

1 STATE OF MISSOURI
2 PUBLIC SERVICE COMMISSION

3
4 HEARING

5 June 5, 2000
6 Jefferson City, Missouri
7 Volume 9
8
9

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

22 KEVIN A. THOMPSON, Presiding,
23 DEPUTY CHIEF REGULATORY LAW JUDGE.
24 SHEILA LUMPE, Chair,
25 CONNIE MURRAY,
ROBERT G. SCHEMENAUER,
KELVIN SIMMONS,
M. DIANNE DRAINER, Vice-Chair
COMMISSIONERS.

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

2 (EXHIBIT NOS. 1 THROUGH 55 WERE MARKED FOR

3 IDENTIFICATION.)

4 (Written Entries of Appearance filed.)

5 JUDGE THOMPSON: Good morning, ladies and

6 gentlemen. We are here in the matter of

7 Missouri-American Water Company's tariff sheets

8 designed to implement a general rate increase for

9 water service provided to customers in the Missouri

10 service area of the Company, Case No. WR-2000-281.

11 We will now take oral entries of appearance.

12 In the interest of brevity, I do not need your

13 address. Just tell me who you are, your firm, and who

14 you are representing, please.

15 Let's start with Mr. Fischer over on that

16 end of the room.

17 MR. FISCHER: Your Honor, let the record

18 reflect the appearance of James M. Fischer and

19 Larry W. Dority of the law firm of Fischer & Dority,

20 P.C., appearing today on behalf of four public water

21 supply districts, Public Water Supply District Nos. 1

22 and 2 of Andrew County, No. 1 of Buchanan County, and

23 No. 1 of DeKalb County.

24 JUDGE THOMPSON: Thank you.

25 Mr. Zobrist?

1 MR. ZOBRIST: Thank you.

2 Karl Zobrist, Blackwell, Sanders, Peper,

3 Martin, Kansas City, Missouri, representing the City

4 of St. Joseph, intervenor.

5 JUDGE THOMPSON: Tripp?

6 MR. ENGLAND: Thank you, your Honor.

7 Let me take this opportunity to enter the

8 appearance of myself, W.R. England, as well as Dean L.

9 Cooper and Richard T. Ciottone on behalf of the

10 Company, Missouri-American Water Company. We're

11 affiliated with the law firm of Brydon, Swearngen &

12 England, P.C.

13 JUDGE THOMPSON: Keith?

14 MR. KRUEGER: Keith R. Krueger, Cliff

15 Snodgrass, and Robert Franson for the Staff of the

16 Missouri Public Service Commission. I should note

17 that Mr. Snodgrass will be appearing pro hac vice, at

18 least until tomorrow, when he expects to receive his

19 Missouri Bar License.

20 JUDGE THOMPSON: Congratulations,

21 Mr. Snodgrass.

22 MR. SNODGRASS: Thank you, Judge.

23 JUDGE THOMPSON: If there is one thing we

24 need in this state, it's more lawyers. We're happy to

25 have you.

1 Go ahead.

2 MR. CURTIS: Let the record reflect the
3 appearance of Leland B. Curtis with the law firm of
4 Curtis, Oetting, Heinz, Garrett & Soule. I represent
5 the Cities of Warrensburg, O'Fallon, St. Peter, Weldon
6 Spring, and St. Charles Country, also Central Missouri
7 State University, Hawker Energy, Harmon Industries,
8 Stahl Manufacturing, Swisher Mower and Machine.

9 JUDGE THOMPSON: Thank you, sir.

10 MR. CONRAD: Also, your Honor, please let
11 the record reflect the appearance of Stuart W. Conrad
12 and Jeremiah D. Finnegan, of the law firm of Finnegan,
13 Conrad & Peterson. You indicated you didn't need our
14 address. We're here on behalf of Intervenors Ag
15 Processing, Wire Rope Corporation, and Friskies
16 Petcare.

17 JUDGE THOMPSON: Thank you, sir.

18 Mr. Deutsch?

19 MR. DEUTSCH: Let the record reflect the
20 appearance of James B. Deutsch of the law firm Blitz,
21 Bardgett & Deutsch, L.C. of Jefferson City, Missouri.
22 And we are represent the City of Joplin.

23 JUDGE THOMPSON: Thank you, sir.

24 Mr. Coffman?

25 MR. COFFMAN: Appearing on behalf of the

1 Office of the Public Counsel and the public, John B.
2 Coffman and Shannon E. Cook.

3 JUDGE THOMPSON: Mr. Stewart?

4 MR. STEWART: Let the record reflect the
5 appearance of Charles Brent Stewart, of the law firm
6 of Stewart & Keevil, L.L.C., as well as Jeffrey A.
7 Keevil, who will be spelling me sometime in the middle
8 of the week. We're representing today Public Water
9 Supply District No. 2 of St. Charles County, Missouri.

10 JUDGE THOMPSON: Thank you.

11 MS. VUYLSTEKE: Diana M. Vuylsteke of the
12 law firm Bryan Cave. I'm appearing on behalf of the
13 Missouri Industrial Energy Consumers.

14 JUDGE THOMPSON: Thank you.

15 Any other counsel?

16 (No response.)

17 JUDGE THOMPSON: Okay. I've already
18 explained to you about the exhibits. The ones that
19 are not marked, we will take up as we come to them.
20 If you want to mark some more during a break, we can
21 do that too.

22 There is a Motion to Strike filed by the
23 Office of the Public Counsel.

24 MR. COFFMAN: I'm afraid that's --

25 JUDGE THOMPSON: No. It was filed by

1 Missouri-American. I'm sorry. I grabbed the wrong
2 piece of paper.

3 You were surprised to hear you had filed a
4 motion?

5 MR. COFFMAN: Yes.

6 MR. ENGLAND: Not nearly as surprised as I
7 was to hear about it.

8 JUDGE THOMPSON: I don't often give that
9 kind of practice tip.

10 The Commission will take the Motion to
11 Strike with the case.

12 Okay. We need to determine now the order of
13 opening statements. Do I hear any suggestions?

14 Mr. England.

15 MR. ENGLAND: Perhaps we could follow the
16 list of witnesses for the first issue. I think that's
17 where most parties weighed in. We don't have
18 witnesses, of course, for St. Charles Water District,
19 St. Louis Industrials --

20 MS. VUYLSTEKE: We will be sponsoring Ernest
21 Harwig.

22 MR. ENGLAND: Oh, okay. Then those parties
23 that multiple -- multiple parties that sponsor one
24 witness, I guess they are free to choose whatever
25 order they want to go in. But I'd follow probably the

1 Rate Design list of witnesses.

2 JUDGE THOMPSON: Any responses or counter
3 suggestions?

4 (No response.)

5 JUDGE THOMPSON: Certainly, I think the
6 Company should probably go first since they are
7 seeking affirmative relief in this case, so we will
8 put the Company in first.

9 If we take Mr. England's suggestion, then
10 next would be the City of St. Joseph and the St.
11 Joseph Area Water Districts. Is that acceptable?

12 Mr. Fischer?

13 MR. FISCHER: That's fine with me.

14 JUDGE THOMPSON: That's fine with you.

15 Which of those two? Let's see. City of
16 St. Joseph is Mr. Zobrist.

17 MR. FISCHER: We'd volunteer to go first,
18 your Honor.

19 JUDGE THOMPSON: How does Mr. Zobrist feel
20 about that?

21 MR. ZOBRIST: I'll follow up. That's fine.

22 JUDGE THOMPSON: Okay. So let's see. That
23 would be St. Joseph Water Districts and City of
24 St. Joseph.

25 Next would be the Office of the Public

1 Counsel, following Mr. England's suggestion.

2 Mr. Coffman.

3 MR. COFFMAN: Traditionally, we've gone

4 after the Staff, generally being more adverse to the

5 Company than the Staff, but we have no preference.

6 JUDGE THOMPSON: So you want to go last, is

7 what you're saying? Staff --

8 MR. COFFMAN: Sure. The later the better.

9 JUDGE THOMPSON: -- as the penultimate

10 speaker. Very well.

11 So we'll put OPC in at the end and Staff in

12 just before them. Is that acceptable with Staff?

13 Mr. Krueger.

14 MR. KRUEGER: That's fine, your Honor.

15 JUDGE THOMPSON: Okay. We still got to fill

16 in the middle, though.

17 St. Joseph Industrials, Mr. Conrad, would

18 you like to go after the City of St. Joseph?

19 MR. CONRAD: Why not?

20 JUDGE THOMPSON: Okay. Then we would have

21 the Missouri Industrials. Are you giving an opening

22 statement?

23 MS. VUYLSTEKE: Just a very brief comment.

24 That's all.

25 JUDGE THOMPSON: Okay. We've already got

1 the Municipal Industrial Intervenors -- well, no.
2 That's the Warrensburg gang.
3 MR. CURTIS: That's right.
4 JUDGE THOMPSON: Do you want to go next?
5 MR. CURTIS: That would be fine.
6 JUDGE THOMPSON: Okay. Then we have the
7 City of Warrensburg. That's you, too?
8 MR. CURTIS: Yeah, all of them.
9 JUDGE THOMPSON: Who hasn't gotten a place
10 in the lineup yet?
11 Mr. Deutsch, would you like to go after
12 Warrensburg?
13 MR. DEUTSCH: Sure.
14 JUDGE THOMPSON: Thank you, sir. And who
15 would like to go after that? Anybody else?
16 Mr. Stewart.
17 MR. STEWART: I'll make it real easy. We
18 waive our opening statement for the Water District of
19 St. Charles County.
20 JUDGE THOMPSON: That's very easy. I
21 appreciate that. Thank you.
22 Anyone else?
23 (No response.)
24 JUDGE THOMPSON: We've got everyone covered
25 then for opening?

1 (No response.)

2 JUDGE THOMPSON: Very well. I believe we

3 have covered all of the preliminary matters which

4 is -- Mr. England.

5 MR. ENGLAND: Go ahead, John.

6 MR. COFFMAN: I do have one witness

7 availability issue I'm afraid I have to bring up.

8 Sadly, Mr. Trippensee's father-in-law passed away this

9 weekend.

10 JUDGE THOMPSON: I'm sorry to hear that.

11 MR. COFFMAN: He would prefer if he didn't

12 have to take the stand this week and, perhaps, could

13 go the second week. It was originally the plan on

14 most issues except for perhaps the phase-in issue. I

15 haven't talked with all of the parties, but those I've

16 talked to didn't have a problem with that.

17 JUDGE THOMPSON: When would you propose

18 putting him on?

19 MR. COFFMAN: Next week.

20 JUDGE THOMPSON: Next week. Any responses

21 to that?

22 MR. ENGLAND: We have no problem with that.

23 MR. CONRAD: We would have no objection.

24 MR. KRUEGER: No objection.

25 JUDGE THOMPSON: Okay. I will pencil in

1 Mr. Trippensee then for next week, and next week you
2 can advise me precisely where in the batting order he
3 will appear.

4 MR. COFFMAN: Most of his issues were going
5 to go later, except for the phase-in issue, and, if we
6 got to it, the valuation of the St. Joseph plant.
7 While he's up on the stand for one of those other
8 issues, maybe we can go through a round of
9 cross-examination based on those issues he missed.

10 JUDGE THOMPSON: Okay. It looks to me like
11 the next time you had anticipated having him was
12 Friday of next week in the morning. Just do all of
13 his issues at that time; is that acceptable?

14 MR. COFFMAN: Yes.

15 JUDGE THOMPSON: Very well.

16 Mr. England, you had another preliminary
17 issue?

18 MR. ENGLAND: Yes, I did, your Honor.

19 I don't believe -- we have two witnesses
20 that filed direct testimony but did not file any
21 rebuttal or surrebuttal. It's our belief, I think,
22 that their testimony is not particularly -- the direct
23 testimony is not particularly controversial, and I
24 think the parties agreed that at least among the
25 parties their testimony could be incorporated into the

1 record or made a part of the record without the
2 necessity of them traveling to be here and take the
3 witness stand.

4 But we recognize that the Commission may
5 have questions of these witnesses, and since these two
6 witnesses would have to travel from New Jersey, would
7 it be possible to get an indication in the next day or
8 two whether the Commission desires to ask any
9 questions of Ms. Linda Gutowski or, I believe, John
10 Watkins? Because we need to make arrangements and
11 probably bring them in next week.

12 JUDGE THOMPSON: I understand. I will raise
13 that with the Commissioners when I have an
14 opportunity.

15 MR. ENGLAND: Okay. I appreciate that.

16 JUDGE THOMPSON: It certainly sounds to me
17 like that would be workable.

18 Any other preliminary matters?

19 MR. KRUEGER: Your Honor, I have a couple.

20 One is, I found a couple of minor errors on
21 the list of witnesses. The list of witnesses as filed
22 showed that James Landon was testifying only on behalf
23 of the City of Warrensburg. In fact, he is testifying
24 on behalf of the group of Municipal and Industrial
25 Intervenors. Other than noting on whose behalf he's

1 testifying, I don't think it will affect anything in
2 the procedure.

3 JUDGE THOMPSON: Okay.

4 MR. KRUEGER: Helen Price is testifying on
5 behalf of the St. Joseph Area Water Districts but not
6 on behalf of the City of St. Joseph where I had listed
7 her testimony to appear.

8 I would assume that she could still testify
9 in the same position, but that the City of St. Joseph
10 might have an opportunity to cross-examine her and
11 probably questioning her first with the sequence of
12 the other parties' cross-examination to be the same as
13 the other -- the other witness there.

14 JUDGE THOMPSON: Okay. Any reaction?
15 Response? Who is here for the City of St. Joseph?

16 Mr. Zobrist.

17 MR. ZOBRIST: I have no objection.

18 JUDGE THOMPSON: Are you going to want to
19 cross-examine Miss Price? Of course, you won't know
20 until --

21 MR. ZOBRIST: I don't know, but we may very
22 well waive it.

23 JUDGE THOMPSON: Okay. We'll take that up
24 when we get there.

25 Anything else?

1 MR. KRUEGER: The other matter, your Honor,
2 is the Staff's accounting schedules, which I would
3 hope that we could just admit into the record by
4 stipulation rather than having any individual witness
5 testify regarding them.

6 JUDGE THOMPSON: Well, what does everyone
7 think of that?

8 MR. FISCHER: Keith, would there be someone
9 we could ask what the Staff's range is, though, or
10 something along that line?

11 MR. KRUEGER: Certainly.

12 MR. ENGLAND: I think all of the schedules
13 are sponsored by several of Staff's witnesses. I
14 mean, the request is not unreasonable from my
15 perspective if you just require him to go through each
16 of his witnesses to have them sponsor their relevant
17 portions. I don't have any problem with that.

18 JUDGE THOMPSON: Mr. Conrad.

19 MR. CONRAD: Well, I was going to suggest
20 just for the ease of the record to just obviously mark
21 that as one -- one exhibit, but what you might do
22 is --

23 JUDGE THOMPSON: I think we did mark it.

24 MR. CONRAD: -- let him offer it, and then
25 we'll hold it until --

1 MR. ENGLAND: The end of the case?

2 MR. CONRAD: -- Mr. Fischer has had his

3 questions and end of direct and Staff has had them

4 all . . .

5 JUDGE THOMPSON: I think the best way to do

6 it, rather than admitting it at the beginning, why

7 don't we submit that at the very end by which time all

8 of the sponsors will have testified and objections

9 will be noted?

10 MR. ENGLAND: Fair enough.

11 JUDGE THOMPSON: Is that acceptable?

12 MR. ENGLAND: That's fine, your Honor.

13 JUDGE THOMPSON: Make a note to yourself,

14 but we'll go through all of the awful exhibits and

15 make sure we've got everything in, or that we know

16 what happened to everybody, I should I say, at the

17 end.

18 Anything else?

19 (No response.)

20 JUDGE THOMPSON: I know you guys are just

21 trying to stall so you don't have to do opening

22 statements.

23 Hearing nothing more --

24 MR. ZOBRIST: Judge, I would make just --

25 JUDGE THOMPSON: Mr. Zobrist.

1 MR. ZOBRIST: -- just a question. I
2 represent the City of St. Joseph, and we're really
3 only involved in evidence on the tariff rate design
4 issue.

5 JUDGE THOMPSON: Yes, sir.

6 MR. ZOBRIST: And I would seek to be excused
7 at the conclusion of the cross-examination of those
8 witnesses. Do you want me to make a formal motion at
9 that time or --

10 JUDGE THOMPSON: No. We can take that up
11 now. There has also been another request to be
12 excused.

13 As far as I'm concerned, I believe that
14 parties don't need to be here unless they want to, and
15 the same goes for their -- for their counsel. That's
16 between you and your client as to how much of this you
17 attend.

18 So we can just grant a blanket excuse to
19 everyone right here and now. If you have business
20 before this tribunal, you should be here to do it.

21 MR. CONRAD: What does this blanket excuse
22 cover?

23 JUDGE THOMPSON: It does not extent to hotel
24 bills.

25 What I mean to say is, if you don't want to

1 be here, don't be here. If you want to be here just
2 to give an opening, give your opening, leave. Come
3 back at some later time if would you like. I think
4 that works fine.

5 As I recall, that's how it works in Circuit
6 Court. I see no reason why we need to be more formal
7 here.

8 Anything else?

9 (No response.)

10 JUDGE THOMPSON: Okay. Hearing nothing, we
11 will recess for approximately five or ten minutes. I
12 will get the Commissioners. We will start with
13 opening statements.

14 Thank you.

15 (A recess was taken.)

16 JUDGE THOMPSON: Good morning, ladies and
17 gentlemen.

18 We are ready to begin opening statements.

19 Mr. England.

20 MR. ENGLAND: Thank you, your Honor.

21 May it please the Commission. I'm Tripp
22 England. I represent the Missouri-American Water
23 Company, the Applicant in this case.

24 As you are no doubt aware, Missouri-
25 American Water Company seeks a rate increase of

1 approximately sixteen-and-a-half-million dollars, or
2 roughly 53 percent in its total statewide revenues.
3 The case, because of the significance of that amount,
4 percentage in dollars, the significance of this case
5 is very apparent.

6 The good news is that as a result of the
7 prehearing conference, I think good faith efforts were
8 made to narrow the case to a manageable number of
9 issues. The bad news is, each and every one of those
10 issues is very important and very complex.

11 As indicated, I think, in the list of
12 issues, we've tried to group the eight or nine issues
13 in three major groupings. There is rate design,
14 including a proposal by some for phasing in rate
15 increases. There is an issue with respect -- or
16 issues with respect to the prudence and the capacity
17 relating to the St. Joseph Treatment Plant. And,
18 finally, there are other revenue requirement issues
19 such as rate of return, rate base and expense
20 adjustments that have been proposed by various
21 parties.

22 For purposes of my opening, I'd like to
23 focus on two of the main issues, and by doing so, I
24 don't want to denigrate the importance of the other
25 issues, just recognize that we have a limited amount

1 of time to talk about these things.

2 The two I want to focus on are rate design
3 and the prudence and capacity issues, certainly the
4 most controversial and the ones that involve the
5 greatest impact on the Company's financial integrity
6 and its ability to provide safe and adequate service
7 to all of its customers.

8 As I mentioned to you, our original request
9 was approximately sixteen-and-a-half-million dollars
10 on an annual basis. In the rebuttal testimonies that
11 were filed by the Company after the prehearing
12 conference and after more current and actual costs
13 were known, our request is more in the neighborhood of
14 14.8 million, and the -- one of the primary reasons
15 for the drop in the request was the fact that the
16 St. Joseph Treatment Plant was able to be brought on
17 line at a total cost of approximately 70 million;
18 whereas, for purpose of our case, when we filed it in
19 October of last year, we were budgeting a total price
20 or cost of approximately \$74 million.

21 So there is a \$4 million reduction in the
22 cost of that plant given the actual cost that has
23 impacted to a large degree the Company's rate increase
24 request, or at least impacted in a large amount the
25 reduction in that request.

1 Before I begin, I'd also like to take a
2 moment just to distinguish the impact and the nature
3 of this case with some analogies that have been made
4 to the electric utility industry and nuclear
5 generating plants.

6 In this case, the prudence and capacity
7 issues address the Company's initial decision to build
8 the new St. Joseph Treatment Plant. There are no
9 issues that I'm aware of with respect to the actual
10 costs of the plant. The fact that it was brought in
11 under budget is -- stands in marked contrast to what
12 occurred in the nuclear industry where nuclear plants
13 were budgeted, I think the Callaway plant at
14 approximate 500 million, and the final price tag was
15 more like \$2.5 billion. And that's what generated a
16 lot of the prudence issues and disallowances that
17 occurred in that industry in that case.

18 Let me talk a moment about rate design. As
19 you well know -- nothing new -- the issue is single-
20 tariff pricing or district-specific pricing, or, in
21 some cases, something else or something in between.
22 The argument is essentially the same that you have
23 heard several times before. You heard it, and it was
24 debated at length in the Company's last rate case and
25 most recently in the cost of service case which this

1 Commission created as a result of the last rate case
2 to get a better idea of the comparison of costs on a
3 district basis versus revenues being recovered on a
4 single-tariff basis, or uniform tariff basis.

5 The issue, as you well know, is simply a
6 matter of, where do you draw the line, or I think
7 Staff refers to it as, where do you draw the circle.
8 Do you average costs at the total Company level, or do
9 you average costs at the district level? Those seem
10 to be the two proposals before you and have been in
11 the last two cases.

12 The one thing I would like to emphasize is
13 that the Company does not receive any more revenue
14 under single-tariff pricing than under district-
15 specific pricing. The revenue requirement remains the
16 same. It's just a matter of how do you achieve it,
17 how do you recover that from customer rates.

18 I'd also like to take an opportunity to
19 respond to some of the more frequently raised
20 criticisms of the single-tariff pricing.

21 Parties have told you that single-tariff
22 pricing doesn't send the proper price signals. Well,
23 that would assume that water -- that there is a
24 certain elasticity of demand for water, and perhaps
25 there is, but I would say it is very minimal. Water

1 is a critical element of everybody's life. It is not
2 something that is generally elastic as far as the
3 price is concerned. You need water. I don't think
4 anybody disputes that -- that notion.

5 Critics have said single-tariff pricing
6 provides no incentive for the Company to control
7 capital spending. Well, this case is a clear example,
8 and the challenges to the prudence of the Company's
9 decision to build the St. Joseph Plant is a clear
10 example of the fact that the Company does not fit in a
11 vacuum.

12 Its decisions are reviewed by this
13 Commission. Its decisions are reviewed by other
14 regulatory bodies. There is -- it does not
15 willy-nilly do as it pleases. There are many checks
16 and balances.

17 It's argued that if the districts are
18 required to recover their own cost of service, the
19 customers within those districts will be more involved
20 and have some impact on the level of spending in that
21 particular district.

22 Well, the fact of the matter is utility
23 companies don't always have the luxury of deciding
24 when to spend and when not to spend. They are public
25 utilities. They have an obligation to serve. They

1 must install and construct plant to meet customer
2 demand. They cannot decline to do so. And they must
3 be required, certainly in the water industry, to meet
4 certain environmental standards.

5 The group dining analogy has been used many,
6 many times to discuss or to try to bring this point
7 home, in that people going out together and splitting
8 the check for dinner does not provide them with the
9 incentive to manage their own costs with respect to
10 their own dinner. The analogy breaks down, however,
11 and is not particularly valid in my opinion because it
12 does not include a third-party independent
13 nutritionist who is also at that group dining
14 experience and telling the diners what they should eat
15 and what they should not eat. The diners don't
16 necessarily have complete control over their -- over
17 their selection from the menu.

18 Another issue that's been raised in this
19 case by Mr. Landon and, I think, by others, but
20 Mr. Landon is the city manager for Warrensburg. He
21 articulates a point that single-tariff pricing has
22 pitted communities against each other and has required
23 them to take an active interest in other communities
24 and the projects that are planned for those
25 communities.

1 I think the point is that if you-all send a
2 clear signal that district-specific pricing is the way
3 to go that we are going to eliminate a lot of the
4 bickering, the controversy, the debate, and the
5 intervention by a number of the intervenors in this
6 case.

7 Don't kid yourself. District-specific
8 pricing isn't going to eliminate disputes over rate
9 design. We are still going to argue about how you
10 allocate common and joint costs to the various
11 districts. We are still going to argue about how you
12 allocate those costs within a district to each of the
13 customer classes within that district. And to the
14 extent we have substantial increases in a particular
15 district, we're going to argue over whether or not
16 those rates ought to be phased in or how the impact
17 ought to be spread to customers.

18 So simply by adopting district-specific
19 pricing will not eliminate the issue of rate design in
20 the future for this company.

21 It is contended that single-tariff pricing
22 does not produce rate stability, that district-
23 specific pricing produces more rate stability. And
24 the parties to this case cite the fact that single-
25 tariff pricing has resulted in a 50 percent increase

1 in all districts as evidence that this is not a stable
2 phenomenon.

3 Well, the fact of the matter is that
4 district-specific pricing in this case produces
5 impacts on certain districts that are far in excess of
6 the 50 percent proposed statewide.

7 Mr. Harwig has a graph in his testimony,
8 direct testimony, that shows you that under district-
9 specific pricing Parkville will receive an 88 percent
10 increase. This is based, by the way, on the Company's
11 revenue requirement or rate increase request.

12 But Parkville will get an 88 percent
13 increase; Mexico, 100 percent; St. Joe, 122 percent;
14 and Brunswick a 240 percent increase. Increases of
15 that nature are not stable by any stretch of the
16 imagination.

17 And if in the future you decide to adopt
18 district-specific pricing, you are going to see those
19 kind of impacts when the Company has to make large
20 expenditures in any particular district and spread
21 them to a smaller group of customers than they would
22 if they were to spread them to a group of exchanges or
23 to a state-wide customer base.

24 So district-specific pricing does not give
25 you any more rate stability. It only -- it only is

1 going to exacerbate that problem.

2 Another issue that's been injected into this
3 case is the allocation of costs among customers. So
4 on top of the shifts that are being advocated by a
5 move from single-tariff pricing either towards or to
6 district-specific pricing are additional shifts in
7 revenue burdens, if you will, created by some of the
8 parties' proposal to adopt a new class cost of service
9 study.

10 OPC is -- is the primary advocate of this.
11 They have proposed to abandon an industry standard
12 allocation process or procedure known as the base
13 extra capacity method and introduce the concept of
14 economies of scale into their class cost of service
15 study.

16 I'm afraid that because of all of the other
17 issues going on in this case, single-tariff pricing
18 versus district-specific, the prudence issues, and
19 what have you, that this concept may not get the
20 complete hearing that it deserves, but you need to pay
21 attention to this.

22 What Public Counsel is proposing is a major
23 departure from traditional cost allocations among
24 classes for this company for this water industry, and
25 that on top of the shift away from single-tariff

1 pricing creates even greater shifts and burdens on
2 customers.

3 What you need to know about Public Counsel's
4 proposal is that it is definitely new. It has not
5 been adopted in this jurisdiction or any other
6 jurisdiction that I'm aware of.

7 It mixes marginal cost concepts with an
8 embedded cost study. Suffice it -- well, and,
9 finally, it is -- it is resoundingly criticized by
10 three diverse parties in this case, Mr. Harwig on
11 behalf of the St. Joe Industrials and other users,
12 Staff Witness Hubbs, and, of course, the Company
13 witness, Stout.

14 Suffice it to say that this class cost of
15 service study standing alone in isolation is a bad
16 idea. Coupled with everybody else that's going on in
17 this case, it's an even worse idea. Now is not the
18 time to embark on a novel and untested method for
19 allocating costs among customer classes.

20 Let me talk a little bit about the phase-in
21 proposals that we have in this case.

22 Several parties, including Office of Public
23 Counsel, Staff, and the St. Joseph Industrial
24 Intervenor have proposed various phase-ins, none of
25 which are the same, none of which are defined in terms

1 of actual impact to customers within districts.

2 Public Counsel perhaps goes the furthest by
3 at least showing the impact by district, by year, but
4 it doesn't go the extra step to show you the impact by
5 district by class of customer by year.

6 Mr. Harwig has just suggested that any time
7 rates go above or rate increases exceed 35 percent a
8 phase-in is appropriate. He offers no schedule to
9 show you how that would impact the actual rates in
10 this case, or the rates to be developed in this case.

11 And Staff has certainly advocated the
12 concept of a phase-in but has no real concrete
13 proposal other than phasing in the rate base addition
14 in St. Joseph.

15 The Company has not proposed a phase-in and
16 has objected to a phase-in in this case, and they
17 haven't done so lightly. We looked at this issue long
18 and hard. We recognize that 50 percent is a
19 significant increase, certainly, percentage-wise. But
20 in the final analysis, and it took a great deal of
21 time. In the final analysis we determined that we
22 could not accept the phase-in.

23 First, Financial Accounting Standards
24 Nos. 71 and 92 prohibit the booking of a deferral that
25 results from the phase in of rates. In other words,

1 to the extent you allow something less than the total
2 revenue requirement in the first year rate increase,
3 anything that is deferred must be written off on the
4 Company's books and will have obviously a negative
5 impact on its financial statements.

6 Second, any amounts that are deferred,
7 everyone agrees, needs to bear a carrying cost. There
8 is a time value of money, and to the extent revenues
9 are deferred, that deferral needs to recognize that
10 cost. So the amounts deferred are actually increased
11 by carrying costs. The longer you defer it, the
12 greater the carrying costs, the more the customer
13 ultimately has to pay.

14 And, finally, while I will admit freely that
15 50 percent in and of itself is a large percentage
16 increase, I think it's important to look at the
17 absolute dollar impact that we're talking about in
18 this case. In Mr. Stout's rebuttal testimony I
19 believe there is some -- are some figures regarding
20 the system-wide average rates, currently, \$18.84.

21 Under the Company's proposal, those would --
22 that average bill would go to \$27.68 -- this is a
23 monthly bill -- or an increase of approximately \$8.84,
24 or I believe somewhere in the neighborhood of a little
25 less than 29 cents a day.

1 Mr. Stout also goes on to compare this
2 average bill of \$27 with other water company rates
3 existing at the time that he prepared his testimony as
4 well as other utility costs. We don't believe that
5 that total bill or that absolute dollar amount is out
6 of line, and so we'd ask you to consider that as well
7 as the emphasis that everyone else is placing upon the
8 percentage increase.

9 Finally, I need to discuss with you on the
10 issue of rate design an alternative rate proposal that
11 we have proposed in our rebuttal testimony. It's in
12 the rebuttal testimony of Mr. Stout, and he refers to
13 it as a capital addition surcharge.

14 The impact of the St. Joseph Plant is
15 significant. We can't deny that. We don't deny that.
16 As a matter of fact, it's the basis for our request
17 for an AAO in this case.

18 If this Commission believes that that impact
19 of the St. Joseph Plant is so significant that it's
20 appropriate for customers in the St. Joseph District
21 to pay something more in rates than what the other
22 districts pay, we have developed a method that we
23 believe objectively and in a non-discriminatory
24 fashion gives you an opportunity to deal with those
25 situations but still maintain single-tariff pricing to

1 the greatest extent possible.

2 That test would look at any particular plant
3 addition, whether it's in St. Joe, Warrensburg,
4 Brunswick, wherever, and take a look at the revenue
5 requirement impact of that plant, and if the revenue
6 requirement impact exceeds 15 percent of the total
7 Company's revenues, then the amount in excess of that
8 15 percent would be allocated to that particular
9 district.

10 We've also looked at it, if you don't think
11 that 15 percent is appropriate, maybe 20 percent is
12 appropriate. If the impact of a particular plant
13 addition exceeds 20 percent of the total Company
14 revenues, then perhaps the amount that exceeds
15 20 percent ought to be allocated to that particular
16 district.

17 What it does is it biases the -- the
18 surcharge in favor of smaller districts, because as
19 they might have, relatively speaking, relative to
20 their size a large capital addition, a million dollars
21 in the Brunswick exchange where there are five -- or
22 the Brunswick District where there are 500 customers,
23 that may be significant for Brunswick but on the total
24 Company rate base may not have the kind of impact that
25 a \$70 million plant in St. Joseph would have on 30,000

1 customers and on the total Company basis.

2 So if you want to use a 15 percent limiter,
3 what would happen in this case is that all customers
4 in all districts would get a 28 percent increase, and
5 the St. Joseph folks in addition to that 28 percent
6 would get a 48 percent surcharge.

7 If you move the bogey to 20 percent where
8 the plant's impact has to exceed 20 percent of the
9 total company revenues, all districts would get a
10 33 percent increase and St. Joseph, in addition, would
11 receive a 35 percent surcharge.

12 As I mentioned to you, this, we think, is a
13 way to address large capital additions that you may
14 believe are out of the norm that need to be allocated
15 in some measure or degree to the particular district
16 where they are occurring, yet at the same time
17 maintain as much of the single-tariff pricing concept
18 as possible.

19 I want to shift gears with you now and talk
20 about the prudence and capacity issues.

21 Both Public Counsel and the St. Joseph
22 Industrial Intervenors have filed testimony accusing
23 the Company of imprudence in its decision to pursue a
24 new ground water source of supply treatment facility
25 in the St. Joseph district. They contend that we

1 should have rehabilitated or renovated the existing
2 river water source of supply, surface water source of
3 supply, treatment plant there in St. Joe.

4 Public Counsel, also not content with
5 calling our decision-making names, goes on to make a
6 further adjustment for what they've determined to be
7 excess capacity. They don't believe that all of the
8 plant is a necessity at this particular time and,
9 therefore, they make an additional adjustment to throw
10 out a part of the plant.

11 Roughly speaking, as I mentioned to you,
12 the plant as constructed cost 70 million. The
13 St. Joseph Industrials are proposing a valuation of
14 about 38 million, and Public Counsel after it gets
15 through with its prudence adjustment and its capacity
16 adjustment is down to 30 million.

17 The similarity between Public Counsel and
18 the St. Joseph Intervenor's position is that they both
19 look at or seize upon studies performed by this
20 company in 1991 in the case of Public Counsel and in
21 1993 for the St. Joseph proposal, both of which
22 preceded or pre-dated the flood of 1993.

23 Both parties, Public Counsel and the
24 St. Joseph Industrial Intervenor, ignore later and
25 more comprehensive analyses of the true cost to

1 renovate that plant which were performed after the
2 flood of 1993, a significant event in anybody's book.

3 Both of these parties ignore the
4 comprehensive feasibility study that was prepared by
5 this company in 1996 which looked at four
6 alternatives, one of which was renovating the existing
7 plant at the existing site; another of which was
8 constructing a new river water treatment plant at a
9 different site. A third alternative was the one
10 chosen, constructing a ground water source of supply
11 treatment plant at a remote site out of the flood
12 plain. And the Company even went so far as to examine
13 a fourth alternative, which would be to establish or
14 construct a pipeline to the City of Kansas City and
15 purchase water wholesale from the City of Kansas City.

16 This 1999 feasibility study not only
17 examined the capital costs of each of these
18 alternatives, it examined the operating costs and a
19 20-year view and then did a present-worth analysis
20 bringing it back to present-day values to compare the
21 various costs.

22 As a result of that review, the ground water
23 treatment plant option which it proposed, which it
24 shows, was the more or most efficient, economical
25 choice. It was comparable to the river water

1 renovation option, if you will, not the new river
2 water plant, but the river water renovation, but
3 didn't have all of the concerns and issues with
4 respect to treating water from the river. It didn't
5 involve the problems of flooding that we had very
6 recently experienced, painfully experienced, so it was
7 clearly the preferred option.

8 This 1996 feasibility study was the study
9 that drove the Company's decision.

10 Now, we have attempted to put in a great
11 deal of evidence to dispel the notion and the
12 criticism that our decision-making was imprudent. And
13 this information is not new. It's essentially the
14 same information that you had before you in the 1997
15 certificate case, WA-97-46, et al.

16 And we filed a Motion to Strike, so we
17 have -- we have responded to this on two fronts. We
18 believe it is improper to raise this issue at this
19 time. We filed a Motion to Strike to that effect, and
20 I understand that's been taken with the case. But we
21 also have attempted to address it on a substantive
22 level and prove again that our decision was the right
23 one.

24 We have offered, and you will hear, the
25 testimony of John Young which will clearly show that

1 the 1991 and 1993 pre-flood studies seized upon by
2 Public Counsel and the St. Joseph Industrial
3 Intervenor are inappropriate measures for the true
4 cost of renovating this plant. Both of those studies
5 were limited in design and scope and did not take into
6 consideration all of the work that needed to be done
7 to renovate that plant, particularly after we had
8 experienced the 1993 flood.

9 In addition, Mr. Young performs or lays out
10 a time line for all of the processes, all of the
11 analyses, all of the decisions that were made from
12 1991 to present. He explains how the Company
13 performed its analysis of capacity needs, the right
14 size of the plant, as well as the present and future
15 environmental concerns associated with treating water
16 and providing that potable water into the future.

17 He reviews the four alternatives that I
18 briefly mentioned a minute ago. He talks about the
19 present value of the alternatives. And, again, by the
20 way, Mr. Young was the same witness, or one of the
21 same witnesses, that was in this case -- the
22 certificate case that I mentioned before. He again
23 concludes after exhaustive review that the Company
24 made the most prudent decision in pursuing the ground
25 water alternative in St. Joseph.

1 But, as I said, we're not telling you
2 something you don't already know or haven't already
3 heard. These analyses were the same ones that were
4 before the Commission in the 1997 certificate case,
5 and all of the information that the -- that the
6 witnesses discuss, rely upon, or what have you, was
7 available, was in existence at the time of the 1997
8 certificate case. There is nothing in this case that
9 wasn't known or available to the parties three years
10 ago.

11 Now, I want to review what happened in that
12 case briefly, not to set up my Motion to Strike, but
13 for purposes of determining the credibility of the
14 hindsight attacks that have been filed by Public
15 Counsel and the St. Joseph Industrial Intervenors.

16 As you recall, that case was a certificate
17 case. We sought a Certificate of Public Convenience
18 and Necessity to expand our certificated area to
19 include approximately 500 acres where the new well
20 field is located.

21 That case was filed in August of '96 and
22 hearings were not held until July of '97. That case
23 was on file for nearly a year before it was heard,
24 adequate opportunity for notice, opportunity to
25 intervene, and, as a matter of fact, in one of your

1 scheduling orders you directed the parties to examine
2 the prudence of the Company's decision to pursue the
3 ground water option that it had picked.

4 Many of the parties participating in that
5 case are the same parties that are here before you
6 today, Staff, Office of Public Counsel, City of
7 Warrensburg, St. Joseph Water District. Even Ag
8 Processing sought and obtained at the last minute
9 permission to participate out of time. They were here
10 for the entire proceeding.

11 As a result of that case, Staff filed
12 testimony by its engineers that basically supported
13 the Company's decision. OPC went out and hired an
14 outside consultant, a licensed professional engineer
15 in the state of Missouri, experienced in the design
16 and construction of water treatment plants in the
17 state of Missouri.

18 And he basically concluded several things;
19 one, that the Company's capacity projections which
20 relate to the size of the plant were okay. He had no
21 problem with our capacity projections. He didn't
22 object to the proposal to build a ground water source
23 of supply, acknowledging that treatment concerns with
24 river water were becoming more and more difficult,
25 more and more costly.

1 The only departure from the Company's
2 perspective or criticism of the Company's choice that
3 the Public Counsel witness could muster in 1997 was a
4 suggestion that perhaps the Company ought to phase out
5 the old plant, the river plant, and phase in the new
6 plant. An we responded at that time saying, We looked
7 at that option, but the present value, the costs
8 associated with that were too expensive.

9 None of the other parties participating in
10 that case offered any opposition to the Company's
11 proposed alternative. As a result, the Commission
12 issued a Report and Order in this case and found based
13 upon, and I quote, "extensive evidence," that the
14 Company's chosen alternative was a reasonable
15 alternative.

16 The Company did -- excuse me. The
17 Commission did, however, reserve the right to examine
18 the prudence of the actual costs incurred and the
19 management of the construction of the proposed
20 project.

21 Remember, I told you the difference in the
22 prudence issue in this case versus the prudence issue
23 in the nuclear cases is the cost overrun which
24 occurred in the nuclear cases. We don't have that
25 here. We brought the plant in under budget. The

1 prudence issue is here, did we make the right decision
2 back in 1997 before we turned a spade of dirt.

3 Three years later, three years after the
4 fact, OPC has found a new engineer and the St. Joseph
5 Industrial Intervenors have for the first time hired
6 an engineer who have concluded that the Company's
7 decision to build the new plant was clearly imprudent.

8 The fact that these witnesses offer these
9 opinions three years after the fact and after the
10 Company has spent \$70 million on its treatment plant
11 needs to be carefully weighed in considering the
12 credibility of the positions of these parties and the
13 positions of these witnesses.

14 Also, in considering the credibility of
15 these positions, consider the fact that before he was
16 hired, Mr. Bidy, the Public Counsel witness, stated
17 in his reply to the Request for Proposal that his gut
18 feeling -- those are his words, gut feeling -- was
19 that the Company had made a bad choice, had made the
20 wrong choice. In other words, Mr. Bidy came to this
21 assignment with his mind made up.

22 Consider also the fact that Dr. Morris, the
23 witness for the St. Joseph Industrial Intervenors, has
24 not been involved in the design and/or construction of
25 a water treatment plant for more than ten years.

1 Nevertheless, he freely criticizes the Company's
2 decision-making process.

3 Consider the fact that neither one of these
4 witnesses bases his conclusion on any information that
5 wasn't available three or more years ago.

6 Consider, finally, the fact that if the
7 Company's decision was so obviously imprudent, so
8 obviously incompetent -- I think those were words in
9 Mr. Biddy's testimony -- how were we able to fool this
10 Commission? How were we able to fool Staff's
11 engineers, and how were we able to fool Public
12 Counsel's hired consultant at that time? The fact of
13 the matter is we weren't.

14 This Commission has said that in examining
15 the prudence of the management decision it will assess
16 that decision at the time it is made and ask the
17 question, "Given all of the surrounding circumstances
18 existing at the time, did management use due diligence
19 to address all relevant factors and information known
20 or available to it when it assessed the situation?"

21 And that's what the Commission did in '97.
22 It had all of the evidence in front of it. It even
23 referred to it as extensive evidence. No new or
24 additional evidence has been presented in this case
25 that didn't exist at that time. The facts are the

1 same. The decision we made was the right one, and I
2 think the record will bear us out.

3 The hindsight, the Monday morning
4 quarterbacking offered by Public Counsel and
5 St. Joseph in this case are not only improper, they
6 are simply not credible.

7 I would just like to make one last comment
8 in closing, and that's the comment regarding fairness.

9 As you decide this case, I want you to ask
10 yourself, what more could this company have done?
11 They came to you in 1997 with a feasibility study that
12 examined these alternatives. They laid all of their
13 cards on the table, and I told you in opening
14 statement in that case that we wanted some safe
15 harbor, if you will. We wanted some decision from
16 you-all that would affirm the prudence of our
17 decision, because we were about to embark, at that
18 time, I think, on what we thought was a \$75 to \$80
19 million project.

20 I know the other parties resisted and argued
21 you needn't address prudence. I know that you
22 reserved some issues with respect to prudence. But
23 the fact of the matter is that if anybody had raised a
24 serious objection or question with respect to the
25 Company's decision at that time, if you had asked for

1 more information or had said no, we wouldn't have
2 embarked on this project. We would not have turned a
3 shovelful of dirt. That's the plain and simple truth
4 of the matter.

5 But we did, and nobody at that time, none of
6 the parties to this case said it was a bad choice.
7 Nobody said it was imprudent. Yet here they are
8 today, three years later, claiming that it was
9 obviously imprudent. I just don't think the record
10 bears that out, and, more importantly, I just don't
11 think it's appropriate to raise it at this time. I
12 think people ought to be accountable for their
13 decisions and ought to make them at the time they need
14 to be made, and that was three years ago before we
15 embarked on this project.

16 Thank you.

17 JUDGE THOMPSON: Thank you, Mr. England.

18 Mr. Fischer.

19 MR. FISCHER: May it please the Commission.

20 My name is Jim Fischer. Larry Dority and I represent
21 in this proceeding four public water supply districts
22 that are located around the rural areas of St. Joseph,
23 Missouri. Perhaps most significantly the water
24 districts that we represent are receiving water from
25 the new St. Joseph Treatment Plant.

1 Although the water districts that we
2 represent are among Missouri-American's largest
3 customers, they are in reality representatives for the
4 rural residential customers that they serve, since any
5 increase in cost will have to be passed along to those
6 rural residential and small commercial customers
7 around St. Joseph.

8 While the water districts are interested in
9 all of the issues in this particular case, we are
10 going to focus principally on the rate design issue.
11 In the rate design area, the single-tariff pricing
12 versus district-specific pricing has had a very long
13 and a very rich regulatory history with
14 Missouri-American and its predecessor water company,
15 Missouri Cities Water Company.

16 After careful consideration over the years,
17 the Commission has adopted and used single-tariff
18 pricing as a public policy that made sense for
19 Missouri-American Company and its customers. Again,
20 in the last Missouri-American rate case, the
21 Commission decided to continue its practice of using
22 single-tariff pricing for looking at the rates of
23 Missouri-American. The Commission did, however,
24 reserve the right to change rate design policies in
25 this case.

1 Although there is a understandable desire
2 among regulatory agencies to keep your public policy
3 options open, it's also important to recognize that
4 some public policies just don't work if continuity is
5 not maintained over the years. Single-tariff pricing
6 is certainly one of those public policies where
7 consistency must be maintained if the benefits are to
8 be achieved and if it's going to be fair to all
9 concerned.

10 As Staff Witness Wess Henderson observed in
11 Missouri-American's last rate case, single-tariff
12 pricing by its nature is not a here-today,
13 gone-tomorrow kind of rate design. In answer to
14 Vice-chair Drainer's question regarding whether a
15 decision in that rate case regarding single-tariff
16 pricing would bind the Commission in the future,
17 Mr. Henderson explained, "I don't think it would be
18 fair or proper to have single-tariff pricing in this
19 case, and then in the next case go back to district-
20 specific, and in the next case go back to single-
21 tariff pricing." Although, as I've said, you are not
22 bound by it, I think there is some fairly good reasons
23 to either kind of buy off on it or not buy off on it,
24 and most of that is aimed at the impact it would have
25 on customers.

1 The St. Joseph Water Districts have to agree
2 whole-heartedly with Mr. Henderson on this particular
3 point. It is just not fair or proper to treat single-
4 tariff pricing as a here-today, gone-tomorrow kind of
5 rate design.

6 Why not? Frankly, because with single-
7 tariff pricing there are benefits for all districts
8 over the long term. But if the Commission does not
9 choose to stay the course over the long term, there
10 will be substantial inequities depending on where each
11 district happens to be in the construction cycle.

12 For example, late last year in the
13 Commission's decision in the Missouri-American cost of
14 service case, the Commission reviewed the district-
15 specific cost information and found, and I quote, "The
16 cost of service studies generally show that the
17 St. Joseph District has been paying rates that are
18 approximately 10 to 11 percent higher than its
19 district-specific costs. To a lesser extent the
20 Joplin and Warrensburg districts have also been
21 supporting other districts of St. Charles, Parkville,
22 Mexico, and, particularly, Brunswick, when viewed on a
23 district-specific basis."

24 Given the fact that St. Joseph has been
25 supporting other districts for years, the Commission

1 went on to observe that this data discussed above
2 concerning the St. Joseph area could be relevant if
3 the Commission is requested to divert to district-
4 specific pricing when the St. Joseph Plant comes on
5 line. I'd say the Commission was rather prophetic in
6 that observation.

7 In this case, the other communities that
8 have been getting the benefits of single-tariff
9 pricing for all of these years are now requesting that
10 the Commission abandon that policy just at the moment
11 in time when the St. Joseph District is about to have
12 its turn to have its facilities upgraded.

13 In the past rate case, the principal reasons
14 for the rate increase was directly related to the
15 investments in St. Charles and in the Joplin areas.
16 In earlier cases, there were major investments in
17 Brunswick, Warrensburg, and in other service areas of
18 the Company.

19 Now, under single-tariff pricing these
20 investments are averaged across the entire service
21 territory of the Company. Like the Commission has
22 done for years in the telecommunications, natural gas
23 and electricity industries, by averaging rates, all
24 customers receive a public utility service at
25 reasonable prices, no matter what their district-

1 specific cost of service might show at a specific or
2 given point in time.

3 It would be unfair to utilize single-tariff
4 pricing for some investments but revert back to
5 district-specific pricing for other capital
6 investments.

7 In the last Missouri-American rate case, a
8 witness for Warrensburg, Mr. Garth Ashpaugh, testified
9 that it would be the worst of all possible worlds for
10 the St. Joseph customer if the Commission utilized
11 single-tariff pricing for the investments in other
12 communities and then placed a surcharge on the St. Joe
13 customers when the new proposed treatment plant was
14 completed.

15 He said it this way: "You would have a
16 double whammy for the St. Joe customer because he
17 would be paying for this increased investment in St.
18 Charles and Joplin and then be allocated an additional
19 cost because of the new plant coming out."

20 Unfortunately, Mr. Ashpaugh has not been
21 sponsored as a witness when the double whammy for
22 St. Joseph is being proposed by other cities that have
23 already had their turn in the construction cycle.

24 In this proceeding the water districts are
25 sponsoring the testimony of Dr. Janice Beecher.

1 Dr. Beecher recently completed a major public policy
2 study of the single-tariff issue which was sponsored
3 by NARUC and the United States Environmental
4 Protection Agency.

5 Her study provides an objective discussion
6 of both the advantages and the disadvantages of
7 single-tariff pricing from a former regulator's
8 perspective. She summarized the principal advantages
9 of single-tariff pricing as follows: The primary
10 advantages of single-tariff pricing are that it can
11 lower administrative and regulatory costs, enhance
12 financial capacity and capital deployment, achieve
13 rate and revenue stability, and improve service
14 affordability for customers of very small water
15 systems.

16 A leading argument for single-tariff pricing
17 made by multi-system water utilities is that each
18 individual system eventually will require an infusion
19 of capital for renovation and improvements. Only the
20 timing varies.

21 Equalizing rates smooths the effect of
22 discrete cost bites across systems and over time, much
23 like insurance pooling. Single-tariff pricing also
24 achieves equity to the extent that all customers of a
25 given utility company pay the same price for

1 comparable service.

2 Jan Beecher will be here. I encourage you
3 to ask questions of this former regulatory person.
4 She can tell you both the advantages and the
5 disadvantages.

6 She's also conducted a survey of the various
7 states that have considered this hot topic. Thirty
8 state commissions regulate multi-system water
9 companies where single-tariff pricing could
10 potentially be an issue. Of those 30 commissions
11 where they have multi-system water utilities, 25 have
12 specifically approved single-tariff pricing for one or
13 more utilities. Five commissions have yet to address
14 this particular topic.

15 Clearly, the overwhelming conventional
16 wisdom of your regulatory colleagues around the
17 country favors the adoption of single-tariff pricing.
18 And the number one argument -- the number one argument
19 cited by the other commissions in these surveys about
20 why single-tariff pricing made sense was that single-
21 tariff pricing mitigates rate shock to utility
22 customers.

23 Now, as a representative of a class of
24 customers that's going to experience rate shock even
25 if you adopt single-tariff pricing, I urge you to take

1 a very hard look at this particular advantage.

2 Let's look at the rate shock potential for
3 the St. Joseph area and the clients that I represent
4 in this case. If you revert to district-specific
5 pricing and adopt district-specific cost of service
6 studies sponsored by the Staff, then the St. Joseph
7 customers on average, as you've already heard from
8 Mr. England, would experience a 122 percent increase
9 in their rates. My clients, the water districts, will
10 experience a 268 percent increase in their rates.

11 Now, there are two components of this
12 horrendous rate increase that you need to understand.
13 First, there is the district-specific impact of
14 including the entire St. Joseph treatment plant in the
15 rates of St. Joseph customers only. And then,
16 secondly, there is the rate impact of adopting the --
17 what I call the interclass shifts that are being
18 sponsored by some parties sponsoring class cost of
19 service studies.

20 Also, just briefly, let's look at the rate
21 impacts on the Brunswick area. If the Commission
22 adopts the approach of going to district-specific
23 pricing and using these interclass shifts, the average
24 increase in Brunswick would be 265 percent for the
25 community as a whole, and the water districts -- I

1 don't necessarily represent them, but I have some
2 empathy for them, the water districts around Brunswick
3 would have a 478 percent increase in their rates.

4 The water districts believe the Commission
5 should stay the course and continue to utilize the
6 rate design policy that is overwhelming preferred by
7 regulatory commissions around the country. We also
8 believe that given the enormous rate increases that
9 are being proposed in this case, it makes no sense at
10 all to attempt to implement interclass shifts among
11 the classes. Frankly, there is enough rate shock here
12 for everyone.

13 The rural water districts should not be
14 asked to bear a disproportionate part of this
15 increase, especially when you realize that this class
16 is just another way to identify the residential
17 customers and small commercial customers in the rural
18 areas around our communities.

19 The other major issue that's to be decided
20 in this case involves the prudence issues that are
21 being raised by the Public Counsel and Ag Processing.
22 The water districts have not sponsored testimony on
23 this very important subject. However, it's our
24 position that the Commission should only permit into
25 the rates the level investment that the Commission

1 finds to be prudent and reasonable based upon all of
2 the competent and substantial evidence in this record.

3 Unfortunately, from a Commissioner's
4 perspective -- and, Commissioner Simmons, welcome to
5 this case -- but, unfortunately, from a Commissioner's
6 perspective, this case involves some extremely
7 difficult issues. And from our perspective, the
8 Commission should decide these issues with the
9 long-term view of the public interest. It must
10 balance the interest of consumers and the financial
11 interests of the shareholder of Missouri-American
12 Water Company, American Water Works.

13 If the Commission adopts the prudence
14 adjustments proposed by Public Counsel and Ag
15 Processing, then the overall increase will be
16 substantially mitigated, but the financial impact on
17 the Company will also be significant.

18 On the other hand, if the Commission permits
19 Missouri-American to put its entire investment in the
20 new treatment plant in the rates of only the
21 St. Joseph customers, and also orders interclass
22 revenue shifts suggested by Staff and Public Counsel,
23 the rate shock on my clients will be devastating. A
24 268 percent increase for my water districts could not
25 be considered just or reasonable by any standard.

1 We're confident, however, that the Commission will
2 make the right decision in this matter.

3 You've heard throughout this process,
4 including the local public hearings, a lot about
5 fairness and equity. If the Commission decides
6 notwithstanding the arguments that I've made today
7 that district-specific pricing should be the
8 appropriate policy for the future, then the water
9 districts would respectfully submit that fairness and
10 equity demand that the Commission announce its change
11 of policy in advance and give the Company its
12 ratepayers and the communities' leaders lots of notice
13 of the new policy to go to district-specific pricing.

14 The Commission should not change its policy
15 in the middle of this case when the public, especially
16 the ratepayers in St. Joseph, have been led to believe
17 that single-tariff pricing will be used to reflect the
18 investment in the St. Joseph Plant and their rates.

19 Thank you very much for your attention
20 today. We look forward to your questions, and,
21 particularly, if you have questions about this -- this
22 important issue of single-tariff pricing, please ask
23 Jan Beecher. She will be here tomorrow.

24 Thank you.

25 JUDGE THOMPSON: Thank you, Mr. Fischer.

1 Mr. Zobrist.

2 MR. ZOBRIST: May it please the Commission.

3 I'm privileged to represent the City of St. Joseph,
4 home of the Pony Express, the first bridge across the
5 Missouri River, and the Cherry Mash candy bar. I
6 thought I would at least add a little levity after the
7 burden of the issues that I know that are being placed
8 before the Commission.

9 Similar to the City of -- to the St. Joseph
10 water area districts, the City of St. Joseph is
11 concerned with a number of issues before the
12 Commission, in particular, the prudence issue.
13 Although we have not presented specific evidence on
14 it, we would ask that you carefully weigh the evidence
15 that has been presented to you and carefully come to a
16 decision as to whether and to what extent the
17 investments made by the Missouri-American Water
18 Company were prudent.

19 Jim Fischer has given a very comprehensive
20 outline of the issues as far as single-tariff pricing
21 versus district-specific pricing, and I won't go over
22 those right now because I think he did a very good
23 job.

24 But the question that I think each of the
25 members of the Commission should have in mind is,

1 understanding that this is a policy decision that you
2 need to make, what is the analogy that you draw to
3 make certain that you make the right choice? And
4 there are a couple of pieces of background that I'd
5 like to emphasis.

6 First, the concept of single-tariff pricing
7 has been endorsed by the Staff of the Commission
8 beginning in not just 1997 with Mr. Henderson's
9 testimony, but actually going back to 1995 when the
10 issue first came before the Commission, and it found
11 that single-tariff pricing was an appropriate policy
12 to be adopted by a Commission.

13 It acknowledged that where you had shared
14 burdens of multi-system water system that shared
15 benefits could result as well, and that single-tariff
16 pricing was the best mechanism to make certain that
17 those benefits were carried out.

18 Dr. Jan Beecher who for many years was with
19 the National Regulatory Research Institute at Ohio
20 State University in Columbus, Ohio is the only truly
21 national expert on this issue, and you will hear her
22 tomorrow. And I would suggest that if you're looking
23 for some background, take a moment to look at the EPA
24 study that Mr. Fischer referred to, because when you
25 look at Appendix B that speaks to select Commission

1 orders on single-tariff pricing, you see that this
2 concept, although it is controversial in this case, it
3 is a valid concept that should be adhered to.

4 In her rebuttal testimony, in particular,
5 she cited a New Hampshire Public Service Commission
6 order on Page 4, which I think very clearly states the
7 benefits of adhering to single-tariff pricing. It
8 says, "Opponents of rate consolidation in this case
9 argue that we should adhere to our traditional rate-
10 making policy of cost causation," a tradition which, I
11 might add, is not embedded in the statutes of this
12 state. It is simply another policy that this
13 Commission is following.

14 But the New Hampshire Commission went on to
15 say, "We find their position unpersuasive in this case
16 for two reasons: First, traditional cost of service
17 regulation already includes some measure of rate
18 averaging and that customers are not charged the true
19 costs of serving them on an individual basis," so
20 there are disparities in energy, telecommunications,
21 in any of the areas that you regulate.

22 "Second," the New Hampshire stated, and
23 perhaps more important, "stand-alone rates in this
24 case produce results for some customers that are well
25 beyond the zone of just and reasonable." Just and

1 reasonable is in the Missouri statutes. It is what
2 the Commission is required to follow in setting rates
3 on any case before it.

4 What is an appropriate analogy? Parties to
5 this case have talked about other regulated areas.
6 They've also talked about certain unregulated areas.
7 But one issue that hasn't been -- one analogy that
8 hasn't been drawn is that to the tax system. We have
9 a tax system in the state of Missouri that imposes
10 uniform taxes upon all counties, all communities and
11 all individuals whether they share the same services
12 in different parts of the state. The national tax
13 system does the same thing, and the folks in Alaska
14 pay the same rates as the folks in Hawaii, New York,
15 California or Florida. That is the system of shared
16 burdens. That is a system of shared benefits. It is
17 well institutionalized in the law of this land, and it
18 should be -- continue to be institutionalized in the
19 law of this case.

20 If the Commission chooses to abandon single-
21 tariff pricing and go to district-specific pricing,
22 three things will happen. You will institutionalize
23 rate shock. You will trigger a form of constant
24 litigation before the Commission where the Staff and
25 the Public Counsel and the parties and the Company

1 will constantly be coming before you wanting to tinker
2 with rate cases, and, thirdly, it will create a
3 second-guessing on the part of this -- this company
4 bringing before you its various capital projects
5 because it will be unsure as to whether the
6 investments that it believes under the regulatory
7 context that it should make in a particular district
8 will never be approved.

9 Those three results should be voided, and
10 the City of St. Joseph asks you to adhere to the
11 policy of single-tariff pricing.

12 Thank you.

13 JUDGE THOMPSON: Thank you, Zobrist.

14 Mr. Conrad.

15 MR. CONRAD: Thank you, your Honor.

16 May it please the Commission. You've
17 already had a fair recitation as to several of the
18 issues in the case. I'm going see if I can cut some
19 of my comments short as a result.

20 On the issue of prudence, our evidence is
21 going to show that the renovation of the existing
22 plant, that is the river-sourced plant in St. Joe, was
23 planned and was, in fact, beginning to go forward at
24 the time of the 1993 flood. Now, Newton has his
25 second law of thermodynamics. I would like to propose

1 to you Conrad's first law of hydraulics; that is, that
2 following a flood, the receding flood waters will
3 reveal a major construction project.

4 The 1993 flood was a 500-year flood level.
5 What a surprise to have a river flood. However,
6 starting with the 1993 flood, the Company changed its
7 mind. And finding true to Conrad's first law of
8 hydraulics, a beautifully positioned opportunity to
9 invest many millions of stockholder dollars and
10 et al money with the sole intent of being able to earn
11 a return thereon.

12 And from that time that that mind became
13 changed, MAWC, the water company, decided on that new
14 construction project, and our evidence is going to be
15 that from that time every estimate made by the Company
16 of every other alternative was inflated in order to
17 make the preferred alternative look to be the most
18 economical.

19 That included the cost of a new well field,
20 redundant, that's dual, raw water lines, about three
21 and a half to four miles of them, redundant finished
22 water lines from the treatment plant, and those
23 finished water lines come right by very near where the
24 old plant is to where they could connect to the
25 existing distribution system.

1 Now, numerous justifications for all of that
2 have been offered. They will include and you will
3 hear testimony about water quality, temperature
4 reliability, and, of course, the surprising fact that
5 a river occasionally floods.

6 As you will hear, not only could all of
7 those problems have been dealt with at the existing
8 site, but many of them had already been in a planning
9 stage, started to be implemented, and had even been,
10 by some authorities, by some public authorities,
11 approved at the time of the 1993 flood and the
12 application of Conrad's first law of hydraulics.

13 What arose, of course, from the flood waters
14 was frankly agreed. Missouri-American started pushing
15 for STP in these proceedings, and it used STP as a
16 means of concealing the cost implications of their
17 chosen alternative from the public officials and the
18 people in St. Joseph. They used a public relations
19 campaign complete with videos to sell this project to
20 the people.

21 And, your Honors, that's where these two
22 issues converge. STP in its concept provides for
23 spreading the cost over a large number of people,
24 rather than focusing the cost on the district where
25 the capital improvement goes. That creates a

1 situation that a utility that is intent on a sizable
2 construction project to add to its rate base. And if
3 you-all have -- have forgotten about the rate case
4 equation and how that works, you put a dollar in rate
5 base, and, as we say, we earn on it forever, or almost
6 forever, depending on what the depreciation schedule
7 is.

8 That's where these two issues converge
9 because it created a situation that people were
10 decoyed. You've heard the two -- the two counsel
11 already from St. Joseph area talk about a change, that
12 the Commission has changed or is looking at change.
13 That's my point exactly, is people up there were told
14 that STP had been approved, that it had been -- it was
15 basically a done deal. That's where these come
16 together.

17 Our evidence on the prudence, though, is
18 going to be brought to you by Dr. Charles Morris who
19 is a professor at this State's premier engineering
20 school. It used to be the Rolla School of Mines. It
21 is now University of Missouri at Rolla.

22 He has reviewed the information that
23 Missouri-American Water provided to us in support of
24 its -- of its decision. We asked them for their
25 documentary justification. We asked them for

1 everything they had that would justify their decision,
2 and he reviewed it, and he found that information to
3 be lacking, incomplete and insufficient to justify the
4 cost of construction of an entirely new facility.

5 His testimony will be that based largely on
6 the Water Company's own estimates, the former
7 treatment facility, the riverside river water
8 treatment facility could have been renovated and
9 flood-proofed at a cost of 38.2 million --
10 \$38.2 million, even including in that number a
11 substantial contingency fund.

12 Now, since that was based on the Company's
13 estimates -- you heard Mr. England indicate to you
14 that the Company had estimated as high as 80 million
15 on the new treatment plant, and yet it came in at
16 70 million, we can assume, if anything, that the
17 Company's estimates are overstated. To the extent
18 that this relies on Company's estimates, the number
19 might actually have turned out to be lower.

20 And, thus, it's going to be our
21 recommendation that the only amount that should be
22 allowed in rate base with respect to this utility is
23 that \$38.2 million.

24 Now, I want to touch on the second issue,
25 STP. I represent three large water customers in

1 St. Joseph. Ag Processing you've heard referenced
2 about. Wire Rope Corporation -- incidentally, you
3 heard from Wire Rope's CEO at the St. Joseph Public
4 Hearing. You heard from a representative of Ag
5 Processing there, and also from the folks at Friskies,
6 you heard from a gentleman there.

7 Despite -- I would underscore that for you.
8 Despite the fact that STP, as these people would
9 argue, would be beneficial to them, they are here
10 before you joining with those who oppose the
11 continuation of STP. We do not support that approach.
12 There are numerous reasons why, and Mr. Curtis will
13 address a number of those in his presentation to you
14 this morning. But at bottom, it's just plain wrong.

15 Everybody wants to talk about fairness and
16 equity. Let me raise to you, however, two items that
17 you have to confront. One is we have a law which
18 Mr. Zobrist has forgotten about that says that a rate
19 shall not be unduly preferential nor unduly
20 discriminatory. Just and reasonable, certainly, but
21 there are restrictions. It's not a public policy
22 issue, and if you want to call that a public policy
23 issue, it's one that's been decided by the folks
24 across the street a lot of years ago.

25 Secondly, in the specific area of water, the

1 Missouri statutes withdraw the authority from this
2 body to make decisions that grant undue preferences
3 and discriminations to particular localities. And
4 that, your Honors, is exactly what we're talking about
5 here if you preserve STP.

6 It needs to be corrected. In the last case,
7 the cost of service case, those of you who were here
8 will remember a map that Mr. England put up so
9 conveniently and demonstrated that there was not one
10 single district out of the seven that was charged its
11 proper cost of service.

12 St. Joe was overcharged \$940,000 a year.
13 Warrensburg about 250,000. St. Charles was
14 subsidized. Brunswick was subsidized rather heavily,
15 and everybody wants to talk about Brunswick, but it's
16 about 500 meters. It doesn't diminish the importance
17 of that issue to the people in Brunswick, but it does
18 mean that it's not a \$16- or \$17-million issue to deal
19 with Brunswick. Joplin was overcharged on that
20 record, and that was basically an agreed upon record,
21 by close to 600,00 to -- \$650,000.

22 It's time for that to stop. It's time for
23 it to stop.

24 A smaller issue in this case to which
25 Mr. England made reference, but not by any means

1 unimportant, but does fall under the heading of rate
2 design, is the class cost of service studies that have
3 been done. The appropriate method, we believe, is the
4 base extra capacity method. That is the method that
5 has been used by Staff. It has been used by Company.
6 It has been used by Mr. Harwig who is our consultant
7 on that particular issue. It is also, as has been
8 characterized, generally accepted throughout the
9 country.

10 It should be continued. All of those
11 parties agree that that method properly balances the
12 use of the system with the responsibility for peak
13 usage of that same system. Further adjustments to it
14 are not only unnecessary, but they will inject
15 distortions into it because they may, in fact,
16 recognize or give double recognition to adjustments
17 that are already taken care of in the basic method.

18 I want to address quickly the subject of the
19 phase-in.

20 There are several different phase-in
21 proposals. I'd like for you to distinguish between a
22 couple of them.

23 Phase-in proposals in my terminology after
24 having done this for about 26 years, are basically
25 rate impact or rate -- if you want to use the term

1 "shock" -- I'm not sure what that means. I think
2 "impact" is probably a more generic word -- mitigation
3 techniques by which you establish a goal, but you
4 recognize that to achieve that goal in one felled
5 swoop will cause what you would judge to be an
6 unreasonable or an excessive impact on either
7 particular class of customers or, in this particular
8 case, a district.

9 A phase-in, we believe, is appropriate to
10 avoid extremes of impact or to otherwise mitigate what
11 might be adverse impacts of an upward, underscore that
12 line, upward rate movement. We have no quarrel with
13 that. There is no reason, however, to mitigate a rate
14 decrease which is called for in the case of Joplin.

15 Our proposal has been characterized as a
16 phase-in, and let me recharacterize that for you.
17 While it has some effects of that, Dr. Morris worked
18 with Mr. Harwig under the proposition that if the
19 approach that should have been used in this case was
20 to renovate and flood-proof the existing plant, that
21 is a process which would not have been done in a day.
22 It would have, in fact, been done over a several-year
23 period, because that plant would have continued to
24 operate. And, therefore, various segments of it would
25 have been improved, rebuilt, and then a cutover would

1 have been effected to the new.

2 If you had been at the existing or the old
3 St. Joseph Plant, the filter building there was built
4 in three separate stages. In fact, you can look up at
5 the ceiling and see the difference in the beams in the
6 construction of it. And that's exactly what we're
7 talking about here with renovation.

8 You don't just turn a switch, shut it off
9 and go out and do a renovation and turn it back on.
10 You bring on a part of it, renovate that part, and as
11 those parts are brought on line, you would then have
12 increases associated with the additional investment.

13 So the effect of a renovation is very
14 similar to that of a phase-in with one big difference.
15 The more traditional phase-in that my predecessors
16 here at the podium were talking about involves a rate
17 or revenue deferral.

18 In our view, there is no reason for such a
19 deferral, because, in fact, if the choice had been
20 made to renovate, the less expensive, the more prudent
21 choice. It would have gone on in phases, and as each
22 phase was prepared to be implemented, a rate filing
23 would have been made. And that in due course would
24 have been approved if it had been found to be prudent
25 which it surely would have been. So there would be

1 no -- no need for revenue deferral. There would be no
2 need for arguments about the rate to be used with
3 that.

4 Let me conclude by saying what the
5 Commission should do in our view with this case. On
6 plant valuation, we believe you-all should recognize
7 that a public utility has in my view, and perhaps I'm
8 the only one in the room that has this view, but I
9 would like to hope not, essentially a fiduciary
10 responsibility with respect to its public service
11 obligation. It has an obligation not only to provide
12 service but to provide that service at the least cost
13 consistent with good operating techniques. It has
14 that responsibility.

15 And when it goes beyond that, ladies and
16 gentlemen, when it goes beyond that, it acts at its
17 peril. This Commission serves essentially the role
18 that competition would serve if this were not a
19 monopoly. In a competitive environment a company that
20 overbuilds or takes action that cannot be justified by
21 the public in the market that it purports to serve
22 simply will have to eat that investment.

23 On STP, please decide the issue. We believe
24 STP is a flawed methodology. We believe it is
25 unlawful under Missouri's present statutes. We have a

1 case at the Circuit Court saying that. And we
2 believe, your Honors, that it is nothing more than a
3 disguised taxation scheme.

4 We have a concept that if a piece of public
5 utility property is not used and useful to the
6 customers, the customer should not have to pay. Well,
7 here we have pieces of property that are in discrete
8 unconnected districts. This plant in St. Joseph is
9 not used and useful to the people in Joplin. The
10 plant in Joplin is not used and useful to the people
11 in St. Charles. That's just a simple fact.

12 Analogies between electric and telephone and
13 even the gas system don't work here. Those systems
14 are interconnected. It's inherently flawed. It's a
15 taxation scheme. It's not a rate-making approach.
16 It's not public policy. It's a taxation scheme to tax
17 a bigger -- or, in this case, tax little Brunswick so
18 that St. Joe can have a plant. It doesn't work. I
19 don't recall a Hancock Amendment vote.

20 Bring rates, please, to a DSP level for all
21 districts. Then deal with whatever mitigation is
22 necessary in particular districts that will result in
23 other districts than St. Joe from simply correcting
24 the situation that has been allowed to develop.

25 Where appropriate, since the Water Company

1 brought this situation on its districts and on itself,
2 they should be denied revenue deferrals where
3 phase-ins are necessary to bring districts to proper
4 DSP levels.

5 And on rate design, the decision is easy.
6 All you have to do there is stick with the generally
7 accepted base extra capacity method which recognizes
8 all of the proper rate terms.

9 I did have one more point. Mr. England
10 wanted to argue, despite his attempt not to do so,
11 about his Motion to Strike. The whole gravamen of
12 which is that this is all pre-decided, that everybody,
13 including the Commission, is estopped from dealing
14 with it. Oh, what a world that would be.

15 Paragraph 5, Order 5, Case No. WA-97-46
16 issued by this Commission on October 9, 1997, Lumpe,
17 Chairman, Crumpton, Murray, and Drainer CC, which
18 means Commissioners concur, "That nothing in this
19 Report and Order shall be considered a finding by the
20 Commission of the prudence of either the proposed
21 construction project or financial transaction --"
22 footnote.

23 What happened to the financial transaction
24 that you-all approved? Where did that go?

25 I continue, "-- or the value of this

1 transaction for rate-making purposes, and the
2 Commission reserves the right to consider the rate-
3 making treatment to be afforded the proposed
4 construction project," proposed construction project,
5 "and financial transaction and their results in cost
6 of capital in any future proceeding."

7 Welcome, Commissioner Simmons to that future
8 proceeding.

9 COMMISSIONER SIMMONS: Thank you.

10 JUDGE THOMPSON: Thank you, Mr. Conrad.

11 Miss Vuylsteke.

12 MS. VUYLSTEKE: Good morning.

13 May it please the Commission. I don't
14 really have an opening statement, but I just would
15 like to explain why my clients have intervened in this
16 case.

17 I represent the Missouri Industrial Energy
18 Consumers, and that's a group of large water users in
19 the St. Louis area. The reason we intervened in this
20 very important policy setting case is because we
21 believe that single-tariff pricing is very bad policy
22 for Missouri.

23 St. Louis County Water is about to file a
24 rate case. They may have already. It could be that
25 single-tariff pricing could -- like Mr. Conrad's

1 clients, could benefit large customers in the
2 St. Louis area as far as their rates, but it's such
3 bad policy that we think the Commission should reject
4 it. We think the evidence in this case will show why
5 the Commission should reject.

6 Thank you.

7 JUDGE THOMPSON: Thank you, ma'am.

8 Mr. Curtis.

9 MR. CURTIS: If it please the Commission.

10 My name is Lee Curtis. I represent various cities and
11 industrial intervenors. The Cities of Warrensburg,
12 St. Peters, O'Fallon, Weldon Spring, St. Charles
13 County, and four industrial users in Warrensburg,
14 Hawker Energy, Harmon Enterprises, Stahl
15 Manufacturing, Swisher Mower, and Central Missouri
16 State University. All are in opposition to single-
17 tariff pricing. All are in favor of district-specific
18 pricing.

19 Warrensburg has been around for awhile.

20 It's been before this Commission numerous times in the
21 past, and this is a battle that has been going for
22 some time, although at maybe a skirmish level. We are
23 now down to the major showdown. This is a major
24 battle. This is a major issue.

25 And it is -- it is vital, we believe, that

1 the Commission address it and resolve between
2 single-tariff pricing and district-specific pricing
3 once and for all. We are interested in other aspects
4 of the case, but our primary thrust and our primary
5 focus is on rate design.

6 We have sponsored two witnesses, Mr. Ernest
7 Harwig and James Landon. Mr. Harwig also is a
8 nationally recognized authority on rate design,
9 specifically single-tariff pricing and district-
10 specific pricing. He has generally, almost
11 universally, I believe, supported district-specific
12 pricing. He has been a thorn in the side of American
13 Water Company in every state.

14 You have heard Mr. Fischer describe the
15 renowned reputation of Dr. Beecher. Dr. Beecher has
16 generally been an advocate for STP in every state.
17 Where Dr. Beecher is so also is Mr. Harwig on the
18 other side, so the Commission is fortunate in having
19 two nationally recognized authorities on this issue.

20 Our other witness is James Landon who is the
21 city manager for Warrensburg. And Mr. Landon has been
22 a long suffering city manager of a city that has felt
23 compelled to intervene this Commission and numerous
24 cases in the past. Warrensburg is not a large city,
25 and my rates are not cheap. They have felt compelled

1 to be present at this Commission during these
2 proceedings and advocate district-specific pricing as
3 the only fair way to go.

4 We have -- we are delighted to have allies.
5 We are delighted to have Mr. Deutsch from Joplin, and
6 certainly Ms. Vuylsteke on behalf of the three large
7 industrial users in St. Louis. We're also pleased to
8 get the support this time of Office of Public Counsel
9 and Mr. Busch and his testimony where he finally
10 recognizes the validity of district-specific, although
11 moving gradually, as properly it should be. We're
12 also pleased that Staff has joined our position
13 through Mr. Hubbs. Staff is free to change its mind,
14 and it has.

15 I would commend the Commission certainly for
16 keeping its powder dry on this issue despite what you
17 have heard from others who have suggested that, of
18 course, you already have adopted STP. Unfortunately,
19 the ratepayers in St. Joe were told that, too, and it
20 made their decision very easy as to what they would
21 like with regard to a new plant. If others are paying
22 for it, we'll have a lot of it.

23 The dinner analogy still works. Sure, there
24 may be a third-party nutritionist there
25 occasionally -- where is Tripp?

1 MR. ENGLAND: Right here.

2 MR. CURTIS: Nonetheless, the analogy, I
3 believe, still holds validity.

4 I would also say that I'm delighted to see
5 so many of you having been through this long battle
6 with us. I mean, it's not just been us battling it.
7 You have wrestled with it. And as I said before, you
8 have wisely reserved judgment on this important point.

9 I think now, with the battle in full force,
10 you can see perhaps the emerging fruits of the two
11 public policy approaches to pricing the water for a
12 non-interconnected water company such as
13 Missouri-American. The fruits are there. You can see
14 very clearly, and I will get to that later in my
15 opening statement when I describe what you will be
16 hearing from our two witnesses, and I would entitle
17 the subplot a Tale of Two Cities, with my apologies to
18 Mr. Dickens. And the two cities, of course, are
19 Warrensburg and St. Joe, but I will get to that.

20 Let me say -- let me go down the list
21 briefly and tell you point by point, point by
22 counterpoint the reasons district-specific pricing is
23 far superior public policy over STP.

24 First of all, it is fair and equitable.
25 Now, you've heard these terms being thrown about and

1 actually have been disparaged by some of the witness
2 in this case. You will hear that again. You have
3 heard and read in testimony other witnesses saying
4 fair and equitable is nothing more than what's in the
5 eye of the beholder. Yeah, to a certain extent that
6 may be right, as would be just and reasonable. These
7 are elusive terms. But I would say this, the eye of
8 the beholder is very important.

9 I'm pleased to have seen a number of the
10 commissioners out at local hearings that were held
11 throughout the state, and I would say with regard to a
12 number of ratepayers that I observed expressing their
13 opinion in St. Charles and in Warrensburg, and I've
14 heard about other districts, the eye of those
15 beholders is that STP is not fair and reasonable.

16 They understand the idea of the cost causer
17 being the cost payer. The gentleman in St. Charles
18 recognized that if I put a roof on my house, I can't
19 go to my neighbor and say, Hey, would you kick in
20 2,000 bucks for that? It's his responsibility.

21 These are understandable concepts, and the
22 idea of paying for some other district for a plant put
23 there that benefits not that district or those
24 ratepayers is not fair and equitable in the eyes of
25 many ratepayers, and I think you have seen that.

1 The second reason why district-specific is a
2 superior pricing philosophy over STP is that it is
3 understandable and acceptable by most ratepayers, and
4 that's important. And we're up here, and there aren't
5 many ratepayers here. You've been out and you've
6 heard a lot of them.

7 Nowhere in the testimony from the Company,
8 from Dr. Beecher, does she suggest that
9 understandability and acceptability by the people who
10 pay is important. It is important, and you all know
11 it, because you're accountable to those people, and
12 you have heard them.

13 They can't understand why they have to pay
14 for a plant in another district. They are
15 flabbergasted. I mean, I heard the adjectives as you
16 did, too, and I won't repeat them.

17 This is unheard of to them, and it really is
18 unheard of in Missouri public utility regulation.
19 This is the only company that has this kind of a
20 conflict because of the non-interconnectability of the
21 districts.

22 All of the other districts we're talking
23 about, electric and telephone, have
24 interconnectability, and, thus, there is a rationale
25 for having average pricing, uniform pricing, among the

1 various classes of customers, but not this one. This
2 is why it's so jarring, such a shock to people. And
3 that is important.

4 The third matter is, and I will underscore,
5 possible potential potholes, legality. You've heard
6 Mr. Conrad reference the section. I will actually
7 give you a section cite. It's Section 393.130.3,
8 Actually, Subsection 1 of 130 says, "All charges made
9 or demanded by any water company --" and I'm
10 eliminating the electric and gas here "-- for water
11 service rendered or to be rendered shall be just and
12 reasonable." What does that mean?

13 And it says that, but it goes on to say, "It
14 not only shall be just, every unjust or unreasonable
15 charge made or demanded for the water service in
16 connection is prohibited."

17 And then you go to Subsection 3, and here is
18 the curious thing, it reads -- and, again, I'm
19 eliminating electric and gas -- "No water corporation
20 shall make or grant any undue or unreasonable
21 preference or advantage to any locality or to
22 any particular description of service in any respect,"
23 in any respect whatsoever, "or subject any locality or
24 any particular description of service to any undue or
25 unreasonable prejudice or disadvantage in any respect

1 whatsoever."

2 So it's a twin test. You cannot advantage
3 one locality over another, nor can you prejudice
4 another locality over another in any respect
5 whatsoever.

6 Now, this -- I'll freely say, the reason I
7 say it is potentially a legal issue, this has not been
8 tested with regard to this particular kind of a
9 company. One of the reasons is there aren't many of
10 them. There may be one other, perhaps, but there is
11 no electric, no telephone company, nothing like this
12 that has attempted to do this to bring this statute
13 into play.

14 What does it mean? Why did the Legislature
15 write these words? I think it was precisely for this
16 kind of a case.

17 At any rate, you'll probably be hearing more
18 from us on that -- on that subject.

19 Certainly, I would say DSP is clearly lawful
20 under this standard. Single-tariff pricing is a
21 dubious proposition, and I say -- I believe in my mind
22 it is unlawful, but I -- because it has not been
23 tested by a court, and there is no clear authority in
24 Missouri on this, nor, frankly, in any other state
25 that has that kind of language, it's an open question.

1 I think it's -- it's certainly borderline on lawful.
2 It is clearly unfair and inequitable in the eye of --
3 in the eyes of many ratepayers.

4 Another advantage of DSP is that -- over
5 STP -- well, actually, I would include STP. I'll give
6 it a slight nod, and that is DSP leads to objective
7 and predictable results. Now, as Mr. England has
8 suggested, you know, we're not -- we're not here
9 claiming if you adopt DSP that miraculously
10 interventions will go away and cities and districts
11 will settle down. We know that's human nature.

12 But there is something to be said for a
13 district knowing if it has had a major improvement,
14 and if you adopt the recommendation that we are making
15 to the Commission with regard to major improvements,
16 they will know about it and will have had some input
17 in it.

18 You know, they know that they've had an
19 improvement, it's going to cost. And most of the
20 ratepayers around the state, you know, at the local
21 forum so indicated that. I mean, if we get a new
22 plant here, we get something that's improving it, we
23 know we are going to have to pay for it. I mean, no
24 one is trying to get a free lunch.

25 So it's going to lead to more predictable

1 results, and I think it will tend to settle the
2 districts down. They are going to know if something
3 big has gone on in their area. They may have an
4 argument here. There may be some shifting of class
5 costs among the commercial, industrial and the other
6 residential classes, but probably not.

7 I think in many cases the districts will
8 really defer to the Staff accounting expertise and
9 Office of Public Counsel to ferret out the issue. Was
10 the money spent properly? Was it put in service? Is
11 it working? And after that, they are going to relax.
12 And my -- my municipal clients have asked me to
13 underscore that.

14 They don't really like to be down here in
15 these cases. They don't feel that it is a
16 particularly great use of their resources that are
17 scarce to have to every time the Company has a rate
18 case hire a lawyer to intervene to protect their
19 interests.

20 Joplin found out, perhaps, the hard way by
21 not having Mr. Deutsch's able representation in the
22 past. What happened to them? They wind up
23 subsidizing everybody for a long period of time. It
24 creates suspicion, hostility.

25 And under single-tariff pricing, look what

1 happens there if you put that in. Under district-
2 specific, most of the districts will know what their
3 improvements are, and they are going to be -- they
4 will know the predictable range of any rate increase.

5 Under STP, each district has a stake in what
6 goes on in the other districts, so each district will
7 start looking over and want to know what's going on in
8 Joplin. They're building a new plant down there.
9 Maybe we should go down there. Maybe we should go to
10 the Commission and speak up and say, Look, you're
11 looking at four different alternatives and one costs
12 \$100 million and another cost \$40 million. You know,
13 we want to have a say in that, because if you-all
14 adopt STP, boy, everybody is in everybody -- in
15 everyone else's game. Everybody is looking over their
16 fence at another district, and hostilities and
17 suspicion spread. It's human nature. Another key
18 reason why district-specific is a superior pricing
19 philosophy.

20 Now, the other one, and this has been sort
21 of denigrated by Company, is that DSP leads to more
22 fiscal and local responsibility by the Company. It
23 really forces the Company to go to each district and
24 say, Look, we've got a new plant. We've got a problem
25 here, and discuss with them because that district is

1 going to get it and pay for it under
2 district-specific.

3 Under single-tariff pricing, Hey, no
4 problem. It's our turn. You know, floor -- put the
5 foot to the accelerate, and we want the best, because
6 they got the best over there last time, and four years
7 ago that district got something awful fine, too. So,
8 you know.

9 And who benefits from that? The Company
10 says it doesn't benefit from it, but under the
11 restaurant analogy, the restaurant benefits if
12 everybody orders caviar and lobster and filet mignon
13 and the finest wines. They love that. They sell
14 more. Their profit margins grow.

15 I had alluded to a Tale of Two Cities
16 earlier, and it's in this particular area of fiscal
17 responsibility and local involvement that the Tale of
18 Two Cities comes in, and you'll see this in the
19 testimony.

20 Mr. Landon's testimony describes a water
21 quality problem that Warrensburg had, and it was
22 brought to the Commission's attention in the last rate
23 case in '97, and out of that rate case and out of
24 public testimony that this Commission received in
25 Warrensburg regarding a hardness, a taste, and an odor

1 problem with sulfur in the water, which is a
2 indigenous condition to the well water out there, the
3 Commission ordered a docket spun off WO-98-203 to
4 investigate the water quality issue in Warrensburg.

5 And the Commission tasked the Staff and the
6 Company to work with Warrensburg and to review
7 alternatives, and they did. Mr. Landon's testimony is
8 frankly complimentary to the Company and to the Staff
9 but most especially to the Commission for having
10 recognized and acted on clearly a problem.

11 So what did the City of Warrensburg do?
12 Well, the Company met with them. The City got groups
13 of citizens from industry, from government, from the
14 county and put them together. Some were subject
15 matter experts. Some were engineers. Some had
16 experience in water quality. And they put together a
17 team and worked with the Company over about a
18 year-and-a-half period, and the Staff also.

19 And you know what they did? They wound up
20 looking at six different alternatives, and they wound
21 up picking towards the end an ozonation plant that
22 cost -- actually, it's \$4.2 million. We had misstated
23 it at 5.2, but 4.2 million. That's a significant
24 increase.

25 And Mr. Landon has pointed out that was not

1 the highest cost, and it wasn't the lowest cost of the
2 six alternatives they looked at. They were trying to
3 solve a problem and in the most cost-effective manner.

4 Now, the Company, you will hear, will kind
5 of disparage the idea of citizen involvement, and
6 says, If you do that, it will lead to the cheapest and
7 maybe not the most cost-effective solution, that local
8 involvement is a bad thing, and they'll just beat us
9 to death, and we'll wind up putting a band-aid on
10 something, I guess is what they're trying to say.

11 Well, I wonder. I wonder what would have
12 happened had the Commission ordered a docket opened up
13 in St. Joseph and ordered the Company at the time they
14 were thinking about reviewing the plans for what to do
15 with the flood plain problem, the 500-year flood at
16 the existing plant, what should we do?

17 What if -- and, of course, this is
18 hindsight, but what if the Commission had ordered the
19 Company to meet seriously, not with this Citizens
20 Advisory Council that I believed the Chairman of the
21 Board of Wire Rope found to be a rubber-stamp
22 committee set up by the Company, but a real robust
23 local -- group of local involved people to meet with
24 the Company and review alternatives?

25 Yeah, it's going to be time consuming for

1 the Company. They're going to have to go over and sit
2 down with this group and talk about -- Well, here is
3 the City of Kansas City that wants to build a pipeline
4 up to us, and we're going buy -- they're going to --
5 here is the proposal, and we're going to get Kansas
6 City water, and we're not going to have to build a new
7 plant, or, Here is what it would take to renovate the
8 existing plant, and maybe Dr. Morris would have been
9 invited in by the City at that point and said, It
10 looks like you can do it for about 30, 35 million,
11 maybe a little bit more. Maybe they would have looked
12 at this new plant for 75 million. Maybe there was
13 another alternative they could have looked at.

14 Would the Commission have had to have been
15 there? No. You put the problem right back where it
16 is. And under district-specific, it works. It worked
17 in Warrensburg.

18 In Warrensburg, I believe Commissioner
19 Murray and Commissioner Schemenauer were there, and I
20 think you heard most people say, Yeah, we got a new
21 plant. We're prepared to pay for it. We know this is
22 something that is going to benefit us. It didn't
23 solve -- it hasn't really solved the water problem
24 yet, but it's on its way. And I think most people
25 understand that.

1 So in addition to it being a process to
2 ferret out and try to get people ready for what -- if
3 there is going to be a rate shock, here is why, here
4 is why, because the EPA has ordered us to build this.
5 I mean, the nutritionist can be there at that meeting,
6 Tripp, and explain to the people why this has to be
7 built. People aren't dumb. They can understand that.
8 Level with them. But don't fool them. And I think in
9 St. Joe they were fooled.

10 Mr. Fischer has said it. I think I got his
11 words right. Mr. Fischer said, The St. Joseph
12 ratepayers have been led to believe that STP would be
13 the rate design used for charging the cost of the new
14 plant, and you bet that's right. They were told that.
15 And this Commission knows very well that it had
16 reserved judgment on the rate design issue pending
17 this new plant. It's in the previous order.

18 And this idea that somehow this Commission
19 has blanketly adopted STP, yeah, you're one of the 25
20 states in Dr. Beecher's report that says, Missouri has
21 adopted STP, and you all know you haven't. I don't
22 believe you have. You expressly reserved judgment on
23 this major issue.

24 And so now the City is crying that, My
25 goodness. We were misled. This Commission did not

1 mislead them. Who misled them? I think the evidence
2 is going to show that it was the Company. The Company
3 wanted this so bad and didn't want to get involved
4 with the untidy business of having to work with a real
5 citizens group in trying to solve the real problems.
6 It's so much easier to say this is really what we need
7 and we're going to get it. And then somehow say the
8 Commission forced this on us and now we're surprised,
9 and we can't be made to eat this. It's better -- DSP
10 is much better public policy for the Commission.

11 The Commission has a lot of wisdom,
12 collective wisdom, and it is a wise policy to put this
13 in effect. Let the districts force the Company in
14 dockets to meet with -- with the various districts.

15 As Mr. Harwig and Mr. Landon have
16 recommended, we're asking the Commission, in addition
17 to adopting district-specific pricing, order that the
18 Company whenever it is planning to make a plant
19 improvement in any district that is more than 20
20 percent of that district's rate base, that a docket be
21 opened, just as it did -- just as the Commission did
22 in the Warrensburg case. And it's more a shell
23 document, but, essentially, it says, Company, you go
24 meet with these people, and, Staff, you assist them.
25 And that's a much better use of Staff's time as

1 opposed to coming down to the end and finding that a
2 Taj Mahal that someone suggested has been built, and
3 75 million, and even the people in St. Joe are saying
4 they are shocked, and the other districts are shocked
5 that they are going to get 55 percent increases, up to
6 66 percent in industrial cases. This is not good.
7 And you know it.

8 So it is time for the Commission to exercise
9 wisdom in adopting a rate design philosophy that will
10 stand the test of time. Sure, it's going to be
11 painful somewhat in the interim in moving to district-
12 specific cost of service level for each district.
13 We -- we fully support the idea of gradualism, phase-
14 in, but once you get there, you know, in three to five
15 years, five years under, I believe, Mr. Busch's
16 proposal, but once you get there, the districts know
17 they are pulling their own weight. They are paying
18 for their own stuff, and anything additional is going
19 to be paid for them.

20 This is healthy, and it's healthy for the
21 Company to have to go and meet with these people in a
22 realistic way.

23 We -- our group definitely urges the
24 Commission to adopt definitively district-specific
25 pricing and move gradually towards achieving cost of

1 service levels in each of the districts, and also
2 would ask that Commission as part of adopting DSP that
3 the Commission order the Company to meet with each one
4 of the districts whenever there is a major
5 construction plan involved.

6 Thank you very much.

7 JUDGE THOMPSON: Thank you, Mr. Curtis.

8 Mr. Deutsch.

9 MR. DEUTSCH: May it please the Commission.

10 My name is Jim Deutsch, and I'm here representing the
11 City of Joplin. My opening statement will be fairly
12 brief.

13 In addition to this Commission being favored
14 with some very good experts and very good witnesses,
15 if you've read the testimony as I have, I think you
16 have to be impressed with the level of knowledge that
17 we have available to us. Even though all of them
18 don't agree, which would be helpful, they have
19 provided you with an awful lot of matters to consider.

20 I don't need to say everything that
21 Mr. Conrad and Mr. Curtis has said, because you are
22 also favored with having some very good lawyers in
23 this room. They have eloquently set forth what our
24 position is in Joplin in detail.

25 We support Mr. Conrad and Mr. Curtis on both

1 the issue of the prudence of the plant. Our
2 examination of the evidence indicates that this plant
3 was not prudently planned or executed, and it came in
4 at the highest price, although below budget, that I
5 think that the Company could possibly get it for.

6 But we are mainly, the City of Joplin, here
7 to contest and to request that you give consideration
8 to our needs to see that single-tariff pricing is no
9 longer pursued as policy of this company. It is, in
10 our view, entirely inappropriate.

11 The City of Joplin has for a number of
12 years -- we are the poster child, I would say, for the
13 bad effects of STP. We have always paid more than our
14 cost of service. We have received fewer improvements.
15 Improvements are made along the line to all of the
16 districts, but we have received fewer because we
17 happen to be blessed with a situation where our water
18 system really doesn't have that many problems, we're
19 quite happy with it.

20 And you probably didn't hear a lot of
21 complaints down there at the public hearing about
22 service, but you did hear a lot about the rates. And
23 that's because the people of Joplin, like a lot of
24 people in Missouri, have a good deal of common sense.
25 As Mr. Curtis mentioned, paying for something in

1 St. Joe is simply not a common sense thing to the
2 ratepayers in Joplin.

3 Just as I feel that you have been favored
4 with eloquent presentations from the intervenors in
5 this case with Mr. Conrad and Mr. Curtis, I'm not
6 going to slight our opposing counsel; Mr. Zobrist,
7 Mr. Fischer, Mr. England, in particular, are very
8 eloquent lawyers, and I don't want to leave them out.
9 They are very good lawyers.

10 I would suggest, however, that you not
11 consider the case based upon the very eloquent
12 arguments and the points made by these lawyers but to
13 consider the evidence and to do for the citizens of
14 Joplin this one thing: Look with a very critical eye
15 at the testimony on the issue of STP, and I think that
16 you should look at it with this notion in mind.

17 All of the benefits that you will hear about
18 from the witnesses -- and, again, on the side of the
19 Company, and on the District -- Water Districts' very
20 expert witnesses, Ms. Beecher, Mr. Stout, these are
21 people you're going to hear from. They've already
22 testified. I've read their testimony. So have you.
23 Eloquent people.

24 But I think that you will find, if you look
25 closely, that every one of the advantages and benefits

1 of single-tariff pricing is hypothetical. None of
2 them have occurred since 1995. They certainly have
3 not occurred in Joplin.

4 Joplin is looking in this case -- we support
5 the Staff's recommendation for a rate decrease.
6 That's what we want, but I won't say we're here
7 looking for money. We are just entirely fed up year
8 after year having to subsidize other districts under a
9 plan that to the citizens of Joplin makes no sense,
10 and the reason that it makes no sense is that the
11 people in Joplin are intelligent enough to listen with
12 a critical area, to read with a critical eye, to test
13 the assumptions that are being put forward by the
14 Company.

15 To try to make sense out of the question,
16 Well, is there really rate stability that arises from
17 STP, or are we really talking about everybody just
18 getting equally high rates? Is that the stability
19 we're talking about? The answer that you will most
20 often hear from the Company is going to be that a
21 witness who -- like Mr. Harwig, for instance, suggests
22 that the rates are no more stable under STP or else we
23 wouldn't be facing a 55 percent -- I think now it's 50
24 percent -- in that range increase across the board,
25 that we just missed the point. We're short-sighted.

1 Think about that concept.

2 Joplin now has one of the older plants, but,
3 as I've said, we're not particularly unhappy with it.
4 Are we talking really about the long-term, or are we
5 talking about a term where the children born today in
6 Joplin are going to be paying for a plant in St. Joe
7 that they may grow up and have their own families and
8 die in Joplin before they ever see the benefits that I
9 am told are going to come eventually, because what
10 goes around comes around. Think about that.

11 Is there any evidence that that's really
12 true, that this so called construction schedule is in
13 operation? Listen carefully for the witnesses from
14 the Company to tell you what their plan is for the
15 next five years, for the next ten years. Listen for
16 them to say when the City of Joplin, after already for
17 years being on the paying end of STP, are going to
18 experience the wonders of being on the receiving end.

19 Is that really the kind of policy that rates
20 ought to be based on?

21 People in Joplin are only asking for a fair
22 hearing. That's why we're here. We have neglected to
23 assert our rights in the past. That hasn't helped our
24 situation, but, I, again, will tell you, we are
25 looking to go to cost of service, but what we are

1 mainly seriously considering here is this policy of
2 single-tariff pricing. We are opposed to it. And we
3 would look to you to place the burden completely and
4 totally on the Company to justify it.

5 And whether you have embarked upon some path
6 that they mistakenly believe was an agreement on your
7 part that they could build this plant in St. Joseph,
8 tell the people of St. Joseph that someone else will
9 pay for it, and now come in wide-eyed and innocent and
10 say, Well gosh, we really thought they would. You
11 can't go back on us now. What will people think?
12 Again, no good reason there. It's not something that
13 the people in Joplin are really that concerned about.

14 We have sympathy for the people in
15 St. Joseph. We don't want to see the so called rate
16 shock, but we've had our fair share. And this idea
17 that it's their turn, we don't -- we don't see it. I
18 don't see any kind of a plan or formula whereby
19 everybody gets a turn. This is simply the way that it
20 works.

21 The other thing I would keep in mind if I
22 were you is that in the past there may be -- we are in
23 agreement with, as Mr. Conrad and Mr. Curtis
24 mentioned, the notion that under Missouri law it's
25 very likely that single-tariff pricing is a dubious

1 legal proposition. But you don't really have to get
2 that far in order to find out that it's just a bad
3 idea in this case. It just doesn't work.

4 None of the benefits have been accrued.
5 None of what the witnesses are telling you it's
6 designed to do has worked, and the only people that
7 seem to be benefited are the Company and the smallest
8 of the organizations, the smallest of the districts,
9 which I don't recall there ever being an order of this
10 Commission ordering the Company to acquire any small
11 district, or any large district. Those are business
12 judgments that they have made that you let them make,
13 and I don't think that they can come back now and use
14 STP in order to take the burden off of them to justify
15 that or any of the business decisions that they've
16 made.

17 So I would conclude just simply to ask on
18 behalf of the citizens of Joplin that you carefully
19 consider the ramifications of STP as opposed to DSP.
20 We believe that you will see that the prudent course,
21 the safe course, is to adopt DSP and, at minimum, it
22 is for you to recognize that this is a critical
23 juncture.

24 Were you to adopt STP in this case, with a
25 \$70 million bowling ball being dropped into the punch,

1 it is pretty likely that everything is decided from
2 here on out. If this one will work, I can't imagine a
3 rate situation in the future that won't, because, as I
4 said, we've got to this point because the increases
5 have been incremental. They've been reasonable. They
6 have been things like the Warrensburg situation, small
7 improvements to the Joplin District and others, and
8 maybe STP works in that situation.

9 But this company has shown a propensity for
10 being rather grandiose in its acquisitions, in its
11 aggressive attitude towards making money in this
12 state, and I think that you better stop and consider
13 the ramifications of adopting STP in this case because
14 you -- there won't be any going back from here, and I
15 think it would be a prudent decision regardless of the
16 legality or illegality of STP to adopt DSP in this
17 case.

18 Thank you.

19 JUDGE THOMPSON: Thank you, Mr. Deutsch.

20 Mr. Krueger.

21 MR. KRUEGER: Thank you, your Honor.

22 Good morning.

23 May it please the Commission. My name is
24 Keith R. Krueger, and I'm the -- I represent the Staff
25 of the Missouri Public Service Commission in this

1 proceeding.

2 It's important for an attorney to have an
3 analogy in these opening statements, especially when
4 he's the eighth speaker. Mine isn't as clever as
5 Mr. Deutsch's bowling ball in the punch and it's not
6 as highbrow as Mr. Curtis's reference to Charles
7 Dickens' Tale of Two Cities. I'm going to compare it
8 to an epic movie.

9 There is a lot of money at stake, an angry
10 crowd has gathered, and there is a great amount of
11 public interest in the case. Counting all of the
12 people who attended the local public hearings that
13 were held, there is a cast of thousands. It might be
14 likened to a movie about ancient Greece where cities
15 are pitted against each other, perhaps the Trojans
16 versus the Spartans, except in this case it's
17 conducted in more civilized proceedings before the
18 Commission in an evidentiary hearing.

19 The first important issue in the case is
20 whether it was prudent for Missouri-American Water
21 Company to build a new water treatment plant to serve
22 its St. Joseph District instead of renovating the
23 existing plant, and, if so, how much of the cost that
24 they expended on that plant was prudently incurred.

25 The second major issue is the question of

1 who should pay for the cost to the new treatment plant
2 and for other improvements that were made to the
3 Company's system; that is, should the Company
4 implement what is known as single tariff pricing, or
5 STP, or would it be a more appropriate to utilize what
6 is known as district-specific pricing, or DSP.

7 There are a number of other issues in the
8 case that are also important, but I'm not going to
9 address those in my opening statement.

10 Although the witnesses who appear in this
11 case will first address the issue of rate design,
12 logically, the first issue, I think, for the
13 Commission to consider is the issue of prudence, so
14 I'll address that first.

15 This issue requires two levels of analysis.
16 First, was the Company prudent when it made the
17 decision to construct the new water treatment plant
18 instead of renovating the existing plant? And,
19 second, if so, did the Company prudently manage the
20 construction of the new facility?

21 The Staff submits that the Commission has
22 already determined in a previous case that the
23 Company's decision to build the new treatment plant
24 was prudent, and it would be inappropriate to revisit
25 that issue.

1 In Case No. WA-97-46, the Company requested
2 a Certificate of Convenience and Necessity to lease
3 property and to construct and operate a well field and
4 to construct and operate part of the transmission line
5 from the well field to the Company's proposed
6 treatment plant. The Company also asked the
7 Commission to pre-approve the treatment plant project.

8 The Commission identified five issues in
9 that case. In its Report and Order the Commission
10 combined Issues 1 and 2 and stated them as follows:
11 Is it appropriate for the Commission to determine the
12 prudence of this project, and, if so, is the MAWC
13 proposed project a prudent alternative?

14 The MAWC proposed project that the
15 Commission referred to in that case consisted of
16 several elements that were specifically described in
17 documents that were filed with the Commission in that
18 case. They included construction of a new well field
19 above the flood plain in Andrew County, Missouri, the
20 construction of a new treatment facility above the
21 flood plain in the Missouri River inside the Company's
22 then existing service area in St. Joseph, and the
23 construction of about three and a half miles of
24 transmission pipeline.

25 The Company needed to obtain a Certificate

1 of Convenience because the proposed well field and
2 transmission line were located outside the Company's
3 then existing service area.

4 The parties agree that the Company did not
5 need the permission of the Commission to construct the
6 proposed treatment plant since that was to be located
7 within the Company's existing service area.
8 Nonetheless, the Company sought a Certificate of
9 Convenience and Necessity for the entire project and
10 asked the Commission to find that there was a need for
11 the proposed project and to find that the alternatives
12 that the Company selected was the most effective --
13 was the most appropriate and cost-effective method of
14 addressing this need.

15 In its Report and Order, the Commission
16 declined to make a finding regarding the prudence of
17 the actual costs incurred or to be incurred and the
18 management of the proposed project. However, based on
19 what the Commission called the "extensive evidence
20 presented," the Commission found that the proposed
21 project consisting of the facilities for a new ground
22 water source of supply and treatment at a remote site
23 was a reasonable alternative.

24 The Commission found that the granting of A
25 Certificate of Convenience and Necessity was in the

1 public interest and was necessary and convenient for
2 the public service. The Commission did add, however,
3 that nothing in the Report and Order should be
4 considered a finding by the Commission of the prudence
5 of the proposed construction project.

6 The water supply and treatment facilities
7 that the Company has now built in the St. Joseph
8 District are substantially the same as those that were
9 proposed in Case No. WA-97-46 and documentation for
10 which was included and presented to the Commission in
11 that case in what was referred to as "the project."

12 The Staff submits that by its Report and
13 Order in this case, the Commission found that the
14 facilities that the Company has now built at
15 St. Joseph were a reasonable alternative, even though
16 it did not pre-approve the actual construction or the
17 costs incurred in the construction.

18 I can't think of any reason why the
19 Commission would have issued a certificate in that
20 case unless it contemplated that the Company would go
21 ahead and construct the project that was described in
22 the documents filed in that case.

23 As the Commission has already decided this
24 issue once, it shouldn't again be subject to
25 litigation. The Office of the Public Counsel and the

1 intervenors in this case have had their opportunity to
2 litigate this issue, and they should not be given a
3 second bite of the apple.

4 One might argue that the Company still
5 should not have proceeded with that -- with the
6 construction of the project even after it got its
7 favorable ruling in Case No. WA-97-46, if there was
8 new evidence of some sort that indicated that the
9 construction of the new facility as proposed was less
10 attractive than -- than previously thought at the time
11 of the presentation to the Commission; however, no
12 such evidence has been introduced in this case.

13 In documents filed in Case No. WA-97-46
14 the Company estimated that the cost of the
15 construction of the new water treatment plant would
16 be about \$75 million, and the actual cost was about
17 \$70 million. The Public Counsel and the intervenors
18 haven't introduced any evidence in this case that the
19 existing plant could have been renovated for
20 substantially less than was originally estimated at
21 the time of the presentations in the previous case.

22 In short, the Commission determined in Case
23 No. WA-97-46 that construction of a new water
24 treatment plant was a reasonable alternative, and
25 there is no reason why that determination should now

1 change. The Staff maintained in the previous case
2 that the water treatment plant alternative chosen by
3 the Company, "the project" as it was called, was a
4 prudent alternative.

5 If the Commission determines that -- in the
6 present case that it's necessary to look again at the
7 Company's decision to go ahead with construction of
8 the project, the Staff will urge the same conclusion
9 that it urged at that time, that the Company's
10 decision or preference for constructing a new water
11 treatment plant was prudent -- was a prudent way to
12 supply -- to satisfy the water supply and treatment
13 needs of the Company's St. Joseph district.

14 It was a reasonable alternative on
15 October 9th, 1997 when the Commission issued its
16 Report and Order. The facts have not substantially
17 changed, and it remains a reasonable alternative -- it
18 remained a reasonable alternative when the Company
19 commenced construction of the new water treatment
20 plant.

21 However, the Staff does not believe that
22 the -- all of the costs that the Company incurred in
23 the construction of this water treatment plant were
24 prudently incurred. The Staff recommends the
25 disallowance of about \$2.3 million of the construction

1 costs of that St. Joseph Water Treatment Plant because
2 it was incurred for the construction of excess
3 capacity.

4 In addition, the Staff opposed the Company's
5 position on some related accounting issues, including
6 the rate the Company has used to calculate its
7 allowance for funds used during construction, or
8 AFUDC, on this plant and on other construction, and
9 the issuance of an Accounting Authority Order to allow
10 the Company to make rate base and expense adjustments
11 for post-in-service AFUDC and deferred depreciation
12 expense.

13 Unrelated to the St. Joseph Treatment Plant,
14 the Staff is also proposing to reduce rate base by the
15 amount of the deferred taxes previously paid by the
16 ratepayers while they were customers of Missouri
17 Cities Water Company before Missouri-American
18 purchased Missouri Cities.

19 The second major issue in this case is the
20 question of whether the Company should recover its
21 costs from the ratepayers through single-tariff
22 pricing or through district-specific pricing or
23 through some compromised method.

24 Both of these methods of rate design are
25 appropriate in certain circumstances. The Staff

1 believes that the major goal of rate-making is to
2 design rates to recover the allocated costs of service
3 from the cost causer. Some level of subsidization
4 will always occur when customers are grouped into
5 classes.

6 If the cost of serving one district is
7 pretty much the same as the cost of serving another
8 district, single-tariff pricing may be the best rate
9 design because the extra precision that results from
10 utilizing district-specific pricing is not worth the
11 time, trouble, and expense of implementing it. If
12 there are large cost differentials between districts,
13 however, district-specific pricing is a better way to
14 recover the cost from the district that is causing the
15 cost.

16 In the present case, the differences in the
17 cost to serve the various districts of the Company are
18 substantial. The implementation of single-tariff
19 pricing in this case would result in very significant
20 subsidies between districts and would shift the burden
21 of paying costs from the cost causer to ratepayers in
22 other districts. The Staff, therefore, supports the
23 use of district-specific pricing in this case with a
24 slight modification to limit the burden that this
25 method would impose on the ratepayers in the Brunswick

1 district.

2 In order to mitigate the effects of rate
3 shock that would result from the strict application of
4 the foregoing principles, the Staff will recommend
5 that the most substantial rate increases be phased in
6 over a period of years.

7 The Commission has a very difficult task
8 before it in this case. You can be virtually certain
9 that any decision that you come to is going to be very
10 unpopular with one or more of the parties to this
11 case.

12 The Staff believes, however, that the best
13 way for the Commission to ensure that the public is
14 afforded safe and adequate service at just and
15 reasonable rates is, first, to affirm that the
16 Company's decision to construct the St. Joseph Water
17 Treatment Plant was prudent; second, to determine that
18 with the modifications recommended by the Staff, the
19 costs incurred by the Company were prudent; and,
20 third, to order the use of district-specific pricing
21 with minor modifications and, fourth, to order a
22 phase-in as recommended by the Staff to mitigate the
23 effects of rate shock.

24 Thank you very much.

25 JUDGE THOMPSON: Thank you, Mr. Krueger.

1 Mr. Coffman, how long do you anticipate
2 taking?

3 MR. COFFMAN: I can probably do it before
4 noon.

5 JUDGE THOMPSON: Proceed.

6 MR. COFFMAN: May it please the Commission.
7 I'm John Coffman, representing the Office of the
8 Public Counsel.

9 Obviously, the most important issue in this
10 case is the prudence of the St. Joseph project that
11 we've been talking about, and I feel compelled to
12 first address what I consider a red herring, and that
13 is the order from the certificate case, WA-97-46.

14 It was a rather clever tactic by the Company
15 to attempt some sort of pre-approval through what is
16 usually a matter of course certificate case, but that
17 is what they attempted. I believe that close reading
18 of the Report and Order will show that there was no
19 fining of prudence whatsoever, even in any sort of
20 bifurcated state, and that, furthermore, any such
21 pre-approval outside of a rate case would not be
22 legally binding anyway.

23 Missouri has no pre-approval statute as some
24 states do where they cite new plants and have
25 proceedings of that sort. In Missouri, the rate of

1 return regulation anticipates that prudence is
2 determined in a rate case. That is the only place
3 that the Missouri Commission has ever determined
4 prudence, even with the nuclear plant cases of the
5 '80s. They certainly didn't do so in 97-46.

6 The Company and Staff point to language
7 where the Commission said that this one out of the
8 four alternatives presented was a reasonable
9 alternative. The Commission did not rule that any of
10 the other alternatives were unreasonable. They did
11 not grant the requested relief. The Company had asked
12 that it be found the most reasonable and most
13 cost-effective. The Commission clearly did not do
14 that. And, as Mr. Conrad read, there was -- the only
15 thing in the "order" section of the Report and Order
16 was a caveat that nothing in the Order shall be
17 considered a finding of prudence.

18 We don't believe that the Commission bought
19 any of this pre-approval. The Company did not get the
20 safe harbor that they requested. Instead, they must
21 go forward with the risk that can they normally do,
22 making an investment with the full knowledge that it
23 will be scrutinized to ensure that it is used and
24 useful, just and reasonable.

25 Public Counsel did provide testimony in that

1 case. The Commission asked for testimony. We did not
2 do a prudence review, and our witness in that case,
3 Mr. Lee, on cross-examination had to concede that he
4 was not qualified to do a prudence review.

5 We've also cited court cases. The
6 Commission cited the Callaway Nuclear Plant case, that
7 the appropriate time to address prudence of a capital
8 improvement project is in a rate case in which a
9 utility attempts to recover the associated costs of
10 such project.

11 And they also cited the Capital City Water
12 case, which you may remember. I was involved in that,
13 and Mr. England was also involved in that case towards
14 the end. And that involved a prudence issue, a 1997
15 contract with Public Water Supply District No. 2 here
16 in Jefferson City.

17 The smoking gun document that proved that
18 that was an imprudent contract was not discovered
19 until several years down the road. Not all parties
20 are able to discover information that's relevant to
21 prudence right at the time that an event is occurring.
22 That's one thing we found in that case.

23 The Commission agreed with Public Counsel
24 when we brought the issue that the contract wasn't
25 prudent. The water company -- that water company

1 cried equitable estoppel and claimed that there had
2 been some letters and time that passed that should
3 have prevented that issue from being brought. They
4 went to the Court of Appeals and lost.

5 Later in a subsequent case, when the
6 Commission then decided not to make an adjustment
7 based on the same imprudent contract, Public Counsel
8 claimed that estoppel had occurred. We took that to
9 the Court of Appeals, and we lost.

10 The bottom line is that the courts have
11 consistently held that the Commission must be able to
12 review the evidence before it in each case and respond
13 accordingly, and so this pre-approval predetermination
14 issue is not a matter that is appropriate legally.

15 So here we are in the rate case that many of
16 us here have been dreading for a very long time, the
17 case in which Missouri-American Water Company attempts
18 to make its consumers swallow the cost of a plant that
19 is so large, it is actually difficult to comprehend.
20 I don't think any of us have ever been in a case that
21 involves such large percentage increases. It's been
22 probably very many years since the Commission has had
23 to address such proposed increases.

24 And as it turns out, I believe that the
25 evidence will show that this \$70 million plant is

1 extravagant, extremely costly, especially compared
2 with what could have been done to upgrade,
3 flood-proof, improve the access to, and refurbish the
4 river plant that was already serving the St. Joseph
5 customers.

6 As we have promised, we are -- we did hire a
7 consultant in this case who is qualified to do a
8 prudence review. We hired an engineering expert,
9 Mr. Ted Biddy. He's a water and waste water expert
10 with over 35 years of experience consulting on similar
11 projects. He also has extensive experience in flood-
12 proofing and repair. I urge you to study his
13 testimony and to ask him questions when he takes the
14 witness stand.

15 We believe that you will find Public
16 Counsel's evidence of imprudence in this case to be
17 credible, authoritative, competent, substantial, very
18 straightforward and logical, very easy to grasp, and
19 extremely compelling.

20 The Water Company is correct that when you
21 look at prudence the standard you apply is the
22 reasonable care standard, that you focus on what was
23 known or should have been known by Company's
24 management at the time the decision or decisions made.

25 You will find that Public Counsel's evidence

1 in this case, the evidence on prudence, is based upon
2 evidence that was known to Company at the time it
3 entered into this project, cost estimates for
4 refurbishing the St. Joseph River Treatment Plant
5 developed by Company itself and submitted to the
6 Department of Natural Resources prior to the flood of
7 '93.

8 This is not a hindsight attack. This is
9 based on evidence that was apparently in existence
10 that we were not aware of in '97. We were surprised
11 to uncover this evidence when we began discovery in
12 this case. We found what has been referred to as the
13 1991 report proposing to refurbish the river plant.
14 Company will no doubt attempt to downgrade this
15 report, but they really can't make it go away.

16 The cost information was not included in the
17 '96 study, which was submitted in the certificate
18 case. That study had surprisingly concluded that it
19 was not feasible to salvage any of the facilities at
20 the existing plant, and it simply did not contain any
21 detailed studies of the economics of doing so. They
22 more or less ended the analysis at a conclusion that
23 it could not be done or is not feasible.

24 In the words of Staff, the Company at this
25 point took advantage of the '93 flood to propose what

1 is obviously their dream plant.

2 Play close attention to the time lines
3 contained in the evidence. You will find that they
4 support the notion that the mind of the Company was
5 made up long before its feasibility study was
6 complete, that it was a result-oriented attempt to
7 justify the \$70 million plant.

8 Public Counsel's evidence will show
9 calculations extremely generous to Company,
10 illustrating how the designs submitted to DNR and
11 approved by DNR and the construction estimates could
12 be adjusted for current dollars adding in all of the
13 components that were -- would be a result of the new
14 plant and additional funds.

15 The \$22.6 million that were calculated in
16 '91 are adjusted for 1998 dollars, and despite the
17 fact that our witness disagrees with ozone facilities
18 and raw water intake and low service pumping
19 additions, Mr. Bidy has included the cost of those.
20 He also included flood-proofing of two types.

21 The flooding that occurred in 1993 was not
22 overtopping the levy, but actually came from behind,
23 or rear attack, through the railroad gravel bed, a
24 French drain, they call it. Mr. Bidy is familiar
25 with these type of repairs. He recommends a cost for

1 flood-proofing that French drain.

2 He also, in his surrebuttal testimony, adds
3 in the additional cost of four feet of levy protection
4 above the '93 flood level. He adds additional cost
5 for improving the access road, making it passable
6 during 500-year floods. He adds an additional
7 1.8 million of rate base that would be the additional
8 rate base left over from the current river plant that
9 was there.

10 Giving the Company every benefit of the
11 doubt, adding in additional components from the '96
12 study, this project would still perform every bit as
13 comparable to the new facility, pumping 30 million
14 gallons per day and do essentially everything that the
15 Company would do with its \$70 million plant, and do it
16 for only \$38.5 million. Some have suggested on the
17 record that perhaps the water project would taste
18 better, too.

19 But this is the rate base figure that the
20 Commission should be using for rate-making purposes.
21 Public Counsel will also show that this level of rate
22 base will allow Company to meet its interest coverages
23 and not cause any serious financial harm, and we rebut
24 the Company on those points.

25 We were surprised to the read Dr. Morris's

1 testimony submitted by the intervenors in this case.
2 Coincidentally, he comes to very similar results, and
3 it was the result of a completely independent
4 analysis. These prudence reviews were not coordinated
5 in any way.

6 The Company disputes Public Counsel numbers,
7 of course, in an attempt to justify a conclusion that
8 refurbishing the river plant would actually be just as
9 costly as building the new plant. This attempt fails
10 in many accounts, and I would urge you to focus on the
11 adjustment that they make to try to reach a \$70
12 million price tag for upgrading the river plant.

13 I won't go into all of these items, but, for
14 instance, the water company suggests a 10 percent
15 addition for omissions and contingencies, and this is
16 on top of a 15 percent omissions and contingencies
17 factor already included by the consultant. This is
18 10 percent on top of 15 percent simply for omissions
19 and contingencies. That's \$3 million right there.

20 The Water Company includes over a million
21 dollars for community relations; \$250,000 for
22 attorney's fees. Maybe there are attorneys in this
23 room that know how to get that kind of work. I don't
24 know.

25 Scrutinize these numbers. Decide for

1 yourself. This is what rate of return regulation is
2 all about. I believe that this is -- this -- this
3 type of proceeding is one of the most important
4 functions that the Public Service Commission engages
5 in, and review of these rate items are, for many of
6 these customers, their only hope.

7 One more point on prudence, and then I'll
8 move on: In the certificate case, Company's theme
9 was, we want to move from the vagaries of the river,
10 and they were not trying to pad the rate base. They
11 simply were trying to respond to the flood.

12 Ironically, Public Counsel's evidence will
13 show that the seven new vertical wells are located
14 inside the Missouri levy, this is the new well field
15 and are actually more prone to flood damage than the
16 intake valve at the river treatment plant.

17 And here is a photograph from -- attached to
18 Mr. Biddy's testimony. He said that floating debris
19 could cause damage and that they are much less flood-
20 proof than the old plant, even with the additional
21 flood-proofing included in Public Counsel's
22 calculations. I find that a little interest.

23 After the Commission determines the
24 appropriate rate base, we bring a second issue, and
25 that is extra -- excess capacity. We believe that

1 regardless of the rate base valuation, you should
2 recognize only that capacity that is currently needed
3 to serve current customers, and we've calculated that
4 at 80.45 percent. I believe that adjustment should be
5 made because the 30 million gallons per day is not
6 needed at this time.

7 I guess I'll skip other issues except for
8 rate design, but I -- that is the other very
9 interesting issue in this case.

10 Public Counsel doesn't necessarily have --

11 JUDGE THOMPSON: Mr. Coffman?

12 MR. COFFMAN: Yes.

13 COMMISSIONER DRAINER: Excuse me.

14 Mr. Coffman, I don't want you to believe
15 that at 12:00 we're all going to turn into pumpkins.
16 We gave everybody else their time to make their
17 opening statements, and you are given the same
18 courtesy.

19 MR. COFFMAN: Thank you very much.

20 COMMISSIONER DRAINER: So please do not feel
21 that you must talk very fast and you must cut out any
22 of your opening statement. You don't need to do that.

23 MR. COFFMAN: I appreciate that. That's
24 very generous. I don't think that there would be a
25 need to address anything -- well, I guess, actually,

1 let me address one other issue besides rate design,
2 and that would be the Accounting Authority Order,
3 which I don't believe has been seriously addressed by
4 other parties yet.

5 We don't believe that the Commission should
6 include in its cost of service any of the rate base or
7 expense that the Company's asking under its Accounting
8 Authority Order request. As it turns out, the
9 deferral period was rather short. We don't believe
10 that the Company's earnings were impacted in any
11 significant way. The recognition of the cost would be
12 an inappropriate way to shield shareholders from the
13 regulatory lag.

14 The triggering event that Company is
15 claiming justifies this AAO is the construction of a
16 water plant. We don't believe that that meets the
17 Commission's past standard for Accounting Authority
18 Order recovery, that being whether an event is
19 extraordinary or non-recurring. We believe building
20 water plants is the ordinary course of business for a
21 water company.

22 We also believe that the Accounting
23 Authority Order as structured is not in conformance
24 with the Uniform System of Accounts as it relates to
25 water companies.

1 Also, a premature retirement is an issue in
2 this case, and it could be confusing, but it's an
3 issue regardless of how you value the St. Joseph
4 plant. We're asking that you value the St. Joseph
5 plant as if it had been a refurbishment of the river
6 facility, and we include in that calculation the --
7 the rate base that would be left over.

8 If you -- if you adopt that definition, or
9 if you adopt the \$70 million plant recommendation of
10 the Company, we don't believe that the undepreciated
11 amounts left would be -- that the Company is asking to
12 be retired should be recovered at all from ratepayers.
13 Those facilities will no longer be used and useful.
14 Ms. Kim Bolin will be providing testimony on that
15 issue.

16 And just to address rate design, as I said,
17 Public Counsel has no ax to grind between one city or
18 another or one district. We've tried, and it has been
19 very difficult, to look at this and try to provide an
20 overall fair recommendation. We've tried to propose a
21 compromise, and we've proposed a rate design that
22 moves rates towards district-specific pricing, away
23 from single-tariff pricing, which we believe has some
24 serious drawbacks, as in encouraging inefficient
25 investment. And I think other attorneys have

1 addressed that fairly well.

2 But we also would propose to mitigate the
3 rate shock of doing that through limited sharing
4 between some cities and through phase-ins. We have
5 always tried to balance during this past, actually,
6 ten years of discussing this issue before the
7 Commission -- we've always tried to balance the
8 importance of recognizing cost of service, and we
9 think that -- that the differences in the cost of
10 service between districts should be recognized for
11 this company.

12 We've tried to balance that against
13 mitigating rate shock, which we do believe is a very
14 important consideration that the Commission should
15 address. We temper the rate increases in
16 consideration of equity and mitigation of rate shock
17 through a limited sharing of recovery between the
18 larger Joplin and St. Charles districts and the
19 smaller districts of Brunswick, Parkville, and Mexico.

20 There is -- and I believe Dr. Beecher's
21 testimony will show that actually one of the most --
22 the primary reasons for using some sort of sharing is
23 to help smaller, more troubled systems become viable,
24 and there is some benefit there.

25 On the class revenue responsibility, you

1 heard from other attorneys that Public Counsel's
2 approach is unprecedented, that we're trying to throw
3 out the base extra capacity method. I contend that
4 it's not that drastic.

5 Miss Hong Hu provides our testimony, our
6 class cost of service study, and what she has done is
7 to modify the base extra capacity method to allow it
8 to do what it purports to do, and that is to fairly
9 balance the peak use and the average use to try to
10 balance cost responsibility between those customers
11 that cause peak demand and those that have a more
12 steady demand.

13 It's not drastic. I think you can see here
14 from a schedule in Hong's rebuttal testimony that the
15 cost of service study results between Staff and Public
16 Counsel are not drastically different. They all do
17 show, including the Company's cost of service study, a
18 reduction to the residential class, and that is
19 certainly different than what we've seen in electric
20 and gas.

21 JUDGE THOMPSON: Could you give us a precise
22 citation so the record will be clear?

23 MR. COFFMAN: Page 7 of the rebuttal
24 testimony of Miss Hong Hu.

25 JUDGE THOMPSON: Thank you.

1 MR. COFFMAN: But suffice it to say that
2 Public Counsel's class cost allocation methodology is
3 the superior method because it does properly allocate
4 costs to small users with high peak to average usage
5 ratio, while the Company's and Staff's method
6 over-allocates costs to this group.

7 And then after you have made the district
8 sharing decisions and the class sharing decisions, we
9 believe it is appropriate to address a phase-in. And
10 we have recommended a phase-in proposal that provides
11 that no more than 15 percent for any given district be
12 increased in any given year.

13 This phase-in proposal is designed to
14 provide the Company with full recovery through a
15 series of tariffs set a year apart, allow the Company
16 fully recovery of its Commission-determined revenue
17 requirement by adding in additional carrying costs
18 associated with the deferral of any revenue
19 requirement recovery during the phase-in period.

20 So we believe that is fair. Company still
21 receives its full revenue requirement. The ratepayers
22 have to pay an additional carrying cost, but the
23 phase-in does significantly mitigate the rate shock no
24 matter what is determined on the other issues.

25 That's all I have, and good luck.

1 JUDGE THOMPSON: Thank you, Mr. Coffman.
2 Were you able to address all of the points
3 you wanted?
4 MR. COFFMAN: Yes, I have.
5 Thank you.
6 JUDGE THOMPSON: Thank you.
7 At this time we will take the lunch recess.
8 We will return at 1:30.
9 Thank you very much.
10 (A recess was taken.)
11 JUDGE THOMPSON: On the record now.
12 Mr. England.
13 MR. ENGLAND: Your Honor, we would like to
14 call at this time Company Witness William M. Stout.
15 JUDGE THOMPSON: Mr. Stout, stand, please,
16 and raise your right hand.
17 (Witness sworn.)
18 JUDGE THOMPSON: Please be seated, and spell
19 your name for the reporter.
20 THE WITNESS: My name is William M. Stout,
21 S-t-o-u-t.
22 JUDGE THOMPSON: Proceed, Mr. England.
23 WILLIAM M. STOUT testified as follows:
24 DIRECT EXAMINATION BY MR. ENGLAND:
25 Q. Mr. Stout, would you also give us your

1 business address, please?

2 A. Yes. My business address is 207 Senate
3 Avenue, Camp Hill, Pennsylvania.

4 Q. By whom are you employed and in what
5 capacity, sir?

6 A. I am president of the firm of Gannett,
7 Fleming Valuation and Rate Consultants, Inc.

8 Q. Mr. Stout, are you the same William M. Stout
9 that has caused to be prepared and filed in this case
10 three pieces of prepared testimony, the first of which
11 is denominated Direct Testimony of William M. Stout
12 and marked for purposes of identification as Exhibit
13 No. 9?

14 A. Yes, I am.

15 Q. The second of which is entitled Rebuttal
16 Testimony of William M. Stout, and it has been marked
17 for purposes of identification as Exhibit No. 10?

18 A. That also was prepared by me.

19 Q. And, finally, Surrebuttal Testimony of
20 William M. Stout, which has been marked for purposes
21 of identification as Exhibit No. 11?

22 A. Yes, I prepared that surrebuttal statement.

23 Q. And the schedules attached to all of those
24 testimonies?

25 A. Yes.

1 Q. With respect to those pieces of testimony
2 identified as Exhibits 9, 10 and 11, the schedules
3 attached thereto, are there any changes or corrections
4 that need to be made at this time?

5 A. No, there are not.

6 Q. If I were to ask you the same questions
7 appearing in those three pieces of testimony, would
8 your answers here today under oath be the same as
9 those appearing in those three pieces of prepared
10 testimony?

11 A. Yes, they would be.

12 Q. And are the answers contained in those
13 pieces of testimony true, correct -- true and correct
14 to the best of your knowledge, information, and
15 belief?

16 A. Yes, they are.

17 Q. And the information contained in the
18 schedules attached to those pieces of testimony, is
19 that true and correct to the best of your knowledge,
20 information, and belief?

21 A. Yes, it is.

22 MR. ENGLAND: Thank you, sir.

23 I have no other questions of the witness,
24 and would tender him for cross-examination, as well as
25 offer Exhibits 9, 10, and 11.

1 JUDGE THOMPSON: First of all, do I hear any
2 objections to Exhibit 9, 10, or 11?
3 (No response.)
4 JUDGE THOMPSON: Hearing no objections,
5 Exhibits 9, 10 and 11 are received and made a part of
6 the record of this proceeding.
7 (EXHIBIT NOS. 9, 10 AND 11 WERE RECEIVED
8 INTO EVIDENCE.)
9 JUDGE THOMPSON: Cross-examination.
10 Mr. Fischer.
11 MR. FISCHER: Thank you, your Honor.
12 CROSS-EXAMINATION BY MR. FISCHER:
13 Q. I'm going move the microphone over here,
14 Mr. Stout. Even though I'm sure you can hear me,
15 maybe others would like to as well.
16 I'd like to start with your rebuttal
17 testimony on Page 12. On Line 20, you state, "Public
18 policy should be established with a view to the
19 long-term future, not the next few years." Is that
20 right.
21 A. Yes, it is.
22 Q. Is the public policy that you're referring
23 to there the public policy decision made by the
24 Commission to use single-tariff pricing for this
25 company?

1 A. I hope so. It's certainly the decision as
2 to whether to choose single-tariff or district-
3 specific pricing. I think that that decision should
4 be made with a view to the long term.

5 Q. Either decision should be made with a view
6 toward the long term in your opinion?

7 A. Yes.

8 Q. And I think you discuss the advantages and
9 disadvantages of single-tariff pricing and district-
10 specific pricing in your testimony; is that right?

11 A. I do.

12 Q. In your opinion, would the benefits of
13 single-tariff pricing be achieved if public policy is
14 established with a view toward the short-term effects
15 only?

16 A. Would you mind repeating that?

17 Q. Certainly. I'd like to talk to you first
18 about single-tariff pricing. And my question is,
19 would the benefits of that policy be achieved if you
20 look at just the short-term effects only?

21 A. I think the benefits are achieved upon
22 implementing it whether you're looking at the short
23 term or the long term.

24 Q. In your opinion, would the benefits of
25 single-tariff pricing be achieved if the Commission

1 uses single-tariff pricing in one case, district-
2 specific pricing in the second case, and then swings
3 back to single-tariff pricing in a third case?

4 A. No, they would not.

5 Q. Mr. Stout, would you agree that whatever
6 public policy decision that is made by the Commission
7 regarding single-tariff pricing or district-specific
8 pricing, that that public policy decision should be
9 applied as consistently as possible in the future?

10 A. Yes.

11 Q. Mr. Stout, I'd like to discuss with you
12 briefly customer impacts that will result depending
13 upon whether the Commission adopts single-tariff
14 pricing or district-specific pricing.

15 And as I understand the Company's testimony,
16 the Company's proposed tariffs were developed using
17 single-tariff pricing; is that correct?

18 A. Yes, it is.

19 Q. Under the Company's proposed tariffs,
20 assuming the Commission adopted your position on
21 revenue requirement issues, there would be an across-
22 the-board rate increase to all of your Company's
23 districts of approximately 54 percent; is that right?

24 A. I believe the percentage is somewhat less
25 than that based on the rebuttal position of the

1 Company, but, yes, that would be the approximate
2 percent increase for all districts.

3 Q. And you're saying in the prehearing
4 conference you reduced your request for the overall
5 rate increase and that affects that number?

6 A. Yes.

7 Q. Okay. And did I understand that that new
8 number is approximately 50 percent?

9 A. Yes.

10 Q. And that would be the increase that the
11 St. Joseph District and all other districts would have
12 if the Commission maintains single-tariff pricing and
13 the Company would win all of its revenue requirement
14 issues; is that right?

15 A. Generally, yes. There are minor differences
16 that result from the differing percent increase in the
17 customer charge as compared to the consumption
18 charges, but it still results in approximately a
19 50 percent increase to each district.

20 Q. Now, changing the assumption, if the
21 Commission changes its rate design policy and uses
22 district-specific pricing in this case, what would be
23 the percentage increase to the St. Joseph District if
24 the Commission -- if the Company would win all of its
25 revenue requirement issues?

1 A. It would be approximately 120 percent.

2 Q. 120 percent for the St. Joe district?

3 A. Yes.

4 Q. Now, if the Commission also adopted the

5 interclass shifts among the various St. Joseph

6 customers proposed by the Commission Staff, there

7 would be different percentage increases depending upon

8 the specific customer class involved; is that right?

9 A. Yes.

10 Q. On Page 8 of your rebuttal testimony,

11 Lines 9 through 13, you state, "Mr. Hubbs' rate design

12 results in increases as high as 490 percent to the

13 sales for resale customers in Brunswick with numerous

14 classes receiving increases in excess of 100 percent

15 and decreases as high as 24 percent to the private

16 fire customers in St. Joseph and 19 percent to the

17 commercial customers in Joplin"; is that right?

18 A. Yes.

19 Q. The rate increases that you're discussing in

20 that portion of your testimony are based upon the

21 districts-specific pricing and cost class revenue

22 shifts that are contained in Mr. Hubbs' cost of

23 service study; is that right?

24 A. As attached to his rebuttal testimony.

25 Q. Okay. As you know, I represent four water

1 supply districts in that St. Joseph area that serve
2 principally rural residential customers. If I wanted
3 to determine the rate impacts on my clients of going
4 to district-specific pricing and adopting the cost of
5 service study results of the Commission Staff,
6 wouldn't it be possible to use those schedules
7 attached to Mr. Hubbs' rebuttal testimony to make that
8 determination?

9 A. Yes, it would.

10 Q. Do you have those schedules in front of you,
11 by chance?

12 A. I do.

13 Q. I'd like to ask you to refer to Mr. Hubbs'
14 rebuttal testimony and the schedule designated
15 St. Joseph Schedule WRH 2. -- 2-1?

16 I believe that, your Honor, has been
17 pre-marked as Exhibit 42.

18 JUDGE THOMPSON: Thank you.

19 BY MR. FISCHER:

20 Q. This schedule shows the rate impacts of
21 going to district-specific pricing and adopting the
22 Staff's cost of service study for the St. Joseph
23 district; is that correct?

24 A. Yes.

25 Q. According to St. Joseph's Schedule WRH 2-1,

1 the total revenue percentage increase for the
2 St. Joseph District under those assumptions is -- is
3 87.43 percent; is that correct?

4 A. Yes, it is.

5 Q. Does this schedule also assume the Staff's
6 revenue requirement position?

7 A. Yes, it does.

8 Q. That would assume that all of the new
9 St. Joseph treatment plant costs would be reflected in
10 the St. Joseph District rates; is that your
11 understanding?

12 A. Those that Staff have included would all be
13 included for the St. Joseph customers.

14 Q. Thank you for the qualification.
15 Staff did make an adjustment of a couple
16 million dollars, didn't they, on that?

17 A. Yes.

18 Q. Okay. According to this exhibit, the total
19 revenue percentage increase for the sales for resell
20 class in St. Joseph would be 268.61 percent; is that
21 right?

22 A. Yes, it is.

23 Q. That's the percentage increase that would
24 result to my clients, the St. Joseph Water Districts,
25 if district-specific pricing is adopted and Staff's

1 cost of service study results are used; is that your
2 understanding?

3 A. And as well as the revenue requirement.

4 Q. Yes.

5 A. Yes.

6 Q. And let's just assume that continues here
7 for purposes of these questions.

8 Under those assumptions, the St. Joseph
9 residential class would receive a 49.94 percent
10 increase; the commercial class a 79.43 percent
11 increase; industrial class, a 199.55 percent
12 increase; and other public authorities would receive
13 a 107.18 percent increase; is that right?

14 A. Yes, it is.

15 Q. In any event, my clients would experience
16 the largest increase, the 268 percent increase in the
17 rates in the St. Joseph area; is that right?

18 A. Yes, it is.

19 Q. Mr. Stout, I'd like to ask you to refer to
20 Mr. Hubbs' rebuttal testimony, schedule -- Brunswick
21 Schedule WRH 2.1.

22 That's also Exhibit 42, your Honor.

23 JUDGE THOMPSON: Thank you.

24 BY MR. FISCHER:

25 Q. Would this schedule show the projected

1 revenue impacts of going to district-specific pricing
2 and utilizing the Staff's cost of service study
3 results for Brunswick?

4 A. Yes.

5 Q. The overall increase to the Brunswick
6 District would be approximately 265 percent if the
7 Commission adopted specific -- district-specific
8 pricing and used the Staff's cost of service study; is
9 that right?

10 A. Yes, it is.

11 Q. And for the sales of the resell class, the
12 increase would be 478.39 percent; is that right?

13 A. Yes, it is.

14 Q. That would be the class that would be made
15 up of water district-- or public water supply
16 districts around Brunswick; is that right?

17 A. Yes, it is.

18 Q. And the resident-- residential customers in
19 Brunswick would receive a 212.48 percent increase if
20 district-specific pricing was adopted and the Staff's
21 cost of service study results were incorporated; is
22 that right?

23 A. Yes, it is.

24 Q. And, similarly, if you just look down that
25 schedule, the commercial customers would get a

1 218 percent increase, industrials would get a 175
2 percent increase, other public authorities would
3 receive 215 percent, private fire customers would
4 receive 122 percent, and miscellaneous customers would
5 receive a 200 percent increase; is that right?

6 A. Yes.

7 Q. Do you happen to know if the City of
8 Brunswick is an intervenor in this proceeding?

9 A. I'm not aware that they are.

10 Q. Going back to your rebuttal testimony on
11 Page 8, at Lines 13 through 16, you state, "Such rate
12 changes are beyond the bounds of gradualism, do not
13 recognize the value of service principle, and are
14 confusing in that there are now over 30 rate schedules
15 for Missouri-American Water Company"; is that correct?

16 A. Yes, it is.

17 Q. Are you referring in that portion of your
18 testimony to the proposals of the Staff that would
19 adopt district-specific pricing and utilize other cost
20 of service study results?

21 A. Yes, I am.

22 Q. Mr. Stout, the Company's customer notices
23 that were sent out in this case discussed the
24 Company's proposed increase of 53.97 percent; is that
25 right?

1 A. That would be my understanding.

2 Q. The Company's customer notice for the

3 St. Joseph District indicated that for the average

4 residential customer in St. Joseph the proposed

5 increase would be \$8.59 a month; is that your

6 understanding?

7 A. I can accept that subject to check. I

8 haven't reviewed the customer notice.

9 Q. Okay. If you would like, let me hand you a

10 copy of that exhibit -- or, excuse me, just a

11 document. Does that appear to be the customer notice

12 for St. Joseph?

13 A. I'll accept that that's what it is.

14 Q. Okay. Does that indicate that that's what

15 the average monthly increase would be, \$8.59?

16 A. Yes, it does.

17 Q. That statement was based upon the assumption

18 that single-tariff pricing would be used; is that

19 right?

20 A. Yes, it is.

21 Q. Mr. Stout, at the local hearing a member of

22 the St. Joseph Customer Advisory Council testified

23 that a Company representative had indicated to that

24 customer advisory group that the expected rate

25 increase for the proposed plant would be in the range,

1 the ball park, I think he used the term, of 30 to
2 35 percent when they first discussed that plan.

3 Is that consistent with your understanding
4 of the expectations of the Company at the time the
5 St. Joseph Plant was being discussed in the St. Joseph
6 community?

7 A. I don't know.

8 Q. Okay. Who in your company would be the
9 appropriate witness to address that kind of a question
10 to?

11 A. I would defer to Mr. England to designate
12 the appropriate individual.

13 Q. Okay. I can ask each witness as we go
14 along.

15 A. I really couldn't say which of the witnesses
16 would be most appropriate.

17 MR. FISCHER: Okay.

18 MR. ENGLAND: We'll find one.

19 MR. FISCHER: Thank you.

20 BY MR. FISCHER:

21 Q. Were there any customer notices sent out in
22 any of your company's districts that discuss the
23 possibility that the Commission might approve rate
24 increases in the 200 to 478 percent range in some of
25 your districts?

1 A. I'm --

2 MR. FRANSON: Your Honor, I'm going to have

3 to object at this time. I think Mr. Fischer is

4 assuming that Mr. Stout is actually an employee of

5 Missouri-American and talking about things that were

6 done outside of this witness's expertise. I would

7 submit this witness has no firsthand knowledge of the

8 preparation of any customer notices. It was not done

9 under his direction, and, therefore, these questions

10 are not properly addressed to this witness because

11 they are beyond the scope of the knowledge of this

12 witness, your Honor. And I would object on that

13 basis.

14 MR. FISCHER: Your Honor, if he doesn't know

15 the answer, he can say so. I may be asking the wrong

16 witness. I'm not sure.

17 JUDGE THOMPSON: I think that Mr. Fischer is

18 correct, Mr. Franson, that the witness will need to

19 testify that he does not know if, in fact, he does not

20 know.

21 Proceed.

22 BY MR. FISCHER:

23 Q. Mr. Stout, I don't want to burden you with

24 questions that you don't know answers for, but do you

25 know if customer notices were sent out in any of the

1 Company's districts that would indicate the
2 possibility of rate increases in the 200 to
3 400 percent range?

4 A. I do not have firsthand knowledge but would
5 be surprised to learn that that was the case.

6 Q. Okay. Were there any customer notices that
7 you know of sent out that discuss the possibility
8 that the Commission might adopt district-specific
9 pricing or that the rates in St. Joseph could go up
10 122 percent?

11 A. Not that I'm aware of.

12 Q. If the Commission adopts district-specific
13 pricing and uses the Staff's cost of service study
14 results in this case, do you believe that Missouri-
15 American will have customers in Brunswick and
16 St. Joseph that will be surprised to receive rate
17 increases in the 200 percent range?

18 A. I have --

19 MR. CONRAD: Objection. Lack of foundation.

20 JUDGE THOMPSON: Mr. Fischer?

21 MR. FISCHER: Well, let me see if I can
22 rephrase the question.

23 BY MR. FISCHER:

24 Q. Based on your knowledge of the water
25 industry and your experience with this company, do you

1 believe customers that receive customer notices that
2 indicated the Company had requested a 54 percent
3 increase would be surprised if it was substantially
4 more?

5 MR. CONRAD: Objection. Lack of foundation
6 and also hypothetical.

7 JUDGE THOMPSON: Mr. Fischer?

8 MR. FISCHER: Let's make it a hypothetical
9 question.

10 JUDGE THOMPSON: Why don't you restate the
11 question as a hypothetical?

12 BY MR. FISCHER:

13 Q. As a hypothetical, if a customer received a
14 customer notice of 54 percent in the mail from the
15 Company and in reality after the Commission issued its
16 decision the rate increase was 200 percent, or in the
17 alternative 478 percent, would you expect customers to
18 be surprised?

19 A. Given the facts set forth in your
20 hypothetical, I would think the customers would be
21 surprised.

22 Q. Do you know whether Missouri-American has
23 already made contingency plans for dealing with
24 customer reaction if the Commission adopts
25 district-specific pricing and other -- or otherwise

1 departs from single-tariff pricing in a way that
2 substantially increases the rates above 54 percent for
3 your districts?

4 A. I don't know.

5 Q. Who would be an appropriate person to ask
6 that of?

7 A. I believe Mr. Jenkins would be most
8 appropriate.

9 Q. Thank you.

10 Mr. Stout, as I understand your testimony on
11 Page 8 of your rebuttal, at Lines 13 through 17,
12 you're concerned that the Commission Staff proposal
13 would be confusing because it would result in 30
14 different rates for your various districts by using
15 different rate schedules for residential, commercial,
16 industrial, sales for resell, other public
17 authorities, private fire, and miscellaneous services
18 for each of your districts; is that right?

19 A. Yes, it is.

20 Q. Under Missouri-American Company's current
21 rate structure, the Company does not separate its
22 customers into classes in that way; is that correct?

23 A. The rate schedule is applicable to all
24 classes of customers.

25 Q. Today the Company uses one unified rate

1 schedule. It is a declining block rate schedule based
2 on meter sizes; is that correct?

3 A. The customer charge is based on meter sizes,
4 and the consumption charges are of a declining block
5 form.

6 Q. In other words, as customers use various --
7 as customers of various sizes use more water, there is
8 a decline in the unit cost of water; is that right?

9 A. Yes.

10 Q. However, there is not a separate rate
11 structure for residential, commercial, industrial, or
12 sales for resell customers; is that right?

13 A. That is correct.

14 Q. Is the Company requesting that the
15 Commission separate its customers into separate
16 classes of customers the way the Staff has conducted
17 its cost of service study?

18 A. No.

19 Q. Mr. Stout, would you agree that an across-
20 the-board increase among customer classes would result
21 in less dramatic changes in the rates of Missouri-
22 American Water customers no matter what the Commission
23 decides on the single-tariff versus district-specific
24 tariff issue?

25 A. Yes.

1 Q. Would Missouri-American Company be opposed
2 to allocating any increase authorized in this case
3 within customer classes on an across-the-board basis?

4 A. I'm not sure what you mean "within customer
5 classes."

6 Q. Well, without separating them into the
7 30 different rate structures that you were talking
8 about, if you just -- if you -- once we have the
9 authorized increase in hand, would the Company be
10 opposed to an across-the-board allocation of that
11 revenue requirement increase to all customers on an
12 across-the-board basis?

13 A. I don't believe so; however, I do think that
14 it would be the Company's preference that the customer
15 charge be approved as proposed and that any additional
16 revenue increase required could then be spread equally
17 among the rate blocks.

18 Q. Okay. Thank you.

19 On Page 12 of your rebuttal testimony, you
20 discuss the cost of service study results in the cost
21 of service case, Case No. WO-98-204; is that right?

22 A. Yes.

23 Q. That case was designed to develop district-
24 specific cost of service studies for the various
25 districts; is that right?

1 A. Yes.

2 Q. Would it be correct to conclude from your
3 testimony on Page 12 that based upon the cost of
4 service studies conducted in Case No. WO-98-204 that
5 the St. Joseph District was more than covering its
6 district-specific costs at the time those studies were
7 conducted?

8 A. Yes, it would.

9 MR. FISCHER: Your Honor, I would request
10 the Commission to take official notice of its Report
11 and Order in Case No. WO-98-204. I have copies if you
12 would like to make an exhibit of it.

13 JUDGE THOMPSON: Are there any objections?

14 (No response.)

15 JUDGE THOMPSON: I think I would prefer to
16 make an exhibit of it, Mr. Fischer. We will assign
17 No. 56 to that.

18 (EXHIBIT NO. 56 WAS MARKED FOR
19 IDENTIFICATION.)

20 MR. FISCHER: Your Honor, at this time I
21 would offer the Report and Order as Exhibit 56.

22 JUDGE THOMPSON: Is there any objection to
23 the receipt of Exhibit 56?

24 (No response.)

25 JUDGE THOMPSON: Hearing none, Exhibit

1 No. 56 is received and made a part of the record of
2 this matter.

3 (EXHIBIT NO. 56 WAS RECEIVED INTO EVIDENCE.)

4 JUDGE THOMPSON: Please proceed,
5 Mr. Fischer.

6 MR. FISCHER: Thank you, your Honor.

7 BY MR. FISCHER:

8 Q. Mr. Stout, did I give you a copy? I may not
9 have.

10 A. No, sir, you did not.

11 Q. I'm sorry.

12 I'd ask you to turn to Page 7 of that Report
13 and Order. In the very last paragraph, it indicates
14 that, "Schedule A of the hearing memorandum in this
15 proceeding summarizes the results of the parties'
16 various cost of service studies." Do you see that
17 reference?

18 A. I do.

19 Q. And then it goes on to say, "The results are
20 helpful in demonstrating the cost of service on a
21 district-specific basis." And the next sentence is
22 the one I want to ask you about. "For example, the
23 cost of service studies generally show that the
24 St. Joseph District has been paying rates that are
25 approximately 10 to 11 percent higher than its

1 district-specific costs." Do you see that?

2 A. I do.

3 Q. Do you generally agree with the Commission's
4 analysis regarding districts-specific cost studies in
5 that case?

6 A. I -- I agree with the conclusions set forth
7 in that sentence that was -- that you just read.

8 Q. Okay. On the next page, the Commission goes
9 on to state, "The Commission generally agrees with
10 Staff's observation that the cost of service
11 information in this proceeding might serve as a useful
12 benchmark for evaluating STP or DSP in Missouri-
13 American's next rate case." Do you agree with that?

14 A. Yes.

15 Q. And, for example, the data discussed
16 concerning the St. Joseph area could be relevant if
17 the Commission is requested to revert to
18 district-specific pricing when the St. Joseph Plant
19 comes on line. Do you agree with that?

20 A. Yes, I think the relative position of
21 several districts in the studies conducted in that
22 proceeding as compared to those in this proceeding
23 make the point that over time at the -- there is a
24 shift in those districts that are subsidizing others
25 and those that are receiving subsidy.

1 Q. Mr. Stout, were you a witness in the
2 Company's last rate case, Case No. WR-97-237?

3 A. I was not.

4 Q. I guess Mr. Gaustella, was he the -- he must
5 have been the rate design witness. I'm sorry.

6 A. Yes, he was.

7 Q. Okay. Are you aware that in Case WR-97-237
8 the Commission used single-tariff pricing to reflect
9 the rate increase that was authorized in that case?

10 A. Yes, I am.

11 Q. Do you happen to know the principal reason
12 for the need for the rate increase in that particular
13 case?

14 A. My recollection is that a pipeline in the
15 St. Charles area was the largest of the reasons. I'm
16 sure there were others.

17 Q. Would it be within your understanding that
18 the principal reason for the need for the rate
19 increase were capital investments made in St. Charles
20 and Joplin?

21 A. As I said, I can specifically recall the
22 investment in St. Charles. I don't recall with
23 respect to Joplin.

24 Q. Mr. Stout, I'd like to show you Page 483 of
25 the transcript of that case where there is a question

1 and answer that reflects the reason for the increase.

2 I'd like to show you a part of this

3 transcript where the question was asked, "Is it your

4 understanding that in this case the lion's share,

5 approximately 90 percent, of revenue requirement

6 increase is directly related to the investment and new

7 plant in St. Charles and Joplin?" Would you read the

8 answer to that question?

9 MR. ENGLAND: Object.

10 MR. CONRAD: I'm going to object, too,

11 because that's -- whoever was first, go ahead. Go

12 ahead, Tripp.

13 MR. ENGLAND: Well, I'm not sure I have an

14 objection. I think it's a statement by a Company

15 person, in which case I have no problem if you want to

16 take official notice of it. But I have trouble with

17 this witness being cross-examined on a statement by

18 another company witness in a case in which he was not

19 a participant. If you want to take notice of the

20 question and answer, I have no problem with that, but

21 I think the questioning of this witness is --

22 MR. FISCHER: I'll withdraw the question,

23 your Honor, just to take care of the objection. I

24 think he can answer the question.

25 JUDGE THOMPSON: Does that take care of your

1 objection, Mr. Conrad?

2 MR. CONRAD: Well, it does now that he's
3 been prompted and reminded by the transcript, which I
4 think is a little bit smooth.

5 But my basic problem is that this is -- this
6 is growing to be -- and I'm given to under, your
7 Honor, that we're not supposed to say the magic words
8 "friendly cross" anymore, but it is -- it's beginning
9 to get there. And whether that's the proper framework
10 to put it in, I suspect that the really proper
11 objection is that this is improper direct examination,
12 because this party is on this issue in the same
13 position as the Company based on their own statement
14 and based on their opening statement this morning.

15 So that's going to be the basis of my
16 objection, and I think it's -- I think it's gone far
17 enough.

18 MR FISCHER: Your Honor, could I respond to
19 that?

20 JUDGE THOMPSON: Certainly, Mr. Fischer.

21 MR. FISCHER: Certainly, the Company and the
22 Water District share the position that single-tariff
23 pricing should continue to be the public policy that
24 is used by this Commission. However, this Company has
25 also suggested that this -- that the Commission depart

1 from that by giving my clients significantly greater
2 percentage increases than other companies -- than
3 other customers. And to the extent that we diverge on
4 any of these issues, I think I have the right to ask
5 those questions.

6 MR. CONRAD: Your Honor, nothing in the
7 question that has been posed which was objected to --
8 and if you would like to have it read back, you
9 certainly are capable of asking for that -- has
10 anything whatsoever to do with the divergence that
11 Mr. Fischer has referenced.

12 JUDGE THOMPSON: Mr. Fischer?

13 MR. FISCHER: Well, your Honor, all of these
14 questions, I think, go to the question about whether
15 the Commission should maintain single-tariff pricing,
16 diverge to district-specific, or adopt the surcharge
17 proposals of the Company. I think they are all
18 relevant to the decision that's going to have to be
19 made by the Commission and should be permitted.

20 JUDGE THOMPSON: I find this line of
21 questioning permissible. The objection is overruled.

22 Please proceed.

23 MR. FISCHER: Thank you, your Honor.

24 BY MR. FISCHER:

25 Q. Mr. Stout, would it be correct to conclude

1 that the rates in the St. Joseph District have
2 included rate impacts of past investments in other
3 parts of the Company's service area?

4 A. Yes.

5 Q. Does Missouri-American expect to continue to
6 make major investments in service areas other than
7 St. Joseph in coming years?

8 A. Yes.

9 Q. Do you believe there will be a need to
10 upgrade your facilities in the Parkville area, for
11 example?

12 A. I expect that there will be needs to do that
13 in all districts.

14 Q. Does the Company have any general plans to
15 upgrade facilities in Missouri outside the St. Joe
16 area that you're aware of?

17 A. The Company's five year capital plan
18 includes expenditures in districts other than
19 St. Joseph.

20 Q. Could you briefly describe those plans, or
21 are you the appropriate person to do that?

22 A. I don't believe I'm the appropriate person
23 to give you that.

24 Q. Okay. Do you know if the Company has
25 decided to operate the St. Louis County system as a

1 separate division of the Company in the future?

2 A. I don't know.

3 Q. Let's look on Page 17 of your rebuttal
4 testimony where you begin discussing your two capital
5 additional surcharge proposals. Is that correct?

6 A. Yes.

7 Q. As I understand the Company's position
8 statement in this case, it is Missouri-American
9 Company's position that the Commission should maintain
10 the single-tariff pricing structure that currently
11 exists today. Is that your Company's primary
12 preferred rate design position?

13 A. Yes, it is.

14 Q. However, you've also suggested that if the
15 Commission is reluctant to continue full STP, then
16 Missouri-American has developed two alternative
17 surcharge approaches that would increase the rates in
18 the St. Joseph District by more than the increases in
19 the Company's other districts; is that right?

20 A. Yes, it is.

21 Q. On Page 19 of your rebuttal testimony, you
22 discuss your first surcharge proposal that would
23 increase the rates of St. Joseph 89.63 percent while
24 giving other districts only a 28 percent increase; is
25 that right?

1 A. Yes, it is.

2 Q. And under your second surcharge proposal,

3 you propose to increase the rates of St. Joseph by

4 79.35 percent while giving other districts only a

5 33 percent increase; is that right?

6 A. Yes, it is.

7 Q. In the past has Missouri-American ever

8 implemented a rate surcharge proposal like the one

9 you've included in your testimony where there were

10 capital investments in a specific district?

11 A. Not that I'm aware of.

12 Q. In the last rate case, the Company did not

13 implement a rate surcharge when the principal reason

14 for the rate increase was capital investments in other

15 areas?

16 A. No, they did not.

17 Q. If the Commission adopted your alternative

18 surcharge proposal, would it be the first time that

19 the Missouri Commission had implemented such a

20 proposal for the Company?

21 A. I believe that's correct.

22 Q. As I understand your testimony, you would

23 prefer the Commission not depart from single-tariff

24 pricing, but continue to be consistent with that

25 approach in the future; is that right?

1 A. Yes, it is.

2 Q. Are you familiar with the direct testimony
3 of James E. Salser in this case where he discusses the
4 reasons for the rate increase in this case?

5 A. No, I am not.

6 Q. You're not familiar with it?

7 A. I am not.

8 Q. Okay. So you wouldn't be familiar with the
9 capital investments that are incorporated into this
10 current rate case besides those in St. Joseph?

11 A. Yes, I am.

12 Q. Okay. Let me ask you about those capital
13 investments.

14 Is it correct that in this case the Company
15 is requesting to have included in rate base capital
16 investments in Warrensburg that total approximately
17 \$5.3 million?

18 A. I'll accept that, subject to check.

19 Q. And that would include a \$4.2 million
20 hydrogen sulfide removal plant; is that correct?

21 A. Yes.

22 Q. And is there also a capital investment in
23 Mexico totaling approximately \$5.8 million including
24 \$5 million in plant improvements? Is that your
25 understanding?

1 A. Yes, it is.

2 Q. And in Platte County, the Company has

3 invested over \$2 million in a one-million-gallon tank

4 and booster; is that your understanding?

5 A. I don't specifically recall that, but I'll

6 accept that subject to check.

7 Q. And in Joplin --

8 JUDGE THOMPSON: Excuse me. Mr. Stout,

9 you've used the phrase "subject to check" several

10 times. We prefer that you not testify subject to

11 check because we believe that that is tantamount to

12 saying that you're guessing or that you don't know.

13 Please testify based on your personal

14 knowledge, and if you don't know, then that must be

15 your answer.

16 Thank you, sir.

17 Please proceed.

18 BY MR. FISCHER:

19 Q. Okay. I can show you the testimony of

20 Mr. Salser where those are listed, if you would like.

21 Have you -- have you, by chance, reviewed

22 the Public Counsel's Witness Busch's direct testimony

23 where he also lists those kind of investments numbers?

24 A. Yes, I have.

25 Q. Okay. Would it be correct that the Company

1 has made approximately \$31 million of investments in
2 districts other than St. Joe that are reflected in
3 this case?

4 A. Yes, it is.

5 Q. Now, under Missouri-American Company's
6 alternative surcharge proposal, will there be any
7 surcharges for the capital investments in Warrensburg,
8 Mexico, Platte County, and Joplin that will be
9 reflected in rates in this case?

10 A. No.

11 Q. Would it be correct that only the capital
12 investments in St. Joseph would be reflected in that
13 surcharge, but all of the other Company's capital
14 investments would be averaged in rates across the
15 Company's Missouri service area?

16 A. No. Only a portion of the capital
17 investments in St. Joseph would be reflected in the
18 surcharge. The remainder of the St. Joseph capital
19 investments, as well as the capital investments in all
20 other districts, would be incorporated and averaged in
21 the overall revenue requirements.

22 Q. Okay. And there would be no surcharge to
23 reflect the specific investments in those other areas;
24 is that correct?

25 A. Yes, it is.

1 Q. But, again, this is not the Company's
2 preferred solution in this case; is that right?

3 A. That's correct.

4 Q. Now, let's assume the Commission adopts your
5 first surcharge proposal and increases the rates in
6 the St. Joseph area by 89 percent while giving other
7 districts a 28 percent increase. Would this surcharge
8 on St. Joe remain in effect indefinitely?

9 A. I don't believe so. I think with every rate
10 proceeding it should be reviewed.

11 Q. Has the Company proposed that your tariffs
12 contain a specific date on which the St. Joseph
13 surcharge would be eliminated?

14 A. No.

15 Q. Do you think it would be desirable if the
16 Commission applied its public policies regarding the
17 reflection of capital investments and rates in a
18 consistent manner over time?

19 A. Could you repeat that question?

20 Q. Certainly. I asked whether you think it
21 would be desirable if the Commission applied its
22 public policies regarding the reflection of capital
23 investments in this Company's rates in a consistent
24 manner over time?

25 A. Yes, it would.

1 Q. If the Commission adopts your surcharge
2 approach in this case, do you think it would be fair
3 and reasonable for the Commission to implement similar
4 surcharges for future capital investments in other
5 districts?

6 A. As long as the same test was applied that
7 I've used here, I believe it would be.

8 Q. Are you in a position today to assure the
9 customers of St. Joseph that if the Commission adopts
10 the St. Joseph surcharge proposal in this proceeding
11 that Missouri-American will propose to add similar
12 surcharges to other districts that have major capital
13 investments in the future?

14 A. I can't speak for the Company in that
15 regard. If the Commission adopts a policy that is
16 consistent with these proposals, then I believe the
17 test, that is the impact of the capital investment in
18 a district on the rates in other districts, should
19 continue to be applied going forward.

20 Q. So it would be your position that what's
21 fair for St. Joe is fair for other districts, assuming
22 that it meets that test?

23 A. That is correct.

24 Q. Mr. Stout, let's assume that the Commission
25 wants to maintain consistency in its public policies

1 regarding the reflection of capital investment in
2 rates over time, and also let's assume that it
3 believes that it should change its public policy in
4 favor of a public policy that emphasizes less
5 averaging of costs and more emphasis on recovering the
6 costs of new capital additions from the districts
7 where the investments are being made.

8 Do you follow my assumption so far?

9 A. Yes, I do.

10 Q. Under these assumptions, could the
11 Commission continue to maintain consistency with its
12 past public policies by utilizing single-tariff
13 pricing in this case, but announce that on a going-
14 forward basis, all future investments would be
15 reflected in rates on a district-specific basis?

16 A. I believe that would be possible.

17 Q. Wouldn't such approach -- wouldn't such an
18 approach give notice to the Company, its ratepayers,
19 and other interested parties that the Commission is
20 changing its public policy regarding how to recover
21 capital investments in rates but avoid that obvious
22 criticism that it changed rules in the middle of the
23 rate-making process with regard to the St. Joe
24 Treatment Plant?

25 A. It would?

1 MR. FISCHER: Thank you.

2 That's all I have. I appreciate your

3 patience.

4 JUDGE THOMPSON: Thank you, Mr. Fischer.

5 Mr. Zobrist.

6 MR. ZOBRIST: Thank you, your Honor.

7 Just a few questions.

8 CROSS-EXAMINATION BY MR. ZOBRIST:

9 Q. In your direct testimony, Mr. Stout, you

10 endorse the concept that single-tariff pricing is

11 appropriate on Page 14. Do you recall that, sir?

12 A. I do.

13 Q. Did you undertake any study of what other

14 public utility commissions throughout the United

15 States have been doing, say, in the last few years

16 with regard to single-tariff pricing various

17 district-specific pricing?

18 A. I would not characterize it as a study. I

19 have a general knowledge from appearing before a

20 number of those commissions as to what the policies

21 are, and I have also read Dr. Beecher's research in

22 that area.

23 Q. Apart from Dr. Beecher's research in that

24 area, what can you -- what can you inform the

25 Commission about any trend that you've observed in

1 tariff design, single-tariff pricing versus
2 district-specific pricing?

3 A. My observation --

4 MR. CURTIS: I'll object to this line. I
5 think this is not cross-examination, and this witness
6 has not sponsored any study such as Dr. Beecher's on
7 which to cross-examine. This is an attempt to get
8 additional direct testimony out of this witness.

9 MR. CONRAD: And I'll join in the objection,
10 your Honor, on the additional basis that the witness
11 answered the original question in this area that he
12 hadn't done a study. Now counsel has asked him to
13 tell his results about a study that he hasn't done.
14 You can read back the transcript again, but that's
15 what the witness has said.

16 MR. ZOBRIST: Your Honor, my question was to
17 ask the witness to state what his knowledge was about
18 his observations with regard to other public utility
19 commissions. And I have no idea what the witness is
20 going to say. It may be friendly. It may be
21 unfriendly, but that was the question that I, at
22 least, intended to ask Mr. Stout.

23 MR. CONRAD: I'd put a bet out here --

24 MR. ZOBRIST: I'll rephrase the question,
25 your Honor.

1 JUDGE THOMPSON: Miss Reporter, could you
2 read back that question?

3 (THE PENDING QUESTION WAS READ BY THE
4 REPORTER.)

5 QUESTION: Apart from
6 Dr. Beecher's research in that
7 area, what can you -- what can
8 you inform the Commission about
9 any trend that you've observed
10 in tariff design, single-tariff
11 pricing versus district-specific
12 pricing?

13 MR. ZOBRIST: Judge, I'll just rephrase the
14 question.

15 JUDGE THOMPSON: Go ahead.

16 BY MR. ZOBRIST:

17 Q. Mr. Stout, with regard to the testimony you
18 gave or the observations that you have made as far as
19 trends in tariff design before other public utility
20 commissions, what have you been able to observe?

21 A. My observation with respect to the trend in
22 tariff design is an increased use of single-tariff
23 pricing driven largely by the consolidation in the
24 industry and the resultant desire for rate stability,
25 ease of administration and the avoidance of drastic

1 changes as well as the benefits to smaller districts
2 in terms of affordability of service.

3 Q. Now, Mr. Stout, on -- in your rebuttal
4 testimony, at Page 16, you observe that if the
5 Company's proposal were endorsed by the Commission
6 that approximately 54,000 customers of Joplin,
7 St. Charles, and Warrensburg would be subsidizing
8 approximately 41,000 customers of Brunswick, Mexico,
9 Parkville, and St. Joseph.

10 Does this disparity at all affect your
11 opinion that single-tariff pricing is appropriate in
12 this case?

13 A. No.

14 Q. And why doesn't it?

15 A. My testimony on Page 16 of my rebuttal is in
16 response to testimony from Mr. Harwig in which he
17 indicated that only a few were being asked to shoulder
18 the burden of single-tariff pricing. This
19 demonstrates that there is more than a few who are
20 being asked for a period of time to shoulder that
21 burden, many of which are customers who previously had
22 the burden shouldered for them.

23 Q. And if we took those raw numbers and turned
24 them into percentages, would I be correct in saying
25 that approximately 57 percent of the customer base for

1 a period of time would be supporting 43 percent of the
2 customer base?

3 A. Yes, you are correct.

4 Q. Finally, there was a suggestion by one of
5 the counsel for the other intervenors during opening
6 that single-tariff pricing could be the basis of a
7 motive for greed by a public utility. Do you have any
8 basis in your expertise where you can inform the
9 Commission how single-tariff pricing could encourage
10 or provide a motive for a public utility to be greedy?

11 A. None whatsoever.

12 MR. ZOBRIST: No further questions.

13 JUDGE THOMPSON: Thank you, Mr. Zobrist.

14 Am I correct in believing that there is no
15 one here from the Trade Council and that there is no
16 one here from the City of Mexico?

17 (No response.)

18 JUDGE THOMPSON: Very well. St. Charles
19 Water District, Mr. Stewart?

20 (No response.)

21 JUDGE THOMPSON: Mr. Coffman?

22 MR. COFFMAN: Thank you.

23 CROSS-EXAMINATION BY MR. COFFMAN:

24 Q. Mr. Stout, I just have a couple of questions
25 for you.

1 First of all, I'd like to direct you to
2 Page 18 of your direct testimony, the first full
3 paragraph there. Let's see. Line -- Line 10 you --
4 you're listing in this paragraph, are you not,
5 benefits that you perceive from single-tariff pricing?
6 A. Both benefits and reasons for.
7 Q. Okay. You list on Line 10 the equivalent
8 service rendered. As far as equivalent service, do
9 you -- do you consider the perceived differences in
10 the quality of water from one district to another to
11 be relevant to this considered -- to this topic?
12 A. I would say they are relevant, yes.
13 Q. Okay. You talk about -- in the next phrase
14 after that you list gas, telephone, and electric
15 industries precedent. Are you familiar with rate --
16 rate case decisions from the Missouri Commission
17 involving gas, telephone, or electric companies?
18 A. I have not specifically read them, no.
19 Q. Are you -- what do you base this
20 consideration on, on your reading of rate orders from
21 other commissions or from general studies?
22 A. Just general knowledge of the industries
23 throughout the United States.
24 Q. Can you cite to me any gas, telephone, or
25 electric company that would be similar to

1 Missouri-American Company in the way that each of its
2 seven districts are non-contiguous and spread
3 throughout the state?

4 A. I can't -- I don't think it would be
5 beneficial to go through specific examples, but,
6 rather, I'll state the general proposition that
7 although districts that are not contiguous in each of
8 these industries may be connected by transmission
9 facilities, the large majority of their costs,
10 particularly the distribution systems in each, do have
11 substantially different costs from non-contiguous
12 district to non-contiguous district, and those types
13 of costs are not distinguished for these types of
14 utilities.

15 Q. None of the seven districts in
16 Missouri-American Water Company's system are
17 interconnected, though, are they?

18 A. They are not.

19 Q. Okay. And isn't it true in the telephone
20 industry that part of the value of that service is
21 that you may call practically any other region of the
22 country or the world and receive a call from
23 practically anywhere as well?

24 A. That is one of the values. The other value
25 is that you can call right down the street and one of

1 the real significant values in both the telephone and
2 the electric industry, in particular, is that a
3 customer that even is the only customer down two miles
4 of pole line pays the same rate for that local service
5 that the customer in town does.

6 Q. Okay. Let me ask you about the next
7 sentence in that paragraph on Lines 11 through 13.
8 You state there, "Most importantly, single-tariff
9 pricing is necessary so all customers benefit from the
10 economies of scales by being part of a large system";
11 is that correct?

12 A. Yes.

13 Q. And do you believe this is -- do you believe
14 this is the most important rationale for single-tariff
15 pricing?

16 A. Yes, it is.

17 Q. Okay. Isn't it true that customers in the
18 Missouri-American system benefit from economies of
19 scale that are not related to rate design -- not
20 related to single-tariff pricing?

21 A. Yes, they benefit from those as well.

22 Q. Okay. So it's not -- so single-tariff
23 pricing isn't necessary for a customer to benefit from
24 the economies of scale from being a part of a large
25 system. Correct?

1 A. No. I would disagree with that. The common
2 corporate costs that are allocated to the districts
3 under a district-specific pricing policy, each of the
4 district customers would be able to benefit from the
5 economies of scale there.

6 But with respect to other economies of scale
7 in terms of the operation of a 100,000-customer system
8 as compared to a 5,000-customer system, those benefits
9 would not accrue to customers if district-specific
10 pricing were used.

11 Q. Wouldn't you agree with me, though, that all
12 customers do benefit from the economies of scale, that
13 all customers of Missouri-American Water Company would
14 benefit from the economies of scale of being part of a
15 large system even under a district-specific pricing
16 system through the joint and common costs being
17 shared?

18 A. With respect to the joint and common costs,
19 I have agreed that the economies of scale flow to all
20 customers. However, with respect to other costs of
21 the system, the operating costs, the capital costs of
22 the system, the economies of scale of operating a
23 100,000-customer system do not flow to the individual
24 districts.

25 Q. Well, I understand that, but isn't it true

1 that it's not necessary for a single-tariff pricing
2 scheme to be in place for some benefits of economy of
3 scale to benefit all customers?

4 A. Only with respect to the common costs.

5 Q. Okay. Thank you.

6 I want to ask you a couple of questions
7 about your class cost of service study and the base
8 extra capacity method now, if I might.

9 Do you believe that the base extra capacity
10 method is designed with the purpose of balancing both
11 the base usage and peak demand usage?

12 A. Yes.

13 Q. Okay. In your opinion, is the base extra
14 capacity method more appropriate and preferable to a
15 method that was based on just single-coincident peak
16 demand?

17 A. Yes, it is.

18 Q. And why is that?

19 A. Because I think it more equitably allocates
20 the costs of the capacity to the customers on the
21 system even if on a particular coincident peak day a
22 group of customers may have not participated as fully
23 in that peak.

24 Q. And a method that only considered single-
25 coincident peak demand would be inferior because it

1 only looked at the one factor, the peak demand.
2 Correct?
3 A. Yes.
4 Q. Okay. If -- and if you develop an allocator
5 that balances both base usage and peak demand,
6 shouldn't the result for that allocator fall somewhere
7 between the base allocator and the peak demand
8 allocator?
9 A. Yes, it should, and it does.
10 Q. Okay. For example, then, to make sure I
11 understand you, if the base allocator for a
12 residential class is 75 percent and the coincident
13 peak demand allocator for the residential class is
14 80 percent, then shouldn't the allocation for any
15 particular cost fall somewhere between 75 percent and
16 80 percent?
17 A. That would be my expectation.
18 Q. Okay. Is it possible that the way you apply
19 the base extra capacity method you could actually
20 produce an end result that would allocate more to the
21 residential class than from using a pure coincident
22 peak demand method?
23 A. It would be possible only if the residential
24 class did not experience its highest use on the
25 coincident peak day.

1 Q. Okay. So you -- so it is possible that the
2 base extra capacity method as you understand it and
3 apply it, it is possible to produce a result that
4 exceeds the coincident peak demand?

5 A. No, that's not what I indicated. It's
6 possible if the residential class's peak does not
7 occur on the same day as the system peak that the
8 results of the base extra capacity method would
9 produce a demand allocator to that class that would be
10 greater than the results of the coincident peak
11 method.

12 However, I think it -- given the
13 predominance of the residential class in this Company,
14 it would be highly unlikely that the residential class
15 did not experience its highest uses coincident with
16 the system peak.

17 Q. Okay. I'd like to ask you to generate a
18 hypothetical. And instead of trying to give you each
19 component and take up a lot of time, I've had the
20 hypothetical generated on a sheet.

21 And I would ask permission to approach the
22 witness.

23 JUDGE THOMPSON: You may approach,
24 Mr. Coffman.

25 MR. COFFMAN: And I'll give a copy to other

1 counsel so that . . .

2 BY MR. COFFMAN:

3 Q. You can take a look at this. I'll give you

4 a second to look at that.

5 I'm going to ask you just a couple of

6 hypothetical questions, and assume in this

7 hypothetical that we're dealing with a hypothetical

8 system that has only two customer classes, a

9 residential class and an industrial class. Is that --

10 do you understand?

11 A. I do.

12 Q. And looking at -- I suppose you might enjoy

13 a copy, your Honor?

14 JUDGE THOMPSON: Thank you, Mr. Coffman.

15 BY MR. COFFMAN:

16 Q. And tell me if at any point you aren't

17 following my hypothetical. We tried to make this as

18 simple as we could.

19 I'm assuming for this hypothetical that the

20 residential -- that the residential class has a peak

21 factor of one and the industrial class has a peak

22 factor of .5. The system peak ratio is 1.7.

23 Assume that the residential class has a base

24 use of -- of 18 MGD.

25 A. It's identified on the chart as MGD.

1 Q. And coincident peak demand is 31.8, and, for
2 my hypothetical, the industrial class has a base use
3 of six and a coincident peak demand of nine.

4 I'm wondering if you could verify what the
5 base allocator and the peak demand allocator are on
6 that hypothetical illustration I gave you.

7 A. Based on the assumptions in the
8 hypothetical, the base extra capacity allocation would
9 allocate 79.41 percent of such costs to the
10 residential class, 20.59 percent to the industrial as
11 shown on this document, and the coincident peak demand
12 method would allocate 77.94 percent to the residential
13 class, and 22.06 percent to the industrial class.

14 As I indicated in my previous response, the
15 circumstances shown in the hypothetical in which the
16 industrial customer is experiencing its peak
17 coincident with the system peak but not the
18 residential class is very atypical of the water
19 industry.

20 Q. But it is theoretically possible?

21 A. It is theoretically possible.

22 MR. COFFMAN: Okay. Thank you.

23 That's all of the questions I have.

24 JUDGE THOMPSON: Thank you, Mr. Coffman.

25 Mr. Franson?

1 MR. FRANSON: No questions, your Honor.

2 JUDGE THOMPSON: Thank you.

3 Mr. Conrad.

4 MR. CONRAD: Yes, your Honor.

5 CROSS-EXAMINATION BY MR. CONRAD:

6 Q. Good afternoon, Mr. Stout.

7 A. Good afternoon, Mr. Conrad.

8 Q. Just a couple of cleanup things here.

9 Mr. Fischer early on asked you a long series

10 of questions, actually, about somebody else's

11 testimony, as I recall, in which you acknowledged some

12 rate impacts. Do you recall that general line of

13 questioning?

14 A. Yes, I do.

15 Q. If either Public Counsel's recommendation

16 with respect to the amount of disallowance on the

17 St. Joseph plant or that recommended by my client

18 were, I'm sure, in your view the unlikely decision

19 from the Commission but nonetheless were the decision,

20 all of those numbers would change, wouldn't it?

21 A. That would depend on the pricing policy that

22 was chosen by the Commission as well.

23 Q. The point being, your answers to

24 Mr. Fischer's questions were modeled on the

25 presupposition that all of the amount of rate base

1 that had been allowed by Staff would go in. Correct?

2 A. Yes.

3 Q. And we have proposed a different and lesser

4 amount go into rate base; isn't that correct,

5 Mr. Stout?

6 A. That's my understanding.

7 The point of my response was that --

8 Q. Just answer the question, sir. Thank you.

9 Now, turning very quickly to Mr. Coffman's

10 hypothetical, are you aware in your experience of any

11 water system where a residential customer would have a

12 peak that was off of the non-coincident peak the way

13 this one is put together?

14 A. I have never seen such a system as yet.

15 Q. Mr. Stout, would you agree with me that the

16 purpose of performing a class cost of service study is

17 to allocate costs to customer classes on a cost

18 causation basis?

19 A. Yes.

20 Q. And would you also agree, sir, that the

21 correct process of functionalizing, classifying, and

22 allocating results in the determination of the costs

23 that are incurred by the utility to provide service to

24 the various classes of customers?

25 A. I would want to qualify. In general, yes;

1 however, that sounded pretty definitive in terms of
2 the costs being specifically tagged, each dollar being
3 spent having a class associated with it. And in the
4 allocation of costs, the customer classes, there is an
5 element of art in that science, and it provides
6 certainly an indication of the costs, but because of
7 the sharing that occurs, I just wanted to qualify your
8 question somewhat.

9 Q. So with that qualification, even recalling
10 that my question was doing that process correctly?

11 A. I think even doing it correctly does not
12 provide definitive indications of the cost to serve a
13 specific class because so many costs are jointly
14 incurred.

15 Q. And you would agree with me that what we're
16 talking about is a matter of precision?

17 A. It's also a matter of change over time in
18 that as usage may change, as weather conditions
19 change, the same costs may be incurred, but given
20 those conditions, we might allocate them differently.

21 Q. That would be, of course, reflected in a
22 particular set of billing determinants for the Company
23 in the test year that you would be looking at. Right?

24 A. Yes, it would.

25 Q. Would you agree with me that if you used

1 those processes, that's the three-part deal,
2 functionalize, classify, allocate, if you used those
3 incorrectly, would it result in an incorrect
4 allocation?

5 A. That seems like a reasonable presumption.

6 Q. I hoped it would.

7 Do you agree that incorrect use of those
8 processes could result in charging costs that are
9 caused by one class to another class?

10 A. Yes, with the same qualification to your
11 initial questioning along this line, that we are
12 allocating joint costs.

13 Q. So I take it, then, that you would agree
14 that we should seek to be as accurate as possible in
15 allocating costs on a cost-causal basis so as to
16 minimize the subsidies from one class to another.
17 Right?

18 A. Yes, with respect to the allocation in the
19 classes, we should be as accurate as possible, and we
20 should also be -- take care not to overreact to any
21 indications that could be caused by the kinds of
22 changes in billing determinants that you described
23 earlier that can happen from time to time.

24 Q. Now, you used the base extra capacity
25 method. Correct?

1 A. Yes, I did.

2 Q. And as far as you know, pretty much what you
3 used was right out of the manual?

4 A. Generally, it -- I would say that what I did
5 conforms to the manual.

6 Q. And if -- if someone asked you this question
7 in exactly the same way a few moments ago, I
8 apologize, but I didn't -- I didn't hear it asked
9 quite the same way.

10 Would you agree, sir, that the base extra
11 capacity method does account for economies of scale?

12 A. Could you define what you mean by "economies
13 of scale" for me, please?

14 Q. Well, let's define "economies of scale" in
15 the way that we have used it in a traditional sense,
16 not the way the witness from Public Counsel has used
17 it. Is that helpful?

18 A. In that case, I would say yes --

19 MR. COFFMAN: Objection. I'm not sure what
20 definition that is.

21 THE WITNESS: I believe he was referring --

22 JUDGE THOMPSON: The witness appears to have
23 understood it.

24 THE WITNESS: I was referring to the
25 definition in my testimony.

1 MR. COFFMAN: Okay.

2 BY MR. CONRAD:

3 Q. And using the definition in your testimony,

4 you agree that base extra takes that into account?

5 A. Yes.

6 Q. Would you agree with me that it would be

7 incorrect to apply some additional adjustment under

8 the label of economies of scale to the base extra

9 method?

10 A. I believe if any additional adjustment was

11 made along the lines that you're referring to, we

12 would no longer have a base extra capacity method.

13 Q. Would you agree with me that the -- well,

14 let me strike that a second.

15 Having in mind, Mr. Stout, the proposed

16 modifications to the method that is proposed by Public

17 Counsel's witness, would you agree with me that the

18 effect of that adjustment as she proposes it is to

19 allocate virtually all costs on a volumetric basis?

20 A. I would agree with you that it substantially

21 increases the portion of costs that are allocated on a

22 volumetric basis. It does not allocate all costs on

23 that basis.

24 Q. My question was virtually all.

25 A. Well, it's difficult to define "virtually."

1 Q. And difficult to define "substantial" also?

2 A. Yes.

3 Q. But we're quibbling with words, and I don't

4 want to do that.

5 Do you agree, Mr. Stout, that the base extra

6 method classifies a large proportion of the operating

7 and capital costs on the basis of average rates of

8 flow?

9 A. Yes.

10 Q. What proportion in your experience and in

11 this specific case of operating capital costs are so

12 classified?

13 A. In both this case and in all other instances

14 in which I've used the base extra capacity method, as

15 well as it's described in the manual, the portion of

16 costs that are allocated to customer classes based on

17 the average rate of flow is the system load factor on

18 the day of the system peak; that is, if the overall

19 system would use 100 gallons a day and on its peak

20 day usage was 200 gallons, then the ratio or the

21 system load factor would be 100 divided by 200, or

22 50 percent.

23 Q. Now, I take -- correct me if I'm wrong,

24 Mr. Stout, but doesn't your study in this case

25 classify roughly 50 percent of the total costs into

1 the base cost category?

2 A. Actually, it's somewhat more than
3 50 percent. It is 58.82 percent of those costs are
4 classified to the base function.

5 Q. And just for the benefit of the record,
6 where did you find that number?

7 A. That is on Table 2-C of Schedule WMS 2
8 attached to my direct testimony.

9 MR. CONRAD: Which, if I'm correct, your
10 Honor, that would be Exhibit 9.

11 JUDGE THOMPSON: Thank you.

12 BY MR. CONRAD:

13 Q. While you're at your direct testimony,
14 Mr. Stout, you might look at Page 23. I hope my
15 reference is correct. It must be since you didn't
16 have a Page 23 in your rebuttal.

17 Am I understanding generally that you've
18 used a maximum day ratio of 1.7?

19 A. For purposes of functionalizing costs
20 between base and extra capacity costs, I used a system
21 peak ratio of 1.7 which translates into a system load
22 factor of .5882.

23 Q. And you used the maximum hour ratio of 2.5?

24 A. That is correct.

25 Q. And if I understand your material attached

1 to Exhibit 9, that was calculated on a total company
2 basis. Correct?

3 A. Yes, for purposes of functionalization, it
4 is the total company basis that's used.

5 Q. Now, as a part of your direct testimony,
6 Exhibit 9, toward the back of it we find Table 2-E.
7 Would you locate that for me, please?

8 A. (Witness complied.)

9 Q. Let me know when you're there, sir.

10 A. I am there.

11 Q. Would you agree with me that at least based
12 on Table 2-E, Pages 1, 2, and 3 that the individual
13 districts were either above or below those ratios?

14 A. The individual districts do vary from that
15 system wide average. There are many in the one-five
16 to one-nine range.

17 Q. Would you agree with me that you then have
18 applied the same class allocators to all residential,
19 commercial and industrial customers in all districts?

20 A. No.

21 Q. What class allocators did you use to apply
22 to all customers in all districts? Did you develop
23 individual class allocators, sir?

24 A. No. And that's what I was saying no to.
25 That's what I understood your question --

1 Q. I'm sorry. Maybe I'm -- if I confused you,
2 I apologize. Let me try again.

3 Have you applied the same class allocators
4 to all residential, commercial and industrial
5 customers in all districts?

6 A. No. I haven't done an allocation of
7 district costs to classes.

8 Q. Your approach has been to do it on the total
9 Company?

10 A. Yes.

11 Q. The effect of which is to treat the entire
12 Company as one big district. Right?

13 A. Yes.

14 Q. Do you agree that the residential class in
15 Brunswick has the same load and usage pattern as the
16 residential class in Joplin?

17 A. I think it's reasonable to assume that their
18 demand characteristics are similar.

19 Q. Does the residential class in St. Charles
20 have the same usage characteristics and load
21 characteristics as that in Joplin?

22 A. I think it's reasonable to assume that their
23 characteristics are similar.

24 Q. Do you know where St. Charles is located,
25 sir?

1 A. Yes, I do.

2 Q. Do you know where Joplin is located?

3 A. Yes, I do.

4 Q. Do you know anything about the

5 climatological data of those two areas of the state?

6 A. No, sir.

7 Q. Would you agree with me that by using one

8 set of allocators you have made the assumption that

9 all classes within all districts have the same usage

10 and load characteristics?

11 A. Would you repeat that, please?

12 Q. Would you agree with me that by using the

13 same set of allocators across the entire Company as

14 you've testified previously that you did that you have

15 made the assumption that all classes within each of

16 the districts have the same usage and load

17 characteristics for that class?

18 A. No, I wouldn't say that it necessarily makes

19 that assumption. What it does is it uses an average,

20 and if we could use the word "demand factor" or

21 "demand ratio" instead of "allocator," it would be

22 clearer to me, because when I think of "allocator," I

23 think of the actual fraction of costs that we're

24 allocating to the class as opposed to the estimate of

25 the peak day and hour demand characteristics of the

1 class.

2 I've used an average, a system-wide average.

3 Yes, there will be customers not only in different

4 districts that have different characteristics from

5 that average, but there will be differences between

6 the same customers -- customers of the same class

7 within a district. And, once again, we're looking at

8 an average overall class that is typical based on

9 customer demand studies that I've conducted.

10 Q. Mr. Stout, do you occasionally buy a suit of

11 clothes?

12 A. Very occasionally.

13 Q. When you do, do you recall going in and

14 asking the clerk for an average size?

15 A. No, I don't.

16 Q. Do you think you would have much luck if you

17 did that in getting it to fit?

18 A. Likely not.

19 Q. Have you used the same peak day and peak

20 hour allocator for all industrial customers

21 independently of district?

22 A. I have used the -- an average ratio of peak

23 day and hour demand for the industrial class to

24 average for the entire industrial class of the

25 Company.

1 Q. Okay. Let me see if I can try to
2 understand. What you and I seem to be having trouble
3 with is more terminology.
4 So let's call what you used to make that
5 calculation a banana. Okay? You with me so far?
6 Have you used the same banana for all
7 industrial customers independently of district?
8 A. Yes.
9 Q. Okay. Thank you, sir.
10 How many industrial customers are there in
11 the Joplin district, if you know?
12 A. I could look that up, if you want.
13 JUDGE THOMPSON: While you're looking that
14 up, we're going to take a ten-minute recess.
15 Thank you.
16 (A recess was taken.)
17 JUDGE THOMPSON: Counsel, if we could go
18 back on the record now and get going.
19 Mr. Conrad, I believe you had asked
20 Mr. Stout to find something for you.
21 MR. CONRAD: Yes, I had.
22 BY MR. CONRAD:
23 Q. Is Mr. Stout ready to respond to the
24 question?
25 A. Yes, he is.

1 Q. Do you remember the question, sir?

2 A. Yes, I do.

3 Q. Okay. Then the answer is --

4 A. Eighty-seven.

5 MR. CONRAD: That was, for the benefit of

6 the Bench, the number of industrial customers in

7 Joplin.

8 JUDGE THOMPSON: Thank you.

9 BY MR. CONRAD:

10 Q. How many industrial customers are there in

11 St. Joseph?

12 A. 136.

13 Q. Warrensburg?

14 A. Fourteen.

15 Q. Brunswick?

16 A. Three.

17 Q. And how many industrial customers,

18 Mr. Stout, are there in St. Charles?

19 A. Two.

20 Q. Do you recall performing a cost of service

21 study on behalf of Illinois-American Water Company in

22 19-- I think this is '97. Do you remember a case like

23 that?

24 A. Yes.

25 Q. Do you recall in that -- in that case,

1 Mr. Stout, making the distinction in your study
2 between transmission mains that were 12 inches and
3 greater in diameter and distribution mains that were
4 less than 12 inches in diameter?
5 A. I honestly don't recall.
6 Q. If you were provided a copy of that study,
7 would that help your recollection?
8 A. Yes, it would.
9 MR. CONRAD: May I approach the Bench?
10 JUDGE THOMPSON: You may approach.
11 MR. CONRAD: Your Honor, while the witness
12 is refreshing his recollection, I'll just make a
13 comment for the benefit of the Bench and the record.
14 What I have handed him is Exhibit 8.1 in
15 Illinois Commerce Commission Docket No. 97-0081.
16 JUDGE THOMPSON: Thank you, Mr. Conrad.
17 BY MR. CONRAD:
18 Q. Now that your recollection has been
19 refreshed, do you recall making the distinction I
20 mentioned about pipes that were 12 inches and larger
21 and pipes that were 12 inches and less?
22 A. Yes.
23 Q. Why do you believe it was appropriate to
24 make that distinction in that case?
25 A. I was following Commission precedent for the

1 treatment of those mains.

2 Q. Is there a difference that should be
3 recognized in the cost of service study for that size
4 of main?

5 A. There may be. It depends on whether or not
6 it can be demonstrated that the mains of under 12 inch
7 are used exclusively to distribute water to classes
8 other than the industrial class or minimally to that
9 class.

10 MR. CONRAD: Your Honor, if I may be
11 permitted to reclaim that material, I think we are
12 done.

13 Thank you.

14 JUDGE THOMPSON: Yes, Mr. Conrad.

15 MR. CONRAD: Thank you, Mr. Stout.

16 JUDGE THOMPSON: Do you pass the witness?

17 MR. CONRAD: Yes, sir.

18 JUDGE THOMPSON: Mr. Curtis?

19 MR. CURTIS: Thank you.

20 CROSS-EXAMINATION BY MR. CURTIS:

21 Q. Good afternoon, Mr. Stout?

22 A. Good afternoon, Mr. Curtis.

23 Q. Let me refer you to Page 4 of your direct
24 testimony. And there at the top of the page you
25 reference the cost study conclusions that support the

1 continued use of STP for Missouri-American; is that
2 correct?

3 A. Yes.

4 Q. And in the discussion on the continuation on
5 Page 4, you're essentially suggesting that over time
6 the other districts -- on the relative age of the
7 plant, the other districts will receive new plant and
8 subsequently be able to catch up with the amount of
9 investment that has been made in St. Joe?

10 A. That's essentially correct, both catch up
11 and surpass.

12 Q. And surpass. Okay. Let me -- let me ask,
13 have you done a calculation as to how much it would --
14 investment it would take, say, in Warrensburg to catch
15 up with St. Joe's investment?

16 A. I have not.

17 Q. Let me ask the same question with regard to
18 Joplin?

19 A. No.

20 Q. Or St. Charles?

21 A. No.

22 Q. Are you familiar with Mr. Harwig's
23 testimony?

24 A. Yes.

25 Q. Okay. Are you familiar with the analysis

1 that he did of your, I believe, numbers that were
2 reflected on his Schedule 2-RD, Page 1 of his direct
3 testimony?

4 A. Yes.

5 Q. Do you understand Mr. Harwig's methodology?

6 A. Yes, I do.

7 Q. Let me ask you, do you agree with it? Do
8 you agree with the conclusions that he reached
9 particularly in Columns 8, 9 and 10?

10 A. Yes.

11 Q. You do? Okay.

12 Your Honor, I am referring and reading from
13 the direct testimony of Ernest Harwig, Schedule 2 RD,
14 Page 1. That -- that testimony has not yet received
15 an exhibit number because we have not marked it.
16 We're going to mark it at a break or sometime, so I
17 just wanted to identify it.

18 I've got three copies here if you would like
19 to utilize this time to mark it so some of the
20 Commissioners will have it available to them?

21 JUDGE THOMPSON: That would be a fine idea,
22 as long as you don't mind having it out of numerical
23 sequence with your other exhibits.

24 MR. CURTIS: Not at all.

25 Thank you.

1 JUDGE THOMPSON: We will mark this as
2 Exhibit No. 57.

3 MR. CURTIS: Fifty-seven.

4 JUDGE THOMPSON: Now, are we marking just
5 the schedules, Mr. Curtis, or --

6 MR. CURTIS: Actually, why don't we mark the
7 entire testimony. That would be his direct.

8 MR. FRANSON: Just his direct?

9 MR. CURTIS: Just his direct at this time,
10 and I have no problem if we want to take his in
11 sequence and marking -- let's not complicate it.

12 JUDGE THOMPSON: Is this something we
13 already have?

14 MR. CURTIS: You already have that. We
15 simply have not marked it.

16 JUDGE THOMPSON: We don't need an extra,
17 unless someone doesn't have theirs with them.

18 MR. CURTIS: I'm just going to submit the
19 three that go with marking it.

20 JUDGE THOMPSON: I'm going to give that
21 No. 57, and that's direct of Harwig, did you say?

22 MR. CURTIS: Yeah. Do you have three copies
23 for the reporter? Right. She needs three.

24 JUDGE THOMPSON: She is the one that needs
25 those, Mr. Deutsch.

1 (EXHIBIT NO. 57 WAS MARKED FOR
2 IDENTIFICATION.)

3 JUDGE THOMPSON: Did you give her direct?

4 MR. CURTIS: This is the direct that
5 Mr. Harwig has filed on behalf of the City of
6 Warrensburg, the other cities, and the industrial
7 intervenors. He has another set of direct filed on
8 behalf of Mr. Conrad.

9 JUDGE THOMPSON: Does he answer the same
10 questions the same way, or --

11 MR. CURTIS: Okay. Double check.

12 MR. CONRAD: Take your pick.

13 No. If you will recall, Judge, the original
14 order bifurcated the filings between rate design
15 filings --

16 JUDGE THOMPSON: Right.

17 MR. CONRAD: -- and cost of service.

18 JUDGE THOMPSON: I see.

19 MR. CONRAD: And we felt that that initial
20 testimony was more pertinent to cost of service, so we
21 do really have two -- two documents marked direct, but
22 on the upper right-hand corner --

23 JUDGE THOMPSON: Different issues are
24 identified?

25 MR. CONRAD: Yes.

1 JUDGE THOMPSON: This particular one that we
2 marked as 57 is which of the two directs?
3 MR. CONRAD: Rate design.
4 MR. CURTIS: Rate design.
5 JUDGE THOMPSON: Very well.
6 MR. CURTIS: And it carries "Rate Design" on
7 the top right corner of its cover page.
8 MR. FRANSON: Mr. Curtis, who is the
9 sponsoring party of this, just so I have this correct?
10 MR. CURTIS: The Municipal and Industrial
11 Intervenors is the catch phrase we're using --
12 MR. FRANSON: Thank you.
13 MR. CURTIS: -- rather than using them all.
14 Are we ready?
15 JUDGE THOMPSON: I believe we are.
16 Proceed, Mr. Curtis.
17 BY MR. CURTIS:
18 Q. Mr. Stout, you have before you Mr. Harwig's
19 Schedule 2-RD, Page 1, of his direct testimony on rate
20 design?
21 A. Yes, I do.
22 Q. And let's just take a look at Columns 8, 9
23 and 10, and starting on Line No. 3 for Warrensburg.
24 If I read this calculation that Mr. Harwig has done,
25 is -- Warrensburg's current rate base with the

1 addition from the STP application of this case would
2 be 10 million and change?

3 A. Yes.

4 Q. And in order for Warrensburg to get to the
5 same level of STP contribution, if you will, as
6 St. Joe, which is at Line 6 and zero based,
7 Warrensburg would have to receive an additional
8 7.6 million in new plant?

9 A. Yes.

10 Q. Is that correct?

11 And then looking at St. Charles,
12 St. Charles' existing rate base with the new STP per
13 the Company recommendation additive of the St. Joe
14 plant, would have to have an additional \$31 million in
15 rate base in order to equalize St. Joe?

16 A. Yes.

17 Q. And then looking at the very top, Line
18 No. 1, Joplin, Joplin's current rate base is a
19 20 million, and it would have to have an additive of
20 additional new plant of 56 million in order to achieve
21 parity with St. Joe; is that correct?

22 A. Yes. As of the instant moment. As we move
23 forward and the St. Joseph rate base is depreciated,
24 it would not require that much investment for the
25 crossover to occur.

1 Q. Right. But just looking, say, at Joplin,
2 that would mean Joplin would have to increase its rate
3 base by 277 percent in order to achieve parity or a
4 parity with St. Joe; is that correct?

5 A. Yes, that's correct.

6 Q. When would that happen?

7 A. That would happen if the Joplin treatment
8 plant was replaced.

9 Q. Okay. When will St. Charles achieve its
10 parity by adding 31 million to its existing
11 27 million?

12 A. I don't know what specifically will -- will
13 cause that type of expenditure to occur, but I believe
14 it's reasonable to expect that over a period of time
15 as the 100 million rate base of St. Joseph is
16 depreciated and expenditures go into these other
17 districts, that over the longer term that crossover
18 point will be reached.

19 Q. What would that longer term be? Are we
20 talking about 10, 15 years?

21 A. I think more in terms of 25 or 30.

22 Q. So for 25 or 30 years, Joplin will be
23 subsidizing vis-a-vis St. Joe?

24 A. I was just defining generically the -- my
25 definition of "long term" in terms of the period of

1 time they should be considering here. I have -- you
2 know, that could happen in 10 or 15 years. It could
3 be as long as 25 or 30.

4 Q. But you have put nothing in your testimony
5 to show when those events will occur?

6 A. No.

7 Q. In fact, you do not know precisely when new
8 plant will be added on, if ever --

9 A. No one does.

10 Q. -- in those districts?

11 For instance, in St. Charles, it has a new
12 pipeline across the Missouri River for it to purchase
13 water from the City of St. Louis. Would it ever need
14 any major plant addition considering where they are
15 now?

16 A. If for some reason that pipeline failed, it
17 would.

18 Q. And yet you state confidently you think
19 under STP, the age of the plant, things will even out
20 and these crossover points will be achieved?

21 A. Yes, they will.

22 Q. Okay. And now that's, I would gather, more
23 theory than -- than reality. I mean, you have nothing
24 in your testimony to demonstrate that that will
25 happen?

1 A. We've seen it happen between the cost of
2 service case and this case. In the cost of service
3 case the St. Joseph customers were subsidizing the
4 customers in St. Charles, and now in this case we're
5 finding that the opposite occurs.

6 Q. Right. But we have --

7 A. That's a fact.

8 Q. But do we not have at the St. Joe Plant
9 Mr. Deutsch's metaphor of the bowling ball hitting the
10 punch bowl?

11 A. I'd rather not characterize it in those
12 types of terms.

13 Q. Well, isn't this a massive investment in
14 St. Joe that will be very difficult for the other
15 districts to equalize in maybe our lifetimes?

16 A. Well, it would depend on which of us we're
17 referring to.

18 Q. Well, I hope it's not me.

19 A. As do I, Mr. Curtis.

20 Q. That's wonderful.

21 Let me ask now, at the bottom of Page 4 on
22 your direct at Line 18 you say, "With respect to the
23 level of treatment, increasing regulatory requirements
24 will move all districts to significant levels of
25 treatment, mitigating, if not eliminating, any unit

1 cost variance that currently exists due to this
2 cause."

3 Do you know what future treatment
4 requirements will be required by EPA or Missouri DNR
5 in the future?

6 A. No, I don't, and that's exactly my point,
7 that we don't know what they are. We only know that
8 over the last 30 years they've become more and more
9 astringent, requiring greater and greater levels of
10 treatment, and I don't expect that trend to stop.

11 Q. So you can't -- you can't state with
12 certainty whether this will occur? This is only,
13 again, your theory?

14 A. It's a forecast based on history.

15 Q. Sometimes that doesn't really work out, does
16 it?

17 A. Not always.

18 Q. Turn to page -- let's see. Let's talk about
19 the economies of scale at Page 4.

20 JUDGE THOMPSON: Is this Page 4 of the
21 direct?

22 MR. CURTIS: Yes, in the direct.

23 BY MR. CURTIS:

24 Q. Actually, let me skip that. Let's move
25 directly to Page 13 of your direct.

1 There at Line 14, Mr. Stout, you have a
2 section entitled, "Cost to operate on a stand-alone
3 basis.

4 Define what you mean by a "stand-alone
5 basis."

6 A. What I mean by a "stand alone basis" is that
7 if the district was operated as a unique company with
8 its own management, its own billing systems, its own
9 financing, et cetera.

10 Q. Right. Is that reality in this case?

11 A. No, that is not the situation in which we
12 find ourselves. I'm simply offering opinion here as
13 to the impact that such a circumstance would have on
14 the costs of operating the district.

15 Q. Right. But even under district-specific
16 pricing, we have what I would refer to as economies of
17 scale built in in that we have available as savings to
18 the various districts certain common administrative
19 cost of capital items. I know you may differ with the
20 use of the term "economies of scale" in that regard.

21 A. I do not. Mr. Coffman and I discussed this
22 earlier this afternoon.

23 Q. Is that an appropriate use of that phrase --

24 A. Yes.

25 Q. -- "economies of scale"?

1 A. The common costs of the Company result in a
2 lower per-unit cost to all customers because of the
3 size of the system. That is an economy of scale.

4 Q. Right.

5 A. And everybody wants those economies of scale
6 and they don't want any of the others.

7 Q. Well, why isn't it okay to have those
8 economies of scale under a district -- DSP?

9 A. Well, that's exactly -- those will be the
10 economies that would accrue under DSP.

11 Q. So no one is really talking about a
12 stand-alone basis for any of these districts, or even
13 trying to formulate hypothetical models of what they
14 would cost on the stand-alone basis; is that correct?

15 A. I'm not aware of any such proposals. My
16 point is that the various parties are quite willing to
17 take the benefits of the economies of scale and
18 sharing common costs but don't wish to participate in
19 the economies of scale with respect to the operating
20 costs and the sharing of those amongst a 100,000-
21 customer system if it happens to be that the average
22 costs of those operating capital costs is greater than
23 their district-specific costs.

24 Q. Well, what's wrong with that? What's wrong
25 with a DSP approach that utilizes benefits of shared

1 common administrative and cost of capital expenses?

2 A. I think it's inconsistent with then turning
3 around and not accepting the average and shared costs
4 of all other operating costs and capital costs of the
5 system.

6 Q. That's interesting.

7 Let's take a look at Page 14, and here we're
8 getting into the reasons why you think STP is
9 appropriate for Missouri-American, and I'm looking
10 specifically at your answer beginning at Line 13.

11 And you say, "The reasons for using STP in a
12 multi-district operation such as Missouri-American's
13 include the long-term rate stability which results
14 from a single tariff."

15 My question first is, is a 50 percent
16 increase to other districts long-term rate stability?

17 A. Yes, in comparison to decrease -- a range of
18 rate changes that go from minus 20 percent to 460-some
19 percent, I believe 50 percent to everybody is stable.

20 Q. Okay. A second reason you give for STP
21 being appropriate here is -- you call it the operator
22 characteristics of the districts. And then at Page 15
23 at Line 12 you describe the operating characteristics
24 of our seven districts that you say support single-
25 tariff pricing. Are you with me?

1 A. Yes.

2 Q. And you say the system characteristic is
3 that all systems, ". . . pump their treated water
4 through transmission lines to distribution areas that
5 include mains, booster pump stations, and storage
6 facilities."

7 My question is, don't all water companies,
8 all water systems, have that as a common
9 characteristic?

10 A. No.

11 Q. They do not? Well, which ones are we
12 talking about that would be different that don't?

13 A. There are some that don't require booster
14 pump stations. There are some that have very few, if
15 any, transmission lines because wells are located
16 right within each distribution area. There are a
17 number of differences that can occur.

18 Q. But if they don't do it this way, it would
19 not be STP-appropriate for them?

20 A. If -- if they don't have these common
21 characteristics, I have one less reason to cite in
22 support of single-tariff pricing.

23 Q. You say then, you conclude at the bottom of
24 Page 15 at Line 21, "The only significant differences
25 in operating characteristics are the sources of supply

1 and treatment processes." Isn't that a pretty
2 significant difference in the Missouri-American case?

3 A. It can be. Obviously, in this case where
4 a -- where treatment facilities and St. Joseph and
5 other areas are the primary reasons for the increase,
6 that is the -- the portion of the plant that's under
7 the microscope.

8 In the last case it was a transmission line
9 that was the driver, and that's something that's
10 typical of all of the districts; that is, having a
11 transmission main that takes water from its source to
12 the distribution system.

13 So it can vary significantly as to whether
14 or not that difference is that substantial or not.

15 Q. Right. But let's talk in terms of Missouri-
16 American's seven districts in Missouri.

17 Are there significant differences in the
18 operations -- the sources of supply and treatment
19 processes from district to district?

20 A. There are some differences.

21 Q. Okay. Could there be greater differences?

22 A. Yes.

23 Q. There could?

24 What about the size of the various
25 districts, the relative size of them, is that an

1 important differentiating characteristic?

2 A. Yes, and I discuss that later in my direct
3 testimony.

4 Q. But not -- not within the context of the
5 operating characteristics?

6 A. No. I discuss that in respect to the
7 economies of scale and the benefits that smaller
8 districts receive as a result of single-tariff
9 pricing.

10 Q. But you heard testimony before -- and I
11 can't recall who -- who maybe suggested had this --
12 that STP works when you have districts that are of
13 relatively the same size and ideally, maybe, having
14 the same treatment water sources and treatment
15 characteristics. Would you agree with me?

16 A. I don't recall that testimony.

17 Q. Well, let me ask you the question. I'm not
18 sure whether that was in opening statements or not.

19 But isn't -- isn't it an ideal circumstance
20 for STP when you have like-sized districts, like-sized
21 sources of water, and like-sized treatment costs?

22 A. It makes my job easier.

23 Q. Right. And becomes more of a stretch, more
24 difficult to justify STP when you have districts of
25 varying sizes?

1 A. It creates cost differentials that provide
2 motives for low-cost districts to seek district-
3 specific pricing at the -- at that time and others not
4 to.

5 Q. And, obviously, we're at the crucible of a
6 very difficult problem if you're trying to justify STP
7 for a non-interconnected district, and that is a very
8 large plant expenditure in one district, in one of the
9 largest districts. Would you agree with me that this
10 is the testing point for STP?

11 A. I would say it is, yes.

12 Q. Okay. Now, there was a question regarding
13 St. Louis County Water, which has been recently
14 acquired by Missouri-American and will be, I think,
15 merged into Missouri-American. What is the size of
16 St. Louis County Water?

17 A. It's approximately 300,000 customers.

18 Q. It's a little over 300, isn't it?

19 A. Yeah, I'll accept that.

20 Q. And the Missouri-American system is about --
21 a little less than 100,000 customers?

22 A. Yes.

23 Q. Okay. So this acquisition is three times
24 the combined company as it stands right now?

25 A. Yes.

1 Q. Okay. If -- well, let me ask this: Would
2 you -- would you recommend STP as the model for
3 Missouri-American in a post-St. Louis County Water
4 acquisition integration?

5 A. I would suggest that it be seriously
6 considered.

7 Q. Now, what if the -- well, do you know what
8 the future capital requirements of Missouri-American
9 are -- or of St. Louis County Water are?

10 A. I am aware of some elements of the capital
11 budget but not the entirety of it, so I would
12 rather -- I'll just say no, I don't know the full
13 picture.

14 Q. If the future capital requirements for St.
15 Louis County Water are substantial, and by
16 "substantial" let me suggest a figure of over \$250
17 million, would that cause a problem in spreading those
18 costs to the other seven districts?

19 A. Over what period of time?

20 Q. Next year.

21 A. I really couldn't say without conducting an
22 analysis as to the impact that would have.

23 Q. We're looking right now at a problem with
24 St. Joe on a \$75 million plant flash-cut addition?

25 A. Yes.

1 Q. Are we potentially looking at a larger
2 problem later down the line if this Commission adopts
3 STP for capital requirements for St. Louis County
4 Water?

5 A. I don't believe so, but as I said, I haven't
6 analyzed that issue.

7 Q. You just don't know?

8 A. That's correct.

9 Q. Okay. Let's take a look at Page 16, at
10 Line 5, where you discuss the equivalence of services.
11 You are essentially saying water is a
12 commodity. It's fundable. It's the same in all
13 districts. Is that correct?

14 A. Not only is the commodity basically the same
15 but that it's there when requested in the quantities
16 requested, that all elements of service are present
17 and equivalent.

18 Q. Did you attend any of the local hearings in
19 the districts that were held in the last couple of
20 weeks?

21 A. I did not.

22 Q. You did not. So you did not hear people in
23 the St. Charles discuss -- in St. Charles discuss
24 water pressure or water quality?

25 A. I did not.

1 Q. You did not hear people in Warrensburg
2 discuss their water quality odor and hardness and
3 mineral deposits?

4 A. I did not hear that.

5 Q. You did not hear the people in St. Joe
6 discuss their problems with their water?

7 A. I did not.

8 Q. Okay. And yet you say water is water?

9 A. Overall, I believe that the service provided
10 is in accordance with the customer's requirements both
11 with respect to quality and quantity.

12 Q. At Page 18 of your direct, this is a matter
13 that you and Mr. Coffman discussed at Line 11 where
14 you conclude, "Most importantly, STP is necessary so
15 that all customers benefit from the economies of scale
16 by being a part of a large system."

17 And I think Mr. Coffman's question is, look,
18 aren't they already? And even under DSP, would not
19 they -- don't they benefit from those economies of
20 scale that we discussed before?

21 A. As I indicated to Mr. Coffman, they benefit
22 from the economies of scale in the common costs that
23 are allocated to districts. They do not benefit at
24 all from other economies of scale in terms of the
25 overall cost of operating the system and financing the

1 capital improvements of the system, or we would not
2 have indications under district-specific of customers
3 being increased by 400 percent.

4 Q. All right. You mentioned the cost of
5 financing a system. Isn't that one of the benefits
6 that the districts have, at least, of having Missouri-
7 American as the parent headquartered company raising
8 capital from a common source? Isn't that a -- a
9 common administrative overhead item that each of the
10 districts benefits from?

11 A. As reflected in the studies in this case, it
12 is. However, it could -- under a district-specific
13 approach, it could be justified to use separate
14 capital structures and cost rates for the individual
15 districts to reflect the risks involved in providing
16 service to those districts.

17 In my study and the others in this case, we
18 have used an average rate of return on the rate base
19 of each class of each district in developing the cost
20 of serving that district --

21 Q. So are you suggesting that --

22 A. I wasn't finished. I was collecting.

23 -- so that there are many of those kinds of
24 cost differentials that we haven't even really
25 considered at this point. All we've done is taken

1 a -- the same average rate of return and applied it to
2 a district-specific rate base. And I think that it
3 would be reasonable to consider different costs of
4 capital for different districts under a -- under
5 district-specific pricing.

6 So, yes, that -- that is another economy of
7 scale that all are benefiting from, but perhaps under
8 a true determination of the cost of serving a
9 district, they should not.

10 Q. So you would -- if this Commission requires
11 the Company to price its -- its water on a DSP basis,
12 are you suggesting that you would come in in your next
13 rate case and assign a higher cost of capital to, say,
14 Brunswick or Mexico because they are smaller, riskier
15 districts than you would to a Joplin or a St. Joe?

16 A. I think that's possible, and I think also
17 where debt has specifically been incurred to finance
18 projects within districts that we should also consider
19 that.

20 Q. And would you agree that that's a matter
21 that's well within the ambit of this Commission to
22 reject or accept?

23 A. Absolutely.

24 Q. Do you think they would accept that?

25 A. I don't know.

1 Q. Let us take a look at your rebuttal
2 testimony, and I'd like to refer you to Page 13,
3 Line -- the sentence beginning at Line 18. And there
4 you say, "The creation of the system that provides
5 greater encouragement to customers to seek compromises
6 in the manner in which their water is treated in order
7 to avoid the resulting cost is a very slippery slope."

8 And I believe you were criticizing Mr. Busch
9 for suggesting that a DSP methodology adopted by this
10 Commission would encourage perhaps -- yeah, encourage
11 a physical restraint by the Company. Is that what you
12 were referring to?

13 A. I'm referring to testimony by several that
14 have suggested that district-specific pricing provides
15 better price significance to customers and promotes
16 economic efficiency. The logical conclusion of
17 that -- and also discusses customer input as to the
18 Company's decision with respect to the expenditures of
19 funds on capital.

20 Certainly, such input is appropriate;
21 however, I don't believe it fully recognizes all of
22 the other inputs which the Company must recognize,
23 which includes federal and state agency requirements,
24 the actual requirements of the customers as opposed to
25 their perceived requirements, and the suggestion seems

1 to me that by going to district-specific will create
2 this world in which the customer will somehow be
3 pleased with the result and the expenditures. Having
4 had some input, as I stated, I think that the Company
5 has the option to provide a least-cost alternative,
6 but it might not necessarily be a low-cost
7 alternative.

8 Q. Right. I gather implicit in your discussion
9 is that -- or your criticism of DSP is that if
10 you involve the customers, the ratepayers, they are
11 always going to go for the cheapest, which may not be
12 the most cost-effective solution to what the problem
13 is. Is that correct? Is that what you're driving at?

14 A. No.

15 Q. What are you driving at?

16 A. The suggestion in the testimony was -- is
17 that as a result of customer input, costs will be
18 lower, and I don't think that necessarily would be the
19 case.

20 Q. You don't think so.

21 Do you think that had the Company gone to
22 the ratepayers in St. Joe three years ago with the
23 potential alternatives they had to cure the problem
24 that exists -- existed in the plant on the Missouri
25 River, you don't think that that could have been a

1 salutory, maybe cost-effective cost saving approach to
2 finding a solution for the plant problem?

3 A. I'm not certain what the customers would
4 have selected out of those four options that the
5 Company developed.

6 Q. Right. But I guess your position is really
7 the Company knows best?

8 A. The Company are professional managers of
9 water systems and the Company, as I indicated, have to
10 respond not only to the customer requirements but also
11 regulatory requirements for providing adequate and
12 reliable service as dictated by this Commission and
13 other agencies of the state, and federal agencies as
14 well.

15 Q. And I guess implicit in what you have
16 suggested here, this slippery slope, is that the
17 ratepayers in these districts just can't understand
18 all of those things. They can't understand EPA or DNR
19 regulations that might require new plant or
20 improvements here, and there is -- these are matters
21 above their heads; is that right?

22 A. That's not at all what I said.

23 Q. Then why wouldn't you -- why wouldn't you
24 attempt to involve them? Perhaps they could come up
25 with creative solutions.

1 A. I indicated that their involvement was
2 appropriate. Their input was appropriate. What I --
3 what I've criticized here is implicit in the testimony
4 of others that that involvement would result in a
5 lower -- the selection of a lower-cost alternative.

6 Q. A cheap -- a cheap -- can we say a band-aid
7 approach to a problem?

8 A. I just said lower cost. That's the
9 implication that I obtained from reading the testimony
10 of others with respect to the involvement of the
11 public and the end result, that there would be a lower
12 cost alternative selected than if the public did not
13 have that input.

14 Q. Did you read the surrebuttal testimony of
15 Mr. Landon?

16 A. I have not.

17 Q. Did you participate in the water quality
18 docket this Commission set up in 1998 for the City of
19 Warrensburg, the District of Warrensburg, regarding
20 its water quality issue?

21 A. I did not.

22 Q. Have you ever been to Warrensburg?

23 A. Yes, I have.

24 Q. Have you tasted the water?

25 A. I have.

1 Q. How did it taste?

2 A. Sulphurous.

3 Q. Thank you.

4 So do you know the result of the Commission-

5 established docket to investigate and find solutions

6 to the water quality in Warrensburg?

7 A. Yes.

8 Q. And what was that?

9 A. The installation of ozone equipment for the

10 treatment of the water.

11 Q. And how much did that plant cost?

12 A. My recollection is \$4.2 million.

13 Q. Are you aware that more expensive solutions,

14 alternative solutions, were looked at?

15 A. Yes.

16 Q. And were you aware that there were less

17 costly alternative solutions looked at?

18 A. Yes.

19 Q. So in this case, the Warrensburg committee,

20 the Warrensburg docket, did not produce the cheapest,

21 the most band-aid-ish, if you will, approach to the

22 water quality, did it?

23 A. That's my understanding.

24 Q. And are you aware of -- have you understood

25 in this docket that Warrensburg is officially

1 objecting in any way to the recovery of the costs for
2 the 4.2 million ozonation plant from the Warrensburg
3 ratepayers?

4 A. I'm not aware of any such objection.

5 Q. Okay. You discuss other benefits of STP
6 over DSP. I'd like to get back to some of the items
7 that I mentioned in my opening statement regarding DSP
8 and even apply those to STP.

9 You heard the first reason I gave for DSP
10 being the superior of the two is that it is fair and
11 equitable. Do you recall that?

12 A. Yes, I do.

13 Q. And do you recall some have written in their
14 testimony that fair and equitable are very nebulous
15 standards and they are essentially what's in the eye
16 of the beholder?

17 A. I recall that part of your statement as
18 well.

19 Q. Did you say that in your testimony, or was
20 that somebody else?

21 A. I don't believe it was me.

22 Q. Okay. Is it important that a rate design, a
23 pricing of water, be perceived as fair and equitable?
24 Is that an important thing for a water company to
25 have?

1 A. I think so.

2 Q. Okay. And if a substantial number of
3 customers perceive that STP is not fair and equitable,
4 would you -- would you say that would create a problem
5 with STP as a cost recovery mechanism?

6 A. I think there is an education problem.

7 Q. Okay. The second item, I said, the
8 advantage of DSP over STP is that it's understandable
9 and acceptable by ratepayers. They understand that if
10 they get a new plant in their district, they should
11 pay for it. They don't understand that they should
12 have to pay for a new plant in another district, and
13 that is just counter-intuitive to their life
14 experiences.

15 MR. ENGLAND: Objection. I don't believe
16 this is a question. This is a statement.

17 BY MR. CURTIS:

18 Q. I'm leading -- my question is this: Do you
19 find that -- that if STP is not understandable and
20 acceptable to ratepayers, is that an additional
21 problem?

22 A. I don't believe it is a problem. I think
23 STP is very understandable.

24 Q. Okay. How about acceptable?

25 A. It may or may not be, depending on the

1 situation at hand. Obviously, in this case, there are
2 a number of customers who find it unacceptable. As I
3 indicated, I think that's an education issue. I think
4 that --

5 Q. Who does the educating there?

6 MR. ENGLAND: Excuse me. Can the witness be
7 permitted to answer the question? I don't believe he
8 was done.

9 MR. CURTIS: I'm sorry. I thought you were
10 finished.

11 JUDGE THOMPSON: Please proceed, Mr. Stout.

12 THE WITNESS: Thank you.

13 I think it is possible for the individuals
14 being asked to foot the bill to be shortsighted. Now,
15 that is not to denigrate the customer in any way as
16 you've tried to get me to do, but that's just a
17 natural human reaction. And I think that it's up to
18 this Commission based on the evidence put before it to
19 make a decision that takes a somewhat longer term view
20 and looks at all of the customers.

21 BY MR. CURTIS:

22 Q. So who bears the burden of educating the
23 ratepayers?

24 A. I think we all do.

25 Q. Who is "we all"?

1 A. Those -- those of us involved in this
2 proceeding.

3 Q. What role does the Company have in it?

4 A. The Company has a significant role to
5 educate its customers.

6 Q. The third item I mentioned was the potential
7 unlawfulness of single-tariff pricing. Were you
8 present when I read the Section 393.130.3?

9 A. (Witness nodded head.)

10 Q. Now, you've worked in rate design and rate
11 matters in a lot of states for a number of years, I
12 think?

13 A. That's very kind.

14 Q. I want for reciprocity.

15 You have. Yes?

16 A. I have.

17 Q. Have you -- have you encountered such a
18 statute before?

19 A. I think it's similar to the statutes that
20 exist in other states.

21 Q. Do you know what -- what it means when it
22 says, "No water corporation shall make or grant any
23 undue or unreasonable preference or advantage to any
24 locality"? What does that mean?

25 MR. ZOBRIST: Objection. It calls for a

1 legal conclusion from a witness not qualified to
2 render that type of opinion.

3 MR. CURTIS: He's a rate expert. He said
4 he's familiar with it. I'm just testing his
5 knowledge.

6 JUDGE THOMPSON: The objection will be
7 sustained.

8 BY MR. CURTIS:

9 Q. And I can't recall where it is, Mr. Stout,
10 but somewhere along the line you said that one of the
11 benefits of STP is not that it would encourage a
12 company such as Missouri-American to acquire small,
13 troubled water systems. Do you recall that? And I
14 can't recall just the right way you said that?

15 A. I believe that your characterization of the
16 testimony may be a little off.

17 Q. Okay. Can you direct me to where you said
18 that, or maybe just clarify it as to what you actually
19 meant?

20 A. Rebuttal testimony, Page 14, beginning at
21 Line 20, I think, is where you're --

22 Q. Excellent. Yes.

23 Okay. Yeah. There it says, "Does STP
24 encourage MAWC to acquire utilities with dilapidated
25 plant or high unit costs?"

1 And you say, "No, it does not."

2 I guess I added the word "small," because
3 I've heard that phrase used.

4 So the Commission should not think that by
5 adopting STP it will be saving Missouri -- Missouri's
6 small troubled water systems --

7 A. I don't know --

8 Q. -- dilapidated plant or high unit costs?

9 A. Well, I don't know that all of those small
10 systems could be characterized as having dilapidated
11 plant. If they are sufficiently small because of the
12 economies of scale, they likely are to have high unit
13 costs.

14 But what they have -- would do if they
15 adopted single-tariff pricing would encourage greater
16 regionalization of water systems, whether it be by
17 this company or others, or -- and enable the
18 improvements that are required in many of these
19 smaller systems to bring them up to current standards
20 without causing those customers to experience
21 extremely high and perhaps unaffordable rates.

22 My answer is, is that simply by having STP,
23 it's not -- it doesn't give -- the Company doesn't all
24 of a sudden have an incentive to go out and do that.
25 Acquiring those systems is a headache. But as a

1 matter of public policy, it's been my experience that
2 in many instances both Public Service Commissions and
3 Departments of Environment within the states have
4 encouraged large well-managed systems to take over
5 such small systems.

6 Q. Are you aware of the existence of public
7 water districts in the state of Missouri?

8 A. Yes.

9 Q. Are you aware that there are municipalities
10 that have their own or will acquire systems?

11 A. Yes.

12 Q. So those are other avenues available to
13 smaller, dilapidated systems?

14 A. Yes, those are. And I would expect that
15 under those circumstances that it's quite likely that
16 single-tariff pricing would be used.

17 Q. Are you aware that the cost of funds is much
18 cheaper if state revolving funds are used for, say,
19 public water districts as opposed to Missouri-
20 American's cost of capital?

21 A. Yes.

22 Q. Significantly less?

23 A. Yes.

24 Q. What percentages are we looking at?

25 A. I couldn't tell you specifically.

1 Q. Two percent, perhaps?

2 A. I've seen revolving loan funds for public
3 water supplies, publicly-owned water supplies that
4 low.

5 MR. CURTIS: Thank you.

6 I have nothing further.

7 JUDGE THOMPSON: Thank you, Mr. Curtis.

8 Mr. Deutsch.

9 CROSS-EXAMINATION BY MR. DEUTSCH:

10 Q. Hello, Mr. Stout. Jim Deutsch. I represent
11 the City of Joplin.

12 A. Good afternoon.

13 Q. As I mentioned earlier, we feel like we're
14 old pros at this single-tariff pricing sort of thing,
15 the poster child for how well and advantageous it
16 works.

17 Let me direct your attention back again to
18 your direct testimony, and I want to run over just a
19 few things that you've already talked about just to
20 make sure that I'm understanding exactly what it is
21 that these advantages are for single-tariff pricing.

22 First of all, the Page 4 of your direct
23 testimony you talk about this issue that over time it
24 all evens out. Given enough time, the other districts
25 are going to recoup the overpayments that they have

1 been making to subsidize a newer district as it ages.

2 I take it that from what you've said on your
3 cross-examination so far that Joplin isn't really
4 ready to bank its \$56 million project any time soon;
5 is that right?

6 A. What do you mean by "bank"?

7 Q. You said that the equivalent expenditure in
8 Joplin, you agreed, would be \$56 million, a 277
9 percent increase in the rate base currently in order
10 to achieve parity at St. Joe, and you also testified
11 that eventually Joplin is going to catch up and get
12 its day in the sun with the great advantage of STP,
13 which is that someone else will pay our way.

14 My question to you is, give me a date. When
15 will that happen?

16 A. I can't do that. I don't know.

17 Q. It won't happen any time soon, will it?

18 A. It won't happen within the next five years.

19 Q. How about ten years?

20 A. I'm not certain.

21 Q. Do you know anybody in the Missouri-American
22 Water Company you can direct me to who could tell me
23 the answer to that question of when it is that I can
24 tell the people in Joplin that they can expect to get
25 even on the advantages of single-tariff pricing?

1 A. I don't believe anybody knows that answer.

2 Q. You don't have any plan right now to replace

3 any -- replace the whole plant in Saint -- in --

4 excuse me -- in Joplin like you did in St. Joe?

5 A. That's correct.

6 Q. You're coming into this Commission in other

7 respects suggesting that on issues that have been

8 pointed out by Public Counsel and the Staff that you

9 really can't afford to defer your rate increase and

10 you need your money now.

11 How long do you think at approximately

12 overpaying right now for the last five years about

13 12 percent and into the future with another 55

14 percent -- or 50 percent, excuse me, on top of that,

15 how long do you think the citizens of Joplin ought to

16 have to wait in order to get their money? Is there a

17 standard here to be employed? Is there any kind of

18 bounds on this STP notion that what goes around comes

19 around?

20 A. No, there is no standard.

21 Q. Can you think of any advantage that you have

22 seen since single-tariff pricing has been used in this

23 state that inures to the benefit of the people in

24 Joplin?

25 A. I think the people in Joplin receive safe

1 and reliable water service at a reasonable cost to
2 them in comparison to the cost they pay for a lot of
3 other products. And I think they need to recognize
4 that and understand that just as with many products
5 provided to the public that there are subsidies at
6 times and that right now they are providing it. And
7 that although the day when they will receive it could
8 be in the -- you know, far down the road, the day will
9 come.

10 Q. Do you think any of them will still be
11 alive?

12 A. Yes.

13 Q. That's good.

14 You mentioned that, you know, some of these
15 other benefits included, for instance, the benefit to
16 small districts, that it encourages the takeover, I
17 guess, purchase, merger of smaller districts into the
18 larger Missouri-American Water.

19 Could you describe for me how that benefits
20 Joplin at all?

21 A. It would only benefit the Joplin region with
22 respect to any such small utilities in the Joplin
23 region that are not currently a part of the system.

24 Q. How would that benefit Joplin?

25 A. Well, I'm defining Joplin a little broader

1 than you are.

2 Q. Let's talk about the City of Joplin that
3 contains the current ratepayers for Missouri-American
4 Water Company.

5 A. That particular advantage of single-tariff
6 pricing will not accrue to them.

7 Q. And I think you've also kind of mentioned
8 with economies of scale and access to capital that
9 things like fixing little problems like the
10 Warrensburg -- the taste of their water with the
11 sulfur and so forth, spreading that also is an
12 advantage of single-tariff pricing.

13 Can you describe for me how fixing the taste
14 of the water in Warrensburg inures to the benefit of
15 the City of Joplin?

16 A. It does not.

17 Q. In fact, aren't what -- aren't you really
18 saying that with regard to all of these advantages
19 that not only have they not accrued to anyone in the
20 state of Missouri yet, but they're really all just
21 advantages to the Company?

22 A. No, I'm not. The --

23 Q. Tell me how that's wrong.

24 A. The examples that you just cited, the
25 investment in an ozonation plant in Warrensburg does

1 accrue to the benefit of the customers in Warrensburg.
2 The benefits of the economies of scale under single-
3 tariff pricing does accrue to customers in Brunswick
4 and Mexico, and so these things do benefit customers
5 of the Company.

6 Q. And so you're saying the Company, without
7 single-tariff pricing, would not have fixed
8 Warrensburg's problem?

9 A. Not at all what I said.

10 Q. What are you saying then?

11 A. I'm saying that in fixing it, although the
12 benefits accrue to Warrensburg, just as any specific
13 capital investment in a district accrues to the
14 benefit of just those customers in the district, that
15 through a sharing process in which all customers
16 participate in the cost of all improvements, the
17 public, in my view, over the long term benefits.

18 Q. Let's go at a little bit different
19 direction. If the City of Joplin decided that they
20 didn't want to pay for the City of Warrensburg to have
21 better tasting water, is there anything they could do
22 about that in coming and talking to your company?

23 A. I believe they have certain means available
24 to them.

25 Q. Like what?

1 A. They could make an offer to purchase the
2 system.

3 Q. The Warrensburg system?

4 A. No.

5 Q. Keep in mind, I'm talking about some of
6 these advantages that you have indicated for other
7 cities that, as far as I'm concerned, DSP would have
8 gotten the same thing because you just said you
9 wouldn't refuse to fix it. So if they paid for it,
10 you would fix it, wouldn't you, regardless of STP?

11 A. That's not my decision.

12 Q. Do you think that the Company would pay for
13 it or would fix the sulfur problem in Warrensburg if
14 Warrensburg told them they would be happy to pay for
15 it?

16 A. Certainly, they would.

17 Q. Sure, they would. So I'm trying to get an
18 idea of how the City of Joplin and its ratepayers are
19 benefiting from a system where instead of doing it
20 that way, we're going to make the people in Joplin pay
21 to take the sulfur taste out of the Warrensburg water.

22 I want for you to tell me how that works and
23 how that makes sense so I can go down and explain it
24 to my friends in Joplin.

25 A. The example I cited is, if, indeed, for

1 whatever regulatory requirement that might come down
2 the line or act of God, the Joplin Treatment Plant
3 required replacement, under single-tariff pricing, the
4 citizens of Joplin would benefit because the worm
5 would turn.

6 Q. So it's kind of an insurance policy?

7 A. You could view it that way.

8 Q. Have you done any kind of actuarial study
9 that might tell me when the proceeds might be
10 available?

11 A. I have not.

12 Q. The other thing that I was wondering about
13 with regard to all of these things -- let me first ask
14 you, I am correct, am I not, that no one on this
15 Commission made Missouri-American Water acquiring any
16 of the districts that you currently provide service in
17 in the state of Missouri? That wasn't something you
18 were ordered to do?

19 A. Not that I'm aware.

20 Q. Public Service Commissions ordinarily don't
21 order anybody to acquire a Brunswick District; is that
22 right?

23 A. I'm not aware of companies being ordered to.
24 I am aware of companies being strongly encouraged to
25 do so.

1 Q. Are you aware of this Commission strongly
2 encouraging?
3 A. I'm not aware of that.
4 Q. So nobody is twisting the arm of the Company
5 to acquire districts, whether they are small, large,
6 dilapidated, in great shape, or if they are just kind
7 of -- they work fine like Joplin's? Nobody really
8 requires any company to do that, do they?
9 A. I'm not aware of discussions between Company
10 management.
11 Q. Those are business judgments that are made
12 by the Company? They think they can make some money.
13 A. Certainly, the Company is in part in
14 business to make a profit.
15 Q. Would you agree that for a public company
16 investor-owned, that under the Securities Law, that's
17 probably the only reason they are in business?
18 A. No. They are in business to provide water
19 service as well.
20 Q. And do it at a loss, if necessary?
21 A. Over certain periods of time, I'm sure that
22 has occurred.
23 Q. You know, in a normal situation, one might
24 think that customer preference and choice would play a
25 role in the decisions of a business as to how they

1 handle their product and how they make it salable and
2 how they do this interesting feature you raised about
3 education.

4 None of those things happened in this
5 situation, did they? There was no effort on the part
6 of the Company to educate the people in Joplin that
7 they were going to have to pay for the St. Joe Plant;
8 is that right?

9 A. I don't know.

10 Q. Was there any effort on the part of the
11 Company to -- to mitigate the expense of that plant
12 for the benefit of the people in Joplin, to cut it
13 down to, for instance, a renovation of the existing
14 surface water plant?

15 A. The Company investment was based on a
16 long-term view of the present value of the cost of,
17 you know, present day capital plus future operating
18 capital costs.

19 Q. And it was based pretty substantially on the
20 STP formula that if you buy this, it only costs
21 90 percent more to go first-class, so if you buy this
22 first-class plant, you're only going to have to pay
23 35 percent in order to get it. Isn't that what they
24 told the people in Joplin -- I mean, excuse me, in
25 St. Joe?

1 A. I don't know.

2 Q. Do you remember your examination earlier by

3 Mr. Fischer? He's that guy sitting over there in the

4 corner looking surly.

5 A. I do recall my cross-examination by

6 Mr. Fischer.

7 Q. He went through a series of increases that

8 may be possible were STP not to be the method chosen

9 by the Commission to restore the rates in this case.

10 Do you remember that?

11 A. I do.

12 Q. And he -- I believe he asked you whether it

13 wouldn't be a big surprise to people who were told

14 they were only going to have to pay 35 percent if they

15 found out they had to pay 100 percent?

16 A. I believe the question was in the form of a

17 hypothetical.

18 Q. Okay. Hypothetically, would you agree with

19 him?

20 A. I did.

21 Q. And would you agree with me that someone

22 who didn't even know, wasn't told, that the plant in

23 St. Joe was being built, didn't get any substantial

24 improvements of their own but gets a 50 percent rate

25 increase is going to be surprised?

1 MR. ENGLAND: Objection. Hypothetical
2 assumes facts not in evidence.

3 BY MR. DEUTSCH:

4 Q. Assume that the people in Joplin are going
5 to pay a 50 percent increase in rates based upon the
6 Company's rate filing in this case. And assume
7 further that the people in Joplin had no input into
8 the decision that was made by the Company to build a
9 facility in St. Joseph. And assume further that if
10 the Company prevails in its case that they are going
11 to get that 55 percent increase in Joplin.

12 Based upon those assumptions, do you think
13 there would be a little bit of a surprise in Joplin?

14 A. No.

15 Q. No?

16 A. No, because they were noticed of a
17 50 percent increase.

18 Q. And when did you notify the people in
19 Joplin?

20 A. I couldn't say specifically, but the
21 customer notices went out.

22 Q. Customer notices went out to who?

23 A. All customers.

24 Q. And have you -- I haven't seen one of those.
25 Have you got one with you?

1 A. I don't.

2 Q. Oh, is that what Mr. Fischer showed you?

3 A. Mr. Fischer --

4 Q. I thought that was one of his districts? In

5 fact, I'll bet it is.

6 Have you got one from Joplin that you

7 addressed to one of my friends down there?

8 A. I don't have it with me, no.

9 Q. Do you think you could get that for me?

10 A. Sure.

11 Q. Thanks.

12 I noticed on Page 14 of your direct -- and I

13 wanted to ask you this because it seemed

14 uncharacteristic of the rest of your testimony where

15 you are -- you certainly believe in your views on STP.

16 I congratulate you on that.

17 But on Page 14, you're talking about the

18 stability of rates -- I seem to have lost it now.

19 It's late in the day, and I'm getting a little

20 cross-eyed.

21 The part of the testimony that I -- that I

22 had noted here indicated that your actual testimony

23 with regard to stability, that it is -- that the

24 increases in rates, the rate shock that we've talked

25 about, that it has a particularly bad effect under the

1 district-specific pricing, that -- that STP
2 moderates -- I won't say eliminates. I don't think
3 you did -- but that the DSP approach to rates has an
4 adverse effect on small and medium utilities.

5 Now, I was wondering why you left it to
6 small and medium utilities? If you could for me,
7 characterize Joplin in that regard.

8 A. Well, to answer the last part of the
9 question first, I would characterize Joplin as
10 medium --

11 Q. Okay.

12 A. -- on its own.

13 And what I'm saying there at the bottom of
14 Page 14 is that the increases in rate base --

15 Q. Oh, yeah. I didn't read down far enough.
16 You have it in there.

17 A. -- particularly those that result from Safe
18 Drinking Water Act requirements or, perhaps, the loss
19 of a large industrial customer, can adversely impact
20 the rates of small- or medium-sized utilities, or, in
21 this case, small- or medium-sized rate districts, and
22 that the use of single-tariff pricing for the entire
23 company will moderate those impacts.

24 Q. Can you give me an example outside of the
25 St. Joe Plant of where that has actually occurred, of

1 ever those increases that were so large that the -- a
2 local utility, a district under DSP was unable to meet
3 its requirements or was somehow inconvenienced or
4 adversely affected? Can you give me an example of
5 something like that that I can use here in Missouri?

6 A. Well, let me give -- I'll use the example
7 within the Company. If in the last rate case the cost
8 of the transmission main in the St. Charles District
9 had been entirely placed on the customers in the
10 St. Charles district, that would have had a -- a much
11 more dramatic increase to those customers than the
12 increase that resulted under single-tariff pricing.

13 Q. Did you make any effort in that case to
14 oppose going to those ratepayers to see if they would
15 prefer to pay the costs under DSP as opposed to the
16 STP rationale that you're using here?

17 A. I did not participate in that rate case.

18 Q. Do you have any knowledge as to whether
19 anybody in St. Charles even knew that there was a
20 distinction there to be drawn between DSP or STP or
21 whether anybody brought it up?

22 A. I don't know.

23 Q. A lot of advantages that you're talking
24 about from the standpoint of the experience of STP in
25 Missouri have and remain rather hypothetical; isn't

1 that right?

2 A. No.

3 Q. Give me a list, if you would, of those
4 actual advantages of STP that you're talking about
5 that have accrued in Missouri.

6 A. In the last rate case, and as demonstrated
7 in the cost of service case that followed that that
8 used the settlement revenue requirement in it, there
9 was a benefit being provided to the St. Charles
10 District that is -- is now gone away, and now
11 St. Charles is being asked to provide a subsidy to
12 Mexico and St. Joe and others. So that's an example
13 of the way these benefits go from one district to
14 another.

15 Q. So have you got anything that -- we've heard
16 about that one before, the St. Charles transmission
17 line. There's got to be more to it than just a
18 St. Joe and St. Charles -- them trading back and forth
19 the advantages and disadvantages.

20 What about the city -- are you aware of
21 anything in the City of Joplin that STP has ever
22 inured to their advantage, that they have ever gotten
23 anything out of?

24 A. Well, in the last case there were also
25 significant additions to rate base in Joplin. I have

1 not analyzed what the impact would have been under
2 district-specific as opposed to single-tariff, but I
3 believe that there was likely less of an impact on
4 Joplin, again, as a result of sharing those costs with
5 other districts than if they had borne them alone.

6 Q. Are you sure that there was really any kind
7 of an advantage to Joplin considering they came out of
8 that with 12 percent over the cost of service?

9 A. As compared to district-specific on that
10 particular case, yes, there would be an advantage.

11 Q. Would you agree that it might look a lot to
12 the ratepayers down there who know about the
13 improvements that got made, that getting hit with at
14 close to a 12 percent increase that's even above the
15 cost of what they actually had, looked like they did
16 pay for what they got?

17 A. They could have that perception. I don't
18 know what their perception is.

19 Q. And this kind of goes along with the
20 education that you talked about as far as the
21 responsibility of everybody in the room to let
22 everybody know about these advantages to STP?

23 A. Yes.

24 Q. Isn't it true that none of that education
25 was done in this case?

1 A. I don't know.

2 Q. Also, you repeatedly, in dismissing the
3 views of witnesses such as Mr. Harwig and Mr. Busch,
4 have talked about the shortsightedness of planning
5 plants with regard to local districts that are not
6 going to benefit other districts and discounting the
7 STP benefits of such thing as treatments.

8 The treatment issue seems in your testimony
9 to be hinged on increasing legislative enactments of,
10 I guess, the Safe Drinking Water Act and another laws.
11 Isn't it true that the requirements for drinking water
12 have been on the books for quite a long time, both
13 regulatory and statutory?

14 A. They've been updated periodically.

15 Q. Sure. And isn't it also true that the
16 technology has also progressed somewhat in the water
17 purification field? They don't really do it exactly
18 the way they did it 50 years ago, do they?

19 A. No. There have been advances in technology
20 as well?

21 Q. So are you -- have you factored in at all in
22 your earlier testimony discussing this with Mr. Curtis
23 as far as the costs of regulation and the need for the
24 Company to plan projects that are always many years
25 ahead in their expectation of changes in the treatment

1 that -- have you also factored in the changes of
2 technology that might potentially lower the cost of
3 treating water, or does the technology always go up?
4 We gain nothing from the technology of water
5 purification.

6 A. I'm sure that there are gains from -- in
7 productivity related to the technological
8 improvements, but it's been my experience to date that
9 those have been lost in the increased requirements in
10 terms of the costs of meeting those new requirements.

11 Q. Okay. So in addition to the Legislature
12 making you pursue STP, with regard to this project in
13 St. Joe, I understand that the Missouri River flood
14 also has made the Company pursue the STP approach
15 because of the large cost of replacing the whole
16 plant.

17 On opening statement, Mr. Coffman noted --

18 MR. ENGLAND: Excuse me. And I think I've
19 got an objection to that question, because it wasn't a
20 question. It was a statement and a characterization
21 of testimony or evidence that I don't believe is borne
22 out in the record.

23 Counsel continues to make characterizations
24 before he completes his question, and I think he's
25 taking a little bit too much liberty with the record.

1 JUDGE THOMPSON: Mr. Deutsch?

2 MR. DEUTSCH: I'm just trying to help him
3 understand, Judge, but I'll withdraw the question and
4 the observation.

5 JUDGE THOMPSON: Thank you, sir.

6 Please, proceed.

7 BY MR. DEUTSCH:

8 Q. I believe that you describe Mr. Harwig's
9 criticism of the -- your analysis of why STP is
10 important relating to the treatment by noting in your
11 rebuttal testimony that the treatment level argument
12 that was raised is irrelevant and that being
13 Mr. Harwig's suggestion that rates are set on whatever
14 the current treatment levels required are.

15 I didn't see anything more other than saying
16 it was irrelevant and shortsighted that explained for
17 me why it was irrelevant, and I can't say that it
18 exactly struck me right away that that was true.

19 Could you give me a little bit more to go on
20 as to why you should plan treatment plants and the
21 treatment system for something other than what the
22 treatment requirements are?

23 A. I wasn't suggesting that the current plans
24 for the construction or modifications of treatment
25 plants should take into consideration requirements

1 other than those that exist, although I think that
2 such planners are aware of any new requirements that
3 are under consideration and would take those into
4 account as well.

5 My comment is not with respect to planning
6 those treatment additions, modifications or
7 replacements, but rather the fact that over the past
8 30 years the requirements of regulators as to the
9 quality of water have continually increased.

10 It's my expectation that they will continue.
11 I can't tell you exactly what contaminants or what
12 levels, but as they do, it will require expenditures
13 of capital by the Company in various districts and
14 will cause the level of treatment in those districts
15 to increase and the rate base dedicated to treatment
16 per customer to increase.

17 Q. And it's my recollection that you did agree
18 that there are substantial differences in the water
19 sources that are used from among the seven districts.
20 Some are surface water, ground water. I don't know if
21 there is any other sources of water.

22 Is that right, that they are not all the
23 same as far as all of them drawing their water from
24 the same source?

25 A. I agree that they were not all the same. I

1 disagree that they were substantially different.

2 Q. Okay. Not all of the same, then, on that

3 level.

4 What about hardness, matter in the water,

5 level of treatment, level of purification, is that all

6 the same, or are they all different?

7 A. I would say that for the majority of them

8 they are the same.

9 Q. So you think that Joplin's requirements for

10 treatment are the same as St. Joe's?

11 A. I would say they are very similar.

12 Q. Even though the complaints about the water

13 from St. Joe aren't heard in Joplin? That's right.

14 You didn't go to the public hearings.

15 A. I did not.

16 Q. I withdraw that question.

17 And the size of the districts are different.

18 Do you agree with that?

19 A. Yes.

20 Q. In the line of questioning earlier, you

21 illustrated for us that the makeup of the customer

22 base is different, at least with the regard to the

23 industrial class. There is differences between the

24 districts there. Right?

25 A. In the number of industrial customers in

1 each district, yes.

2 Q. And is that an insignificant difference for
3 purposes of deciding whether you are -- your rationale
4 in your testimony of the similarities, the
5 commonalties among all of these systems, is that not
6 a -- a rather critical differences, the size of the
7 district and the customer base?

8 A. The size of the district certainly is and
9 the overall demand characteristics of the districts
10 is, but the number of industrial customers is not.

11 Q. In fact, isn't it true that we have some
12 really rather radical differences in those particular
13 criteria, water source treatment required, location
14 certainly, and size of district and customer base
15 throughout these seven districts?

16 A. No, I would disagree. I think from an
17 overall point of view that there are a great many
18 similarities in these districts. Certainly, there are
19 differences in size.

20 Q. No significant differences between these
21 districts, huh? Is that right?

22 A. I have indicated repeatedly that there are
23 differences. I think there are more commonalties. I
24 think the biggest difference between the districts is
25 their relative size.

1 MR. DEUTSCH: That's all of the questions I
2 have.

3 JUDGE THOMPSON: Thank you, Mr. Deutsch.

4 At this time it is ten minutes to five and
5 rather than begin questions from the Bench at this
6 point, we will recess for the day. We will commence
7 tomorrow at 8 a.m. sharp, and we will begin . . .

8 We do have one question concerning an
9 exhibit which Commissioner Drainer will address to
10 you.

11 COMMISSIONER DRAINER: I just have one
12 question, and I think it would help, at least, me, so
13 what I want to ask the Company witness and the Office
14 of the Public Counsel witness to do, in order that the
15 Commission can look at a comparison of the -- the rate
16 design proposals that are being placed before us,
17 Mr. Hubbs in his rebuttal testimony has schedules
18 called Schedule 3, and they are for each district in
19 which he makes assumption that they all use a five-
20 and an eight-inch meter and then use each by either
21 gallons or CCF, depending on the district.

22 I want to, first, Mr. Stout, ask you to
23 prepare a similar Schedule 3 which uses the same
24 assumption as Mr. Hubbs used which would be meter
25 size, and be in gallons if it's Brunswick, CCFs if

1 it's in, I think, Joplin, and that each one would be a
2 sheet that shows the district.

3 And it will have three columns. I'm only
4 interested in three columns. The first column would
5 be usage, 0 through 14,000 gallons, for example, for
6 Brunswick, and if you look at his schedules, I would
7 want you to mirror the same usage increments.

8 The current -- the next column should be
9 current rates. This should not be any different than
10 his. If it is, we need to know why.

11 And then the third column for you,
12 Mr. Stout, would be the single-tariff pricing rates
13 for each district.

14 You would have a fourth column which would
15 be your single-tariff pricing with a surcharge of the
16 34.882 percent, and a fifth column which would be your
17 single-tariff pricing with your 48.356 percent.

18 THE WITNESS: I understand.

19 COMMISSIONER DRAINER: By having that type
20 of a comparison, it would show what, indeed, for
21 Brunswick and each of the districts the difference
22 between Mr. Hubbs' district pricing and the
23 single-tariff pricing would be in dollars for those
24 different usage rates. I would like to have that now.

25 I'm going to come to you, Mr. Coffman.

1 With Mr. Coffman, your witness had a little
2 bit different analysis on some district-specific
3 pricing. I would like your witness to also mirror
4 this seven districts, and should have one column that
5 would be the usage mirroring the same as Mr. Hubbs.
6 The second column would be the current rates, and then
7 the third column would be for each district a final
8 impact after the phase-in.

9 Now, if your witness wants to calculate
10 Year 1, 2, 3 and 4, and come up with a total, that's
11 fine. I'm not telling you not to. But for
12 simplicity, if we had the final impact of your rate
13 design by usage so that we can compare it. If you
14 look at Mr. Hubbs' testimony -- schedule, it will help
15 you see. I don't need all of the other differences,
16 the percentages, the side bars.

17 MR. COFFMAN: There are a few more
18 questions.

19 You want this for all seven districts, all
20 customers classes, or just the residential?

21 COMMISSIONER DRAINER: No. It's by usage
22 and it's using the five/eight-inch meter. That will
23 tell me, when I look at other types of classes of
24 customers such as industrial or the large commercial,
25 I can get to the differences of all of your proposals

1 by looking at the size of the meters and the blocks.

2 MR. COFFMAN: Okay.

3 COMMISSIONER DRAINER: I can create a table

4 for myself with the block.

5 MR. COFFMAN: And I assume you want this

6 based on Public Counsel's revenue requirement case, or

7 do you want it based on another case?

8 COMMISSIONER DRAINER: No. No. I want it

9 based on the revenue requirement that Mr. Hubbs used

10 in his schedule.

11 MR. COFFMAN: On Staff's case.

12 COMMISSIONER DRAINER: That's the only way

13 I'm going to have apples and apples.

14 MR. COFFMAN: Okay. That's sounds simple

15 enough.

16 COMMISSIONER DRAINER: And it ought to give

17 the highest revenue requirement. Then we would know

18 that anything -- that any revenue requirement we come

19 up with that is less than that would obviously

20 have . . .

21 Mr. Stout, do you have a question?

22 THE WITNESS: A comment, if I may.

23 COMMISSIONER DRAINER: The hour is late.

24 THE WITNESS: It will be brief.

25 COMMISSIONER DRAINER: Okay.

1 THE WITNESS: I just wanted to clarify that
2 last point because you indicated you wanted us to use
3 Mr. Hubbs' revenue requirement, and then you commented
4 on using the use of the highest revenue requirement.

5 COMMISSIONER DRAINER: It will be about the
6 highest. Right? Mr. Hubbs is not sworn in so I won't
7 ask him, and I apologize. I did not get a chance to
8 look at what he used. I know that he may have had
9 some adjustments. But if you-all will use his revenue
10 requirement, I would appreciate it.

11 THE WITNESS: That was just a clarification
12 because I think the two were different.

13 COMMISSIONER DRAINER: I do not know. I
14 will tell you, at this moment in time I do not know
15 that his schedule -- rebuttal schedules, whether they
16 took out the 2.3 million on top -- from your 16.5. I
17 do not know that. If they did and you use this, at
18 least it will give us a very similar ball park figure
19 on the different rate designs.

20 I would like to have this as soon as
21 possible if not by the end of the week. Today is
22 Monday. I would like to have this by Wednesday at
23 five, is when I would like to have this, because
24 you've all already done your rate designs and you have
25 your base rates, so you're only talking about your

1 increments.

2 I would like to have it so that all parties
3 will have the opportunity to review it and should
4 there be any questions they need to make based on
5 what's given to us, that everyone is allowed their due
6 process.

7 MR. COFFMAN: Commissioner, just one more
8 clarifying question: Would you prefer the -- in the
9 third column the rate before any phase-in or the rate
10 after all phase-ins have occurred? I'm not sure there
11 is any difference, but there --

12 COMMISSIONER DRAINER: I want your rate
13 after all of the phase-ins.

14 MR. COFFMAN: After all of the phase-in.

15 COMMISSIONER DRAINER: So if you look at the
16 revenue requirement Mr. Hubbs uses, it may be adjusted
17 from the highest rate, but what's going to happen, if
18 this Commission were to adopt your proposal, if the
19 Commission were to take, if not the highest rates -- I
20 mean the highest revenue requirement --

21 MR. COFFMAN: Okay.

22 COMMISSIONER DRAINER: -- and, you know,
23 with Staff's position, it will at least give to me a
24 picture of comparisons.

25 MR. COFFMAN: I'm not sure I've thought it

1 all of the way through. We'll do our best to give you
2 a comparable result of Staff.

3 COMMISSIONER DRAINER: Yes.

4 MR. COFFMAN: The phase-in proposals are
5 slightly different, but we'll do our best to give you
6 something comparable.

7 COMMISSIONER DRAINER: Now, I'll tell you
8 one final thing you could do. If Mr. Hubbs is not at
9 the highest revenue requirement, and if you want to
10 add another column that showed the highest revenue
11 requirement, and show Public Counsel's lower revenue
12 requirement and what that, in fact, would be, I would,
13 of course, most welcome that. But -- but I am trying
14 not to complicate this more.

15 My concern is -- I've said this in many rate
16 cases -- when the case is over, when we make the
17 decision, the ratepayers in Missouri write checks for
18 dollars. They don't write checks and say, current
19 rate plus adopt Public Counsel's adjustment for
20 Joplin. That's not -- that's not how they balance
21 their checkbooks. So seeing some dollar impacts help
22 us understand the rate design.

23 Yes, Mr. Fischer.

24 MR. FISCHER: Yes, your Honor.

25 Just a clarifying question. You are not

1 asking for any kind of analysis of the interclass
2 shifts that are being proposed by some of the parties?

3 COMMISSIONER DRAINER: No, sir, I'm not
4 asking for the class cost of service shifts.

5 Again, there are numerous schedules in this
6 case that do look at the different sizes of meters and
7 the cost changes there that will impact large volume
8 users, and I can look at those numbers. Thank you.

9 Is there any -- yes.

10 THE WITNESS: Just briefly. I have prepared
11 a schedule similar to your request in Table 3-B
12 attached to my rebuttal, Exhibit 10, but it's only
13 based on the average use.

14 COMMISSIONER DRAINER: I have a lot of
15 questions for you on that, and I'll ask those
16 tomorrow, sir, but I do want apples to apples with
17 some -- with knowing that the assumptions made on
18 revenue requirement, knowing that the assumptions made
19 on the size of the meter and the volume, that it's
20 gallons to gallons per district, or it's CCF to CCFs
21 for districts that are now being billed that way.

22 I'd appreciate it if you could provide that
23 to us in a reasonable time frame. And if after this
24 evening there seems to be problems, please let us
25 know, because I want all parties to have access to

1 that information. So if there are any concerns that I
2 am told by the parties, then I would appreciate making
3 sure that they all are given their due process to
4 respond to this.

5 JUDGE THOMPSON: Anything further from the
6 parties?

7 Mr. Fischer?

8 MR. FISCHER: Your Honor, could we go off
9 the record and discuss a scheduling issue?

10 JUDGE THOMPSON: We can go off the record to
11 discuss a scheduling issue, yes.

12 (Discussion off the record.)

13 WHEREUPON, the hearing of this case was
14 continued to Tuesday, June 6, 2000, at 8:00 a.m.

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12	Direct Testimony of John S. Young		
13	Exhibit No. 17	33	
14	Rebuttal Testimony of John S. Young		
15	Exhibit No. 18	33	
16	Surrebuttal Testimony of John S. Young		
17	Exhibit No. 19	33	
18	Direct Testimony of Ted L. Biddy		
19	Exhibit No. 20	33	
20	Surrebuttal Testimony of Ted L. Biddy		
21	Exhibit No. 21	33	
22	Direct Testimony of Kimberly K. Bolin		
23	Exhibit No. 22	33	
24	Rebuttal Testimony of Kimberly K. Bolin		
25	Exhibit No. 23	33	
	Surrebuttal Testimony of Kimberly K. Bolin		

1	E X H I B I T S I N D E X		
2		Marked	Received
3	Exhibit No. 24	33	
	Direct Testimony of Mark Burdette		
4	Exhibit No. 25	33	
5	Rebuttal Testimony of Mark Burdette		
6	Exhibit No. 26	33	
7	Surrebuttal Testimony of Mark Burdette		
8	Exhibit No. 27	33	
	Direct Testimony of James A. Busch		
9	Exhibit No. 28	33	
10	Rebuttal Testimony of James A. Busch		
11	Exhibit No. 29	33	
12	Surrebuttal Testimony of James A. Busch		
13	Exhibit No. 30	33	
	Direct Testimony of Hong Hu		
14	Exhibit No. 31	33	
15	Rebuttal Testimony of Hong Hu		
16	Exhibit No. 32	33	
	Surrebuttal Testimony of Hong Hu		
17	Exhibit No. 33	33	
18	Direct Testimony Russell W. Trippensee		
19	Exhibit No. 34	33	
20	Rebuttal Testimony Russell W. Trippensee		
21	Exhibit No. 35	33	
22	Surrebuttal Testimony Russell W. Trippensee		
23	Exhibit No. 36	33	
24	Direct Testimony of Doyle L. Gibbs		
25			

1	E X H I B I T S I N D E X		
2		Marked	Received
3	Exhibit No. 37	33	
4	Surrebuttal Testimony of Doyle L. Gibbs		
5	Exhibit No. 38	33	
6	Direct Testimony of Mark D. Griggs		
7	Exhibit No. 39	33	
8	Direct Testimony of Michael G. Gruner		
9	Exhibit No. 40	33	
10	Direct Testimony of Wendell R. Hubbs		
11	Exhibit No. 41	33	
12	Supplemental Direct Testimony of Wendell R. Hubbs		
13	Exhibit No. 42	33	
14	Rebuttal Testimony of Wendell R. Hubbs		
15	Exhibit No. 43	33	
16	Surrebuttal Testimony of Wendell R. Hubbs		
17	Exhibit No. 44	33	
18	Direct Testimony of Jolie Mathis		
19	Exhibit No. 45	33	
20	Direct Testimony of Roberta A. McKiddy		
21	Exhibit No. 46	33	
22	Rebuttal Testimony of Roberta A. McKiddy		
23	Exhibit No. 47	33	
24	Surrebuttal Testimony of Roberta A. McKiddy		
25	Exhibit No. 48	33	
	Direct Testimony of James A. Merciel, Jr.		

1	E X H I B I T S I N D E X		
2		Marked	Received
3	Exhibit No. 49	33	
4	Rebuttal Testimony of James A. Merciel, Jr.		
5	Exhibit No. 50	33	
6	Surrebuttal Testimony of James A. Merciel, Jr.		
7	Exhibit No. 51	33	
8	Direct Testimony of Dennis Patterson		
9	Exhibit No. 52	33	
10	Direct Testimony of Stephen M. Rackers		
11	Exhibit No. 53	33	
12	Rebuttal Testimony of Stephen M. Rackers		
13	Exhibit No. 54	33	
14	Surrebuttal Testimony of Stephen M. Rackers		
15	Exhibit No. 55	33	
16	Staff Accounting Schedules		
17	Exhibit No. 56	149	178
18	Report and Order in WO-98-204		
19			
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22			
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