thought that those three  
25    districts needed to be helped in that movement towards

1 district specific. So it's not that -- so that's why we  
2 are supporting those districts.

3 Q. And that's because you have a \$6 million  
4 revenue requirement too. Correct?

5 A. Yeah, that's part of it. The move to district,  
6 plus the 6 million.

7 Q. Okay.

8 A. Now, get back to my previous assumption that  
9 the revenue requirement increases to 12 million because  
10 more of a plant is going to be allowed in rates or in  
11 revenue requirement.

12 That is certainly going to increase the  
13 district-specific costs allocated to St. Joseph and  
14 increase the proposed percentage increase in their bill.  
15 Correct?

16 A. In the St. Joseph district?

17 Q. Yes.

18 A. Yes.

19 Q. If that percentage increase approaches or  
20 exceeds the percentage increase that you've just mentioned  
21 for Parkville, Mexico and Brunswick, are you going to  
22 propose revenue support for St. Joseph at that time or are  
23 you going to move them to their full district-specific  
24 costs?

25 A. Due to the plant, the amount of the plant



1    being -- St. Joseph, that there is and -- that I don't  
2    think that we were proposing any additional sharing for  
3    the citizens of St. Joseph.

4           Q.       Okay. And that gets me back to my question  
5    before. And under the \$12 million scenario, why is it  
6    appropriate to revenue share, if you will, for Brunswick,  
7    Parkville and Mexico but not St. Joseph?

8           A.       We believe that because of the plant being  
9    built in St. Joseph.

10          Q.       Well, under district-specific pricing, the  
11    plant that serves Brunswick is attributable to Brunswick,  
12    the plant that serves Mexico is attributable Mexico and  
13    the plant that serving Parkville is attributed to it.

14                  So why shouldn't they pay the full  
15    district-specific cost just like St. Joseph is?

16          A.       Because in this case we believe that they  
17    should be moved towards their district-specific cost.

18          Q.       They being St. Joseph?

19          A.       Those being the three smaller districts,  
20    as opposed to -- as opposed to achieving their  
21    district-specific costs at this time.

22          Q.       But you can't articulate for me any  
23    difference in the customers of St. Joseph versus those  
24    other three districts that would justify those three  
25    districts customers getting revenue sharing or support and

1 the St. Joseph customers not; is that right?

2 A. Due to the movement away from the single-tariff  
3 pricing -- we trying to move towards that. Looking at the  
4 new plant that the St. Joseph district will have allowing  
5 them to be at their -- their district-specific rate and  
6 then sharing for the smaller districts which, you know, we  
7 believe is one of the STP goals is to help the smaller  
8 districts.

9 So that's -- that's why the smaller districts  
10 are being helped as opposed to St. Joseph being the larger  
11 district.

12 Q. But the customers in the smaller districts, you  
13 don't know anything -- why they should get support versus  
14 the customers in St. Joseph district, do you? I mean, are  
15 they not as well off?

16 A. I haven't done a demographic analysis of the  
17 each district.

18 MR. CONRAD: Could I object that this is  
19 friendly cross?

20 JUDGE THOMPSON: It doesn't seem that friendly.

21 MR. ENGLAND: It's the tone.

22 JUDGE THOMPSON: We're going to break for the  
23 day.

24 Mr. England, you can finish this up tomorrow  
25 morning at eight o'clock?

1                   Thank you.  
2                   (The hearing was adjourned.)  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
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

I N D E X

MISSOURI-AMERICAN'S EVIDENCE:		
JAMES E. SALSER		
Cross-Examination (Cont'd) by Mr. Coffman	568	
Cross-Examination by Mr. Franson	570	
Cross-Examination by Mr. Deutsch	572	
Questions by Commissioner Schemenauer	577	
Questions by Judge Thompson	580	
Recross-Examination by Mr. Franson	584	
Recross-Examination by Mr. Finnegan	584	
Redirect Examination by Mr. England	585	
Further Questions by Judge Thompson	587	
Questions by Chair Lumpe	589	
Recross-Examination by Mr. Coffman	590	
Further Recross-Examination by Mr. Finnegan	591	
Further Redirect Examination by Mr. England	591	
OFFICE OF PUBLIC COUNSEL EVIDENCE:		
HONG HU		
Direct Examination by Mr. Coffman	602	
Cross-Examination by Mr. Franson	604	
Cross-Examination by Mr. Conrad	615	
Cross-Examination by Mr. Deutsch	655	
Cross-Examination by Mr. England	660	
Recross-Examination by Mr. Franson	688	
Recross-Examination by Mr. Deutsch	690	
Cross-Examination by Mr. Fischer	691	
Cross-Examination by Mr. Zobrist	693	
Recross-Examination by Mr. England	694	
Redirect Examination by Mr. Coffman	696	
CITY OF WARRENSBURG EVIDENCE:		
JAMES E. LANDON		
Direct Examination by Mr. Curtis	707	
Cross-Examination by Mr. Conrad	709	
Cross-Examination by Mr. Zobrist	715	
Cross-Examination by Mr. England	717	
Questions by Chair Lumpe	720	
Questions by Commissioner Murray	725	
Questions by Commissioner Schemenauer	727	
Cross-Examination by Ms. Cook	733	
Cross-Examination by Mr. Fischer	735	
Recross-Examination by Mr. England	739	
Redirect Examination by Mr. Curtis	741	
REPRESENTATIVE RICH CHRISMER		
Questions by Judge Thompson	744	

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

I N D E X

OFFICE OF PUBLIC COUNSEL EVIDENCE:  
JAMES A. BUSCH

Direct Examination by Mr. Coffman	753
Cross-Examination by Mr. Franson	756
Cross-Examination by Mr. Finnegan	770
Cross-Examination by Mr. Curtis	773
Cross-Examination by Mr. Deutsch	780
Cross-Examination by Mr. Fischer	790
Cross-Examination by Mr. Zobrist	814
Cross-Examination by Mr. England	820

1	E X H I B I T S    I N D E X		
2		Marked	Received
3	Exhibit No. 27		
4	Direct Testimony of		
4	James A. Busch	--	756
5	Exhibit No. 28		
6	Rebuttal Testimony of		
6	James A. Busch	--	756
7	Exhibit No. 29		
8	Surrebuttal Testimony of		
8	James A. Busch	--	756
9	Exhibit No. 30		
10	Direct Testimony of		
10	Hong Hu	--	604
11	Exhibit No. 31		
12	Rebuttal Testimony of		
12	Hong Hu	--	604
13	Exhibit No. 32		
14	Surrebuttal Testimony of		
14	Hong Hu	--	604
15	Exhibit No. 63		
16	Surrebuttal Testimony of		
16	James S. Landon	--	700
17	Exhibit No. 67		
18	AWWA Manual Page	632	634
19	Exhibit No. 68		
19	Hypothetical Example		
20	Peak Ratio 1.70	640	
21	Exhibit No. 69		
21	Hypothetical Example		
22	Peak Ratio 1.875	640	
23	Exhibit No. 70		
23	Hypothetical Example		
24	with Two Classes Peaking	640	
25	Exhibit No. 71		
25	Hypothetical Example		
	Peak Ratio 1.7	644	

1	E X H I B I T S    I N D E X		
2		Marked	Received
3	Exhibit No. 72		
	Missouri-American Water		
4	Bill Comparison	750	
5	Exhibit No. 73		
	District Adjustment for		
6	Missouri-American Water	755	756
7	Exhibit No. 74		
	St. Joseph -		
8	Missouri-American Water		
	Water Rate Increase Request		
9	WR-2000-281 et al.	797	798
10	Exhibit No. 75		
	St. Charles -		
11	Missouri-American Water		
	Water Rate Increase Request		
12	WR-2000-281 et al.	799	799
13			
14			
15			
16			
17			
18			
19			
20			
21			
22			
23			
24			
25			