

Application of Osage Utility Operating Company, Inc.

WA-2019-0185 VOL 3 (IN-CAMERA)

September 17, 2019



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STATE OF MISSOURI
PUBLIC SERVICE COMMISSION

TRANSCRIPT OF PROCEEDINGS
Evidentiary Hearing
In-Camera Proceeding
September 17, 2019
Jefferson City, Missouri
Volume 3

In The Matter Of The)
Application Of Osage Utility)
Operating Company, Inc. To) File No.
Acquire Certain Water And) WA-2019-0185
Sewer Assets And For A)
Certificate of Convenience)
And Necessity)

NANCY DIPPELL, Presiding
SENIOR REGULATORY LAW JUDGE

RYAN A. SILVEY, Chairman,
WILLIAM P. KENNEY,
SCOTT T. RUPP
COMMISSIONERS

REPORTED BY:
Beverly Jean Bentch, CCR No. 640
TIGER COURT REPORTING, LLC

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1 JUDGE DIPPELL: All right. Then, Mr. Comley,
2 if you'd like to go ahead.

3 MR. COMLEY: Thank you very much. I intend to
4 make this very brief.

5 JOSIAH COX, testified as follows:

6 CONTINUED CROSS-EXAMINATION BY MR. COMLEY:

7 Q. Could you turn to I think it's Exhibit 3C,
8 your confidential schedule that's been marked Schedule
9 JC-3C on your direct testimony?

10 A. I'm there, sir.

11 Q. And this would represent the weighted average
12 cost of capital projections or cash flow statement for
13 your company; is that correct?

14 A. That is correct. Those are our pro forma
15 statements.

16 Q. Join me in looking at the customer revenue
17 that you've set aside for years one, two and three on
18 this schedule. You have noted that the revenue for year
19 one will be ██████████; is that correct?

20 A. That is correct.

21 Q. And that represents what you would be getting
22 in revenue from the current rate structure for Osage
23 Water Company and I think Reflections is involved in
24 this as well?

25 A. That is correct, it's a combination of both.

1 You are correct, it's using the existing rate structure.

2 Q. Do you have any ideas now about how much of
3 that revenue was from Reflections?

4 A. I do not. And I don't have a breakout either
5 of the capital improvement that was Reflections versus
6 Osage Water.

7 Q. With respect to year two, you have projected
8 revenue of [REDACTED]; is that correct?

9 A. That is what is represented here.

10 Q. And the same thing for year three?

11 A. Yes, sir.

12 Q. With Reflections in the mix, my math would be
13 475 customers would be involved in producing this
14 revenue for you. Would that be correct?

15 A. I don't remember the exact count. I think
16 it's maybe 480. That's both water and sewer. This is a
17 combination of both water and sewer.

18 Q. All right. Do you have a calculator with you?
19 Would you divide [REDACTED] by 480 and then divide that
20 figure by 12?

21 A. Hold on. Sorry, sir. I got a double zero
22 here I hit. So bear with me. Not doing very good on my
23 calculator skills today. Got it, sir.

24 Q. Can you come up with a quotient for me?

25 A. Yeah. It would be [REDACTED] per service per

1 customer.

2 Q. So there would be ■■■, maybe ■■■ combined?

3 A. That is correct, sir.

4 Q. Per month? Per month?

5 A. Per month, that's correct, sir.

6 Q. Although this is a pro forma statement, are
7 you anticipating that in year two of your operations
8 rates will be set to achieve this revenue level?

9 A. Probably not. It takes longer to do a rate
10 case and it will take longer to do the improvements.
11 This is kind of a simple cash flow statement. So it
12 would be much further into year two before there would
13 be anything like that. So that probably has overstated
14 the total revenue.

15 Q. But by year three the rates will be
16 established to achieve that revenue?

17 A. That is correct, notwithstanding our plan is
18 to potentially purchase other systems inside Osage.

19 Q. And those might affect the overall rate?

20 A. That is correct.

21 MR. COMLEY: Judge Dippell, I'm finished with
22 the confidential part of my examination.

23 JUDGE DIPPELL: Okay. I will ask if there is
24 other cross-examination based on that then from Lake
25 Water -- Lake Water? I came up with a new one.

1 MR. ELLSWORTH: Yes, Your Honor, I would have
2 a few questions.

3 CROSS-EXAMINATION BY MR. ELLSWORTH:

4 Q. Mr. Cox, if we could just stay on the Schedule
5 JC-3C for a moment. I see that you have a total
6 operating expense in years one through three projected
7 of approximately [REDACTED]?

8 A. That is correct.

9 Q. Who will be operating these systems?

10 A. So we don't have the contract operator
11 selected yet. We bid our contract operations every
12 group of systems we put together. So we would bid these
13 out to four or five qualified operations companies and
14 then take those costs.

15 Q. Does Central States have an entity that
16 operates these systems that would be bidding?

17 A. No, but those are true third-party contract
18 operators.

19 Q. Okay. With respect to the -- If we go down to
20 financing, in this data request or in your direct
21 testimony you have not previously provided the financial
22 terms of this transaction, have you, in any detail?

23 A. I have not.

24 Q. Isn't that a requirement when you're
25 submitting an application for acquisition incentive? Do

1 you know?

2 A. I don't know the answer to that question.

3 JUDGE DIPPELL: Let me interrupt just a
4 moment. I want to make sure that we get as much on the
5 public session as we can. So if you have questions that
6 are related to the schedule but are not specifically the
7 numbers, because it is the numbers that we're concerned
8 about being confidential; is that correct, Mr. Cooper?

9 MR. COOPER: It is.

10 JUDGE DIPPELL: I would ask that you go ahead
11 and hold those until we go back on the public session.

12 MR. ELLSWORTH: I can try to do my best in
13 that. Thank you, Judge.

14 JUDGE DIPPELL: That's fine. I just want to
15 make sure that when the Commission is making its
16 decision, and so forth, that they have as much on the
17 public record as they can.

18 MR. ELLSWORTH: Thank you.

19 BY MR. ELLSWORTH:

20 Q. Mr. Cox, on Schedule JC-3C, the total cost of
21 project ██████████, how did you come to that number?

22 A. We used engineering estimates of what we
23 believe the current improvements should be and purchase
24 price of the assets. That includes Reflections and
25 Osage.

1 Q. And the loan principal amount?

2 A. We use that. We previously have agreed to do
3 a 50/50 debt equity structure.

4 Q. And how did you come up with the interest
5 calculations on this schedule?

6 A. Yes. So right now we believe our interest
7 rate is going to come in between [REDACTED] percent and so
8 we use the highest of those numbers in order to give
9 kind of a worst-case scenario here.

10 Q. So this interest rate is calculated -- you
11 calculate based upon [REDACTED] percent interest?

12 A. That is true, sir.

13 Q. What did you calculate the term of the
14 financing?

15 A. [REDACTED] years.

16 Q. Mr. Cox, if we could move to Schedule JC-2C.
17 Are you there?

18 A. I'm there.

19 Q. All right. Mr. Cox, a quick question. On
20 this you have a construction work in progress of
21 [REDACTED]. The question is, where did you come up with
22 that amount?

23 A. That is we believe that, you know, on the day
24 that we close the systems we're projecting that's how
25 much we'll spend on final engineering, legal, title

1 work, all that to close on the systems.

2 Q. Fair enough. This is not the cost of repairs
3 and improvements that you propose in your testimony?

4 A. No, that is not.

5 MR. ELLSWORTH: I don't think I have any other
6 questions that would be confidential.

7 JUDGE DIPPELL: Okay. Thank you. Would there
8 be any questions about those confidential documents from
9 Public Counsel?

10 MR. HALL: Public Counsel has no questions on
11 that matter.

12 JUDGE DIPPELL: Commissioners, did you have
13 any questions related to those confidential numbers?

14 COMMISSIONER KENNEY: No.

15 JUDGE DIPPELL: All right. Would there be any
16 redirect based on those confidential numbers,
17 Mr. Cooper?

18 MR. COOPER: I will have redirect, but I don't
19 think it will require us to go back in camera.

20 JUDGE DIPPELL: Okay. Thank you. All right
21 then. Then we can go ahead and go back on the public
22 session. And I think someone went out of the room to
23 let the others know that they could return. Yes, thank
24 you, Mr. Busch.

25 (End of in-camera proceedings.)

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(REPORTER'S NOTE: Judge Dippell requested page 105, line 21 through page 106, line 21 be made part of the in-camera proceedings. This is Continued Cross-Examination by Mr. Ellsworth.)

Q. Okay. I wanted to clarify that. Also on a data request issued to you by the Office of Public Counsel they asked you with respect to financing, please describe the details, conditions used to calculate the amounts of the total project, loan principal and

1 interest under the financing section of the statement
2 shown on the JC-3C. At that time you indicated that
3 CSWR anticipates being able to secure debt using system
4 assets and interest rate of less than [REDACTED], an
5 interest rate of [REDACTED] was expected. That's how you
6 calculated it. Do you recall that testimony or that
7 response?

8 A. I do not recall the response.

9 Q. But today you believe you can get [REDACTED] percent,
10 not [REDACTED] percent?

11 (End of in-camera proceedings.)

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Beverly Jean Bentch

Beverly Jean Bentch, RPR, CCR No. 640

[REDACTED]			
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