

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25

STATE OF MISSOURI
PUBLIC SERVICE COMMISSION

TRANSCRIPT OF PROCEEDINGS

Hearing

November 13, 2003
Jefferson City, Missouri
Volume 3

In the Matter of the Joint)
Application of Missouri-American)
Water Company and Warren County Water)
& Sewer Company for Authority for)
Missouri-American Water Company to) Case No. WM-2004-0122
Acquire Certain Assets of Warren)
County Water & Sewer Company and, in)
Connection Therewith, Certain Other)
Related Transactions.)

NANCY M. DIPPELL, Presiding,
SENIOR REGULATORY LAW JUDGE.

STEVE GAW, Chair,
CONNIE MURRAY,
BRYAN FORBIS,
ROBERT M. CLAYTON, III,
COMMISSIONERS.

REPORTED BY:
KELLENE K. FEDDERSEN, CSR, RPR, CCR
JENNIFER LEIBACH
ASSOCIATED COURT REPORTERS

ASSOCIATED COURT REPORTERS
JEFFERSON CITY - COLUMBIA - ROLLA
(888) 636-7551

1 APPEARANCES:

2 DAVID P. ABERNATHY, General Counsel
Missouri-American Water
3 535 North New Ballas Road
St. Louis, MO 63141-6875
4 (314)996-2276

5 FOR: Missouri-American Water Company.

6 PAUL DeFORD, Attorney at Law
Lathrop & Gage
7 2345 Grand Boulevard
Kansas City, Missouri 64108
8 (816)292-2000

9 FOR: Warren County Water & Sewer.

10 RUTH O'NEILL, Assistant Public Counsel
P.O. Box 2230
11 200 Madison Street, Suite 650
Jefferson City, Missouri 65102-2230
12 (573)751-4857

13 FOR: Office of the Public Counsel
and the Public.

14 KEITH R. KRUEGER, Deputy General Counsel
15 P.O. Box 360
Jefferson City, Missouri 65102
16 (573)751-3234

17 FOR: Staff of the Missouri Public
Service Commission.

18

19

20

21

22

23

24

25

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25

P R O C E E D I N G S

JUDGE DIPPELL: We're back on the record.

It's November 13th, and this is Case No. WM-2004-0122, a continuation of the hearing from yesterday. And we left off yesterday with Mr. LeGrand on the witness stand, if I could ask him to come back to the witness stand.

Thank you, sir. I'll just remind you that you're already sworn. You remain sworn. And I had a few questions for you, if I can find them again today.

ROBERT J. LEGRAND testified as follows:

QUESTIONS BY JUDGE DIPPELL:

Q. Are you familiar with the financial statements that were filed with the application in this case?

A. Yes.

Q. And do those accurately represent the finances that Missouri-American is planning in this case?

A. Yes, they are.

Q. Can you explain -- I know you explained it a little bit yesterday, but I didn't think it came out very clearly. But can you explain again how -- how you first learned about the -- how you first made the offer for Warren County? You received a letter?

A. Yes. You mean the sales flyer?

Q. Yes.

A. Yes. Mr. Smith, I guess, circulated around --

1 I don't really know how many that he sent out, but one came
2 to our office. And it was just a one-page flyer stating
3 that he had his water and sewer system up for sale, and if
4 there was any interested party, please call this number.
5 And that's what I did.

6 Q. Okay. And you received that about when?

7 A. That was, I believe, early March or so.

8 Q. Okay. When you were putting together your bid
9 proposal or your offer for this water system, was one of the
10 things that you considered is whether or not the current
11 rates were sufficient to operate and maintain the system?

12 A. Yes. We do look at the rates, because we go
13 under the assumption that that's the rates that we'll have
14 until we file a rate case. So I'll use those numbers to see
15 if we can work out a price that will accurately reflect the
16 current rates that are -- that are being used.

17 Q. And Missouri-American doesn't currently have a
18 certificate to operate in the Warren County area; is that
19 correct?

20 A. That is correct.

21 Q. Is that one of -- I haven't had a chance -- I
22 know Mr. Abernathy filed the list of assets, attached it to
23 the contract, but I haven't had a chance to review that.
24 Was the certificate one of the items that Missouri-American
25 was intending to transfer?

1 A. I would have to --

2 Q. You don't know?

3 A. I don't know that.

4 JUDGE DIPPELL: That's all the questions I had
5 for you, Mr. LeGrand. See if anyone else has questions
6 based on questions from the Bench yesterday and today.
7 Warren County?

8 MR. DeFORD: None, your Honor.

9 JUDGE DIPPELL: I'm sorry, Mr. DeFord. I
10 should let you make an entry of appearance, since you
11 weren't with us yesterday.

12 MR. DeFORD: Paul S. DeFord of the law firm of
13 Lathrop & Gage, 2345 Grand Boulevard, Kansas City, Missouri
14 64108, appearing on behalf of Warren County Water & Sewer.

15 JUDGE DIPPELL: Thank you. Staff?

16 MR. KRUEGER: Thank you, your Honor.

17 RE-CROSS-EXAMINATION BY MR. KRUEGER:

18 Q. Good morning, Mr. LeGrand.

19 A. Good morning.

20 Q. I believe you testified yesterday that the
21 amount of your offer depended upon market synergies,
22 economies of scale, potential growth and location; is that
23 accurate?

24 A. That's accurate.

25 Q. Am I correct to understand, then, that the

ASSOCIATED COURT REPORTERS
JEFFERSON CITY - COLUMBIA - ROLLA
(888) 636-7551

183

1 level of your offer did not depend on whether the Commission

2 would recognize the contract price as rate base?

3 A. Well, in my calculation, I didn't use that in
4 the formula, you know, to make the offer, no. That wasn't
5 one of the criteria.

6 Q. Okay. Thank you. I believe you also
7 testified that the revenue at Warren County Water & Sewer
8 presently is about \$425 per customer per year?

9 A. That's correct.

10 Q. When you made your financial projections based
11 on growth and so forth, did you factor that figure up for
12 increased sales to each residence there based on increased
13 lawn watering or other factors increasing the usage?

14 A. No. I did not factor any increase in usage,
15 just for the new customers or for the growth piece, but
16 nothing else.

17 Q. What did you consider in the growth piece?

18 A. As the number?

19 Q. What factors did you consider when you looked
20 at the growth?

21 A. As a customer, I would add the revenue, the
22 average revenue, \$425 for that customer, and then I would
23 adjust the operating cost for those customers for the
24 additional operating cost.

25 Q. And you just made assumptions about what the

ASSOCIATED COURT REPORTERS
JEFFERSON CITY - COLUMBIA - ROLLA
(888) 636-7551

184

1 growth in number of customers would be?

2 A. That is correct.

3 Q. Do you recall what assumption you made on the
4 growth in number of customers?

5 A. 5 percent.

6 Q. 5 percent per year?

7 A. Yes, except for the first year.

8 Q. And what did you assume for that time?

9 A. Probably about 2 percent or so, figuring that
10 with the delay in the building, that we would not see that
11 5 percent the first year.

12 Q. And you heard Mr. Walter testify yesterday
13 that he believed that there would be 30 to 40 new homes
14 built there per year once the moratorium is lifted; is that
15 correct?

16 A. That is correct.

17 Q. And how would that affect your projections on
18 the growth?

19 A. Well, it would certainly be higher than what I
20 put in, so that would raise the level, of course, of the
21 revenue projection and, of course, the operating expenses
22 also.

23 Q. Would you be able to estimate a magnitude of
24 the amount of that effect?

25 A. You mean right now?

ASSOCIATED COURT REPORTERS
JEFFERSON CITY - COLUMBIA - ROLLA
(888) 636-7551

185

1 Q. Yes.

2 A. Well, it would take some time to do that.

3 Q. Okay. You can't -- you can't answer it while
4 you're sitting there on the stand?

5 A. I would prefer not to, no.

6 Q. You testified that there could be a difference
7 between the book value and the -- of a company and the
8 purchase price; is that correct?

9 A. That's correct.

10 Q. I'm going to ask you to assume that there will
11 be evidence that the book value of Warren County Water &
12 Sewer is approximately \$53,000. So for -- and if that is,
13 in fact, the book value, the premium for -- the acquisition
14 premium for Warren County Water & Sewer would be about
15 \$282,000; is that correct?

16 A. That would be correct.

17 Q. Did Missouri-American pay a premium for the
18 Florissant system?

19 A. Yes, we did.

20 Q. Do you know how much that premium was?

21 A. I don't recall, no. Mr. Jenkins would have
22 that number, I'm sure.

23 Q. And did Missouri-American pay a premium for
24 the Webster Groves system?

25 A. Yes, we did.

ASSOCIATED COURT REPORTERS
JEFFERSON CITY - COLUMBIA - ROLLA
(888) 636-7551
186

1 Q. Do you recall how much that was?

2 A. No, I do not.

3 Q. Mr. Jenkins could answer that as well?

4 A. We could certainly check and get it, I'm sure.

5 Q. Were those two acquisitions made outside the
6 context of a rate case?

7 A. Yes, they were.

8 Q. And were the customers in those two areas
9 already paying the same rates as they are currently paying
10 to Missouri-American?

11 A. Very close.

12 Q. Can you identify the three companies that
13 you're now negotiating with on acquisition?

14 MR. ABERNATHY: I would have to object to
15 that, because it's probably confidential business
16 information. We don't need to have that in the public
17 record.

18 MR. KRUEGER: He mentioned that there were
19 three companies that he was negotiating with. My question
20 is, can you identify them?

21 JUDGE DIPPELL: I guess he can answer if he
22 can identify them.

23 MR. ABERNATHY: Again, I object because I want
24 to keep that information confidential because those are not
25 deals that we have got signed contracts with. I mean, we've

ASSOCIATED COURT REPORTERS
JEFFERSON CITY - COLUMBIA - ROLLA
(888) 636-7551

187

1 said we've got three deals in the works, but who they are
2 and what they entail I don't want to put out in the open
3 record.

4 JUDGE DIPPELL: Is the number of companies
5 confidential information?

6 MR. ABERNATHY: No, it's not.

7 JUDGE DIPPELL: I believe the question is can
8 you identify them, not please identify them.

9 MR. ABERNATHY: Okay. Fine line. I didn't
10 understand that, but okay.

11 MR. KRUEGER: My next question is going to be
12 please identify them.

13 JUDGE DIPPELL: Well, I will sustain the
14 objection to the identity of the companies that they're in
15 negotiations with, but I will allow the witness to answer if
16 he can identify them.

17 THE WITNESS: That would be yes.

18 BY MR. KRUEGER:

19 Q. Is Osage Water Company one of the companies
20 that you're negotiating with?

21 A. It's not one of the three, no.

22 MR. DeFORD: Your Honor, can I suggest if this
23 is essential we could maybe go in-camera?

24 JUDGE DIPPELL: Mr. Krueger?

25 MR. KRUEGER: I don't believe this is highly

ASSOCIATED COURT REPORTERS
JEFFERSON CITY - COLUMBIA - ROLLA
(888) 636-7551

188

1 confidential information. The fact that there are
2 negotiations with Osage Water Company is pretty much public
3 record, based on stipulations filed in the Circuit Court of

4 Camden County.

5 MR. ABERNATHY: I would agree on that. That
6 there have been negotiations ongoing or not is another
7 question.

8 JUDGE DIPPELL: All right.

9 BY MR. KRUEGER:

10 Q. Does the company and Osage Water Company have
11 a draft sale agreement prepared?

12 A. Yes.

13 Q. What terms remain to be negotiated on that?

14 MR. ABERNATHY: I'm going to object again.
15 This is getting into areas -- I'm not even sure it's
16 relevant at all to what we're trying to do here today.

17 JUDGE DIPPELL: Mr. Krueger, go ahead.

18 MR. ABERNATHY: I was just going to say it's
19 getting into confidential areas of company business.

20 JUDGE DIPPELL: I believe at least the
21 contract in this instance was marked as highly confidential
22 and there weren't any objections to that. If you'd like to
23 question about that, we could go into closed session, if
24 it --

25 MR. KRUEGER: Okay. I'll rephrase the

ASSOCIATED COURT REPORTERS
JEFFERSON CITY - COLUMBIA - ROLLA
(888) 636-7551

189

1 question in a way that I think does not get into
2 confidential information.

3 JUDGE DIPPELL: Okay.

4 BY MR. KRUEGER:

5 Q. In the document that's filed in Camden County
6 Circuit Court in regard to Osage Water Company, is it stated
7 that Missouri-American has agreed to buy the company for
8 agreed rate base?

9 MR. ABERNATHY: I object. Let's find out
10 first if he's even seen the document that's filed in Camden
11 County.

12 BY MR. KRUEGER:

13 Q. Are you aware of the contents of the document
14 that the company has -- the stipulation that has been
15 filed --

16 A. Yes.

17 Q. -- in Camden County?

18 Okay. Can you now answer the second question?

19 A. Ask the question again, please.

20 Q. Has the company agreed, as memorialized in the
21 stipulation filed in Camden County Circuit Court, to
22 purchase the assets of Osage Water Company for agreed rate
23 base?

24 A. That is part of it, yes.

25 Q. So in that case, the purchase price that the

ASSOCIATED COURT REPORTERS
JEFFERSON CITY - COLUMBIA - ROLLA
(888) 636-7551

190

1 company is to pay is the agreed rate base, no more, no less;
2 is that correct?

3 A. Yes.

4 MR. KRUEGER: Thank you. That's all the

5 questions I have.

6 JUDGE DIPPELL: All right. Public Counsel
7 have any?

8 MS. O'NEILL: No further questions, your
9 Honor.

10 JUDGE DIPPELL: Is there any redirect?

11 MR. ABERNATHY: A couple of things, your
12 Honor.

13 First of all, you referred to the financial
14 statement in the application that the company filed in this
15 matter. We might as well go ahead and put that in as an
16 exhibit, if nobody has an objection to that.

17 JUDGE DIPPELL: I can mark it as the next
18 exhibit number which --

19 MR. ABERNATHY: Would be 13, I believe.

20 JUDGE DIPPELL: -- is 13.

21 Would there be any objection to the
22 application in this case coming in evidence?

23 MS. O'NEILL: No objection.

24 JUDGE DIPPELL: Is there any objection from
25 Staff?

ASSOCIATED COURT REPORTERS
JEFFERSON CITY - COLUMBIA - ROLLA
(888) 636-7551
191

1 MR. KRUEGER: Your Honor, yes, I would object.
2 I don't believe this is -- it hasn't been established anyhow
3 that this is responsive to questions from the Bench.

4 MR. ABERNATHY: I believe Judge Dippell asked
5 Mr. LeGrand about the financial statements attached to the

6 back of this.

7 JUDGE DIPPELL: I did, in fact, ask about the
8 financial statements.

9 (EXHIBIT NO. 13 WAS MARKED FOR IDENTIFICATION
10 BY THE REPORTER.)

11 MR. ABERNATHY: It's also got attached board
12 of director approvals and just to kind of show it's an
13 approved deal with the company, so it helps, too, I think.

14 JUDGE DIPPELL: Is that the balance sheet?

15 MR. ABERNATHY: Yes. I don't have any
16 questions in regard to that.

17 JUDGE DIPPELL: I'm sorry?

18 MR. ABERNATHY: I don't have any questions
19 with reference to that document at this point in time.

20 JUDGE DIPPELL: Mr. Krueger, do you still have
21 an objection?

22 MR. KRUEGER: No. I'll withdraw my objection.

23 JUDGE DIPPELL: Seeing no objection, then I'll
24 admit the application.

25 (EXHIBIT NO. 13 WAS RECEIVED INTO EVIDENCE.)

ASSOCIATED COURT REPORTERS
JEFFERSON CITY - COLUMBIA - ROLLA
(888) 636-7551
192

1 REDIRECT EXAMINATION BY MR. ABERNATHY:

2 Q. Mr. LeGrand, just a couple of quick questions.
3 I'm going to go back to a couple things Mr. Krueger asked
4 you a minute ago here.

5 One of the questions that -- and I don't want

6 to misstate his question, but I'll try to paraphrase as best
7 I can, is whether or not when you made the offer to Warren
8 County Water & Sewer, if when you came up with your numbers
9 you had taken into account the acquisition premium that
10 might be paid in this case when you created those numbers.
11 Is that a question you were asked, I believe?

12 A. Uh-huh. Yes.

13 Q. At the time that you created these numbers or
14 made the offer to Warren County Water & Sewer, did you even
15 know there was going to be an acquisition premium?

16 A. I did not.

17 Q. And the reason being?

18 A. We did not know what the rate base was.

19 Q. So far as you know, you could have been
20 offering less than rate base?

21 A. That is correct.

22 Q. And same kind of line of questioning on Osage
23 Water, the difference between Warren County Water & Sewer
24 and Osage Water, again, is the rate base number; is that
25 correct?

ASSOCIATED COURT REPORTERS
JEFFERSON CITY - COLUMBIA - ROLLA
(888) 636-7551
193

1 A. That is correct.

2 Q. You could offer the rate base number for Osage
3 Water because you know --

4 A. We know what it's going to be.

5 Q. And Warren County Water & Sewer, you did not?

6 A. Did not.

7 MR. ABERNATHY: No further questions.

8 JUDGE DIPPELL: Thank you. All right, then.

9 And I believe we're finished with questions for you,
10 Mr. LeGrand. I appreciate you returning this morning. You
11 may be excused.

12 Mr. Abernathy, you can call your next witness.

13 MR. ABERNATHY: I'd like to call Jeff Kaiser
14 to the stand, please.

15 (Witness sworn.)

16 JUDGE DIPPELL: Thank you. Go ahead,
17 Mr. Abernathy.

18 JEFFREY KAISER testified as follows:

19 DIRECT EXAMINATION BY MR. ABERNATHY:

20 Q. Would you please state your full name for the
21 record, please.

22 A. Jeffrey Kaiser.

23 Q. Mr. Kaiser, where are you employed?

24 A. Black & Veatch Corporation.

25 Q. What's your office address at Black & Veatch.

ASSOCIATED COURT REPORTERS
JEFFERSON CITY - COLUMBIA - ROLLA
(888) 636-7551
194

1 A. It is 1415 Elbridge Payne Road in
2 Chesterfield, Missouri.

3 Q. And how long have you been with Black &
4 Veatch, please?

5 A. Little over a year with Black & Veatch.

6 Q. Have you held other positions similar to what

7 you do with Black & Veatch?

8 A. Over the past 17 years had similar positions
9 with EarthTech Engineering, a national environmental
10 engineering firm, Burns & MacDonald and also Havens &
11 Emerson.

12 Q. I guess I should ask, what's your profession?

13 A. I'm a civil engineer.

14 Q. And you've got your degree from where?

15 A. From Washington University. I have a
16 bachelor's in civil engineering.

17 Q. Do you have a title at Black & Veatch? We
18 didn't ask that question either.

19 A. Officially I'm a project manager for Black &
20 Veatch. I do both project management and studies in design
21 work.

22 Q. I guess about a week or so ago, did
23 Missouri-American approach Black & Veatch about doing an
24 original cost study for Warren County Water & Sewer?

25 A. Yes, they did. We were called and asked to

ASSOCIATED COURT REPORTERS
JEFFERSON CITY - COLUMBIA - ROLLA
(888) 636-7551
195

1 attend a meeting regarding Warren County Water & Sewer, at
2 which time we discussed what information the water company
3 had at the time and the general information of the Warren
4 County Water & Sewer Company and discussed what could be
5 done in the short time frame as far as developing an
6 original cost study.

7 Q. Do you have what's marked as Exhibit 2 in

8 front of you?

9 A. I have the material that's in that. I do not
10 have the exhibit.

11 Q. Do you have the same exact thing, though?

12 A. It's the same materials, yes.

13 Q. All right. Would you explain what that is
14 just briefly? Tell us what Exhibit 2 is.

15 A. Basically what it is, it starts with a
16 narrative description of the work that we did, and it kind
17 of goes step by step through the process that we developed
18 to get to the original cost.

19 Q. So this is -- I'm going to stop you there.
20 This is an original cost study done for Warren County
21 Water & Sewer?

22 A. Correct.

23 Q. Okay. Was this made by you or under your
24 supervision and direction?

25 A. A great deal of the work was done by me

ASSOCIATED COURT REPORTERS
JEFFERSON CITY - COLUMBIA - ROLLA
(888) 636-7551
196

1 personally. There was also a couple other people under my
2 supervision that worked on this.

3 Q. And when did you do this study, what's the
4 period of time?

5 A. We started, I believe, last Wednesday and
6 basically got things done late Monday, early Tuesday.

7 Q. Okay. So you made this in the regular course

8 of your business; is that correct?

9 A. Correct.

10 Q. It's in your company records and files?

11 A. Yes.

12 Q. And what's passed out as Exhibit 2 is correct
13 copies of what you've done?

14 A. Yes.

15 Q. Accurate copies?

16 A. Yes.

17 MR. ABERNATHY: I'd like to offer Exhibit 2
18 into evidence, please.

19 JUDGE DIPPELL: Is there any objection to
20 Exhibit 2?

21 MR. KRUEGER: No objection.

22 MS. O'NEILL: Your Honor, may I ask a couple
23 questions of the witness on voir dire about this exhibit,
24 briefly?

25 JUDGE DIPPELL: Briefly.

ASSOCIATED COURT REPORTERS
JEFFERSON CITY - COLUMBIA - ROLLA
(888) 636-7551
197

1 MS. O'NEILL: Can I do it from here?

2 JUDGE DIPPELL: Go ahead.

3 VOIR DIRE EXAMINATION BY MS. O'NEILL:

4 Q. Mr. Kaiser, the information that's contained
5 in this document, is it -- how much is based on actual
6 records and how much is estimated?

7 A. We used the records that were available, for
8 instance, to get quantities of water and sewer line. We

9 digitized the maps that were available, and from the
10 computer took those off. As far as cost data, there we had
11 no original cost data, so we used other sources to determine
12 the cost for the components.

13 Q. When you say digitized off the computer, what
14 sour-- did you use sources from Warren County Water & Sewer
15 or from some other source?

16 A. From Warren County Water & Sewer there was a
17 map of the water system and a map of the sewer system for
18 the Incline Village development.

19 Q. How about the rest of their other customers?

20 A. We had a reduced plat for one of the small --
21 I believe for Shady Oaks, and then we had just some other
22 general information that we -- that we had from Warren
23 County Water & Sewer and from Missouri-American as far as
24 some of the quantities in some of the other smaller areas.

25 Q. So you took those documents and put them into

ASSOCIATED COURT REPORTERS
JEFFERSON CITY - COLUMBIA - ROLLA
(888) 636-7551
198

1 a computer and extrapolated information for your estimate;
2 is that correct?

3 A. Correct.

4 MS. O'NEILL: Your Honor, if this is admitted
5 as an estimate, as opposed to an actual cost study, I don't
6 have an objection, but if it's being characterized as an
7 actual cost study, we would object.

8 JUDGE DIPPELL: Well, I believe that it is

9 being admitted as a cost study. I don't believe there's any
10 quantitative there, except that the cover sheet does say
11 that it's a cost estimate for cross-sections and
12 calculations. I think it will be admitted for what it is.

13 Do you have an objection?

14 MS. O'NEILL: Just wanted to make sure that it
15 was clear that this was an estimate, and I think that goes
16 to the weight that it's given. Thank you.

17 JUDGE DIPPELL: I think you can make that
18 clear in your cross-examination. So your objection is
19 withdrawn?

20 MS. O'NEILL: Yes.

21 JUDGE DIPPELL: Thank you. I will admit the
22 cost study prepared by Black & Veatch Corporation as Exhibit
23 No. 2.

24 (EXHIBIT NO. 2 WAS RECEIVED INTO EVIDENCE.)

25 MR. ABERNATHY: Thank you, your Honor.

ASSOCIATED COURT REPORTERS
JEFFERSON CITY - COLUMBIA - ROLLA
(888) 636-7551
199

1 DIRECT EXAMINATION (RESUMED) BY MR. ABERNATHY:

2 Q. Mr. Kaiser, let's go back to where you started
3 before. At the very front of the study is what?

4 A. It's a narrative of the procedures that we
5 went through to develop the cost study.

6 Q. What was the first step you took in doing the
7 cost study?

8 A. The first step we took was we took the
9 information that we'd been able to gather from

10 Missouri-American and Warren County Water & Sewer, and after
11 briefly looking at that, went out to the site to do some
12 inspections of some of the facilities and get a general feel
13 or general understanding of exactly what is out in the
14 field.

15 Q. What date did you go out to the site?

16 A. That would have been last Wednesday, I
17 believe.

18 Q. Is that November 5th?

19 A. That would have been the 5th, I believe, yes.

20 Q. Of '03?

21 A. Correct.

22 Q. And what did you do at the site?

23 A. We looked at both wastewater treatment plants.
24 We looked into a couple of the wastewater pump stations just
25 to see the general condition and the equipment that was

ASSOCIATED COURT REPORTERS
JEFFERSON CITY - COLUMBIA - ROLLA
(888) 636-7551
200

1 installed there. Visited the well site, looked at the well
2 from above ground. Obviously couldn't do an inspection of
3 the well, but looked at the facilities that were there, the
4 stand pipe.

5 Looked at one of the typical residential
6 grinder station installations, opened up a couple manholes
7 and looked inside those to see general condition. And then
8 basically had a driving tour of the site of the development
9 just to get, again, a general feel for what's out there.

10 Q. From the information you gathered from this
11 visit, did you create a property list?

12 A. We did.

13 Q. Is that in your study here?

14 A. It is. In the section with the spreadsheets,
15 there is a -- there's actually a couple of them in there.
16 If you go to the second sheet in there, there's a sheet that
17 says inventory of assets and valuation, of course. I'm
18 sorry about that. But it starts with wastewater facilities,
19 lists collection system, pumping stations, treatment
20 facilities, miscellaneous equipment, then follows with water
21 facilities, distribution systems, storage facilities, water
22 supply building, miscellaneous. And then there's another
23 section there for just miscellaneous equipment that was
24 stored on site, spare parts, that type of thing.

25 Q. Once this property list was created, what did

ASSOCIATED COURT REPORTERS
JEFFERSON CITY - COLUMBIA - ROLLA
(888) 636-7551
201

1 you do next?

2 A. Next we started developing costs or estimated
3 costs for what was out there and what was in the field. We
4 looked at -- we developed cross-sections for the sewers, for
5 example, so we could determine the excavation quantities and
6 the bedding quantities, backfill quantities, those type of
7 things that would be in a per-foot-type cost for the sewer
8 and water mains.

9 We looked at the manholes, the size of the
10 manholes, what the excavation would be required to set the

11 manhole, and started developing those type of unit costs, if
12 you will, for the various facilities. Then we applied those
13 unit costs to the overall quantities that were there, the
14 length of sewers of various sizes, the lengths of the water
15 lines, to come up with a total cost for each of those items.

16 Q. What type of costing process did you use?

17 A. As far as the cost numbers, we used numbers or
18 cost data out of R.S. Means cost estimating guidelines.
19 It's kind of an engineering industry standard. It provides
20 costs for excavation, for pipe bedding, for pipe per foot,
21 and compiled those numbers to come up with our -- with our
22 other numbers.

23 Q. Are those R.S. Means data sheets or
24 information in this part of the study?

25 A. It is. At the back of the study there's

ASSOCIATED COURT REPORTERS
JEFFERSON CITY - COLUMBIA - ROLLA
(888) 636-7551
202

1 copies of the sheets that the data came off of. I believe
2 every number we got out of there should be shown on those
3 sheets there that are included.

4 In addition to that, we also, for some
5 materials where we couldn't get out of Means, we contacted
6 some local suppliers in the St. Louis area, manufacturers'
7 representatives, to get some numbers from them for the well.

8 For instance, we called a local well driller
9 that we're familiar with to get an estimate of what it would
10 have taken to put the well in. We pulled numbers off

11 Internet catalogs for some of the miscellaneous equipment.
12 For some of the other numbers that really weren't available
13 from those standpoints, we used our engineering judgment,
14 basically, based on past experience that we've had on
15 similar projects as far as what those numbers should be.

16 Q. Do the R.S. Means numbers change based on
17 vintage or year?

18 A. They do. They change basically on almost a
19 yearly basis. We used the year 2000 data book. We don't
20 buy a new book every year. There are indices that are
21 provided that you can inflate or deflate those numbers to
22 bring them up to current.

23 Q. So the Means number you used here is somewhat
24 conservative, I guess, is what you're saying?

25 A. Right. It was a -- like I said, it was the

ASSOCIATED COURT REPORTERS
JEFFERSON CITY - COLUMBIA - ROLLA
(888) 636-7551
203

1 year 2000. The numbers that are in Means, when we compiled
2 the numbers, I felt were fairly low. If we'd been using
3 numbers that we would typically use for the Metropolitan
4 St. Louis Sewer District, for instance, those numbers would
5 have been probably two to three times for excavation. For
6 the pipe in place, those numbers are quite a bit higher.

7 Q. I was going to ask you that later, but let's
8 follow that for a minute. Why would the MSD numbers be
9 higher than what you used here?

10 A. Well, for a variety of reasons. The MSD
11 numbers are based off of -- they're actual bid tabs that

12 the -- the bids that they get in, they compile those and
13 come up with numbers. The Means numbers are similarly
14 created, but on a more national basis. They're not as
15 detailed. They don't necessarily reflect things that are
16 going on.

17 And the numbers that we wanted to use with
18 Means, based on my assumptions that these facilities were
19 put in in a green field or in an undeveloped site, there's
20 no restoration, there's no other utilities to worry about,
21 all those type of things tend to help those costs stay down.
22 So we felt the more conservatively low numbers would
23 probably be --

24 Q. So you're saying cost to lay pipe, for
25 example, is cheaper per foot than with this study you did,

ASSOCIATED COURT REPORTERS
JEFFERSON CITY - COLUMBIA - ROLLA
(888) 636-7551
204

1 because you have a green field situation?

2 A. Correct.

3 Q. With, say, an urban situation?

4 A. Correct.

5 Q. What's the difference between the MSD cost per
6 foot, for example, and what you did here?

7 A. I would -- just from my recollection, I would
8 say the MSD number would probably be about three times the
9 number that we have in here.

10 Q. And what did you use in the study?

11 A. As far as the cost per foot?

12 Q. Yes.

13 A. I believe for the sewer lines and the 8 and
14 6-inch water lines, we were in the range of 14 to \$15 per
15 lineal foot in place.

16 Q. We'll come back to this later. Let's go back
17 to how we did the study again.

18 A. All right.

19 Q. You made a property list. You applied the
20 Means cost, the 2000 Means cost, you said. What did you do
21 next?

22 A. All right. After we applied the Means cost,
23 we basically had a cost to install in year 2000. We needed
24 to backdate those costs to when we thought the materials
25 were installed, so that we could trend them backwards.

ASSOCIATED COURT REPORTERS
JEFFERSON CITY - COLUMBIA - ROLLA
(888) 636-7551
205

1 And I guess I need to take a step back. When
2 we developed the property list, we also made some estimates
3 of when materials were installed. And if you'd like, I
4 can --

5 Q. Please elaborate, sure.

6 A. We went back and one of the first things we
7 did was we went to the Warren County Courthouse, looked at
8 the subdivision plats that were on record, got the dates of
9 recording off those plats, and made a general assumption
10 based on our past experience that, from the date of those
11 plats that were recorded, the materials were probably
12 installed within one to two years of that date.

13 Generally when the contractors are -- or the
14 developers are doing that work, they don't plat everything
15 up front. They plat it in pieces as they go along, and
16 typically they don't plat anything until they're ready to
17 build it within a year or two. So we made that general
18 assumption that that was going to be a relatively close time
19 frame.

20 We also looked at -- there were some MDNR
21 construction permits and inspection reports that gave us a
22 couple of dates of when things went into service, and we
23 used those dates. But other than that, as I said, we pretty
24 much -- the plats were the main thing that we looked at.

25 Q. So you dated the property then?

ASSOCIATED COURT REPORTERS
JEFFERSON CITY - COLUMBIA - ROLLA
(888) 636-7551
206

1 A. We dated the property based on what we -- what
2 we could ascertain and what we could assume that was a
3 relatively close date of completion of the construction.

4 Q. Are those -- is there something in the study
5 where you're showing the dates you applied to the property?

6 A. There is. On the first spreadsheet, there's a
7 few columns that are labeled installation vintage. And
8 there's years in there, '71, '75, '76 through '80, '81
9 through '85, et cetera, and items -- quantities are listed
10 under those headings of what we felt -- what we were able to
11 measure out of the plats was installed in each of those
12 years.

13 Q. And that's on the first spreadsheet in the
14 study?

15 A. That is actually on the second spreadsheet, I
16 believe. No. I'm sorry. That is on the first spreadsheet.
17 Make sure my stuff's numbered the same that yours is. In
18 fact, if you have a copy of that, I can confirm that. That
19 might be the best thing to do.

20 Q. Yeah.

21 A. Make sure we have everything in the same
22 order. Okay. That column would be on the first
23 spreadsheet, yes.

24 Q. So now you've made a property list. You've
25 put the 2000 Means -- or I guess what we call the

ASSOCIATED COURT REPORTERS
JEFFERSON CITY - COLUMBIA - ROLLA
(888) 636-7551
207

1 replacement cost to this property?

2 A. Correct.

3 Q. And you've gone out and dated the property
4 now --

5 A. Correct.

6 Q. -- for vintage.

7 What do you do next?

8 A. Next thing we did was we trended the cost back
9 to what we believed were the dates of construction. To do
10 that, there were several sources that we used for the
11 wastewater infrastructure, the sewers. We used a
12 combination of Environmental Protection Agency and
13 Engineering News Record indices that account for -- I guess

14 the simple answer is inflation.

15 It's not inflation in general. It's inflation
16 specifically in the construction industry. And these were
17 guidelines that have been published starting in the early
18 '70s, I believe, with the EPA numbers. EPA stopped doing
19 it, I believe, in the early '90s, and Engineering News
20 Record picked up the numbers after that. So there's a
21 year-by-year inflation index or cost index that you can
22 apply to take numbers back.

23 Q. The Engineering News Record or ENR, I guess
24 it's called, is that sewer or water?

25 A. That's for sewer.

ASSOCIATED COURT REPORTERS
JEFFERSON CITY - COLUMBIA - ROLLA
(888) 636-7551
208

1 Q. What did you use for water?

2 A. For water, Handy Whitman, which is a similar
3 type of indices, but it's specifically -- these numbers were
4 specifically for water systems.

5 Q. When you apply these -- these two studies, I
6 guess for lack of a better term, what do you get then?
7 What's your result?

8 A. What it does is it takes us back, for
9 instance, it takes the year 2000 costs that we developed and
10 reduces it to an approximate cost of the year that we apply
11 it to for 1975 or 1976 or whichever year. For our purposes,
12 we used a band of years because we couldn't pin it down to a
13 particular year. So we used a five-year band and used an

14 average of that band.

15 Q. Is the application of the ENR and Handy
16 Whitman on these properties, these pieces of property, shown
17 here in the study?

18 A. It is. It is on the third spreadsheet, and
19 the numbers are in there as far as what comes up with the
20 five-year average for each five-year period that we had.

21 Q. Okay. So that gives you an original cost; is
22 that right?

23 A. That gives us the numbers that we multiply by
24 to give us the original cost.

25 Q. And what do you do next to get the original

ASSOCIATED COURT REPORTERS
JEFFERSON CITY - COLUMBIA - ROLLA
(888) 636-7551
209

1 cost?

2 I'm sorry. I jumped on you there.

3 A. Well, the -- those numbers are then applied to
4 the 2000 costs, and that comes up -- those numbers are then
5 reflected in the next spreadsheet that shows those original
6 costs.

7 Q. Now, you take these original cost numbers.
8 Now, what do you do with them next?

9 A. Then we depreciate them forward. We
10 depreciate them to the end of year 2002. To do that, we
11 develop a useful life. Those useful lives were based
12 basically on Black & Veatch experience on similar studies
13 and similar facilities.

14 We have a group within Black & Veatch that

15 does exclusively rate study work and original cost studies
16 and similar projects, and they have a -- a guide, if you
17 will, that they've developed over the years on approximate
18 lives for different types of materials, ranging from -- you
19 know, I believe some of the numbers in here are as low as 20
20 or 25 years, some of them up to, I think,
21 60 years.

22 Q. Are those depreciation applications shown here
23 in the study, too?

24 A. They are. They are on -- again, in that -- in
25 the spreadsheet there's 9 -- that's a spreadsheet that's

ASSOCIATED COURT REPORTERS
JEFFERSON CITY - COLUMBIA - ROLLA
(888) 636-7551
210

1 pages 1 through 9. There's a label in the upper right-hand
2 corner. And you can see after it shows up in column 10,
3 then, what the depreciated value of those facilities would
4 be.

5 Q. Would you categorize the depreciation lives
6 you used here as a conservative or very liberal approach to
7 this?

8 A. I believe they're conservative. Some of the
9 numbers that are in there are, I guess, for lack of a better
10 term, still under development for PVC pipe, for example.
11 PVC pipe's only been used extensively for about 30 years,
12 and a lot of that 30-year-old pipe is still in the ground
13 serving well, and so we could not apply a number like we
14 could with ductal iron pipe that's been in the ground for

15 60 or 80 years already. But those numbers are reflective of
16 the experiences there.

17 Q. For example, what did you use for life for PVC
18 pipe?

19 A. For PVC pipe there is -- for the sewer
20 collection system is a 40-year life, and again, with that
21 pipe only being in the ground now for about 30 years, but
22 there is 30 years of experience with those materials.

23 Q. So we understand how this works, the shorter
24 the depreciation life in your study, the lower the original
25 cost number's going to be; is that right?

ASSOCIATED COURT REPORTERS
JEFFERSON CITY - COLUMBIA - ROLLA
(888) 636-7551
211

1 A. Correct. They will depreciate it more per
2 year.

3 Q. Okay. All right. After doing all these
4 processes to the property here at Warren County Water &
5 Sewer, what was the result of your study, then, as far as
6 the original cost of the system?

7 A. The -- if you go to page 9 of that
8 spreadsheet, you can see the total for the original cost
9 less depreciation was \$742,000.

10 Q. Do you think that's a very liberal number or
11 conservative number, in your mind?

12 A. I feel that's a very conservative number.
13 Again, I think because of the estimating numbers that we
14 used, we started out with low numbers. There were several
15 things in here that, because we couldn't confirm, we did not

16 include. We did not include any excavation of rock for the
17 sewers, and not having any soils information in that area or
18 official soils information, we couldn't really assume that
19 there was rock excavation.

20 My experience working out in St. Charles
21 County and similar areas adjacent within a few miles of that
22 with the same topography as we would probably have, I
23 wouldn't say a significant amount of rock, but we would have
24 enough rock that it would give us a pretty good cost impact.
25 Excavation of rock would run 10 to 15 times the cost of

ASSOCIATED COURT REPORTERS
JEFFERSON CITY - COLUMBIA - ROLLA
(888) 636-7551
212

1 excavation of soil. So with just a little rock, you can
2 have a big impact. And because we couldn't confirm those
3 type of numbers were in there, we didn't use any.

4 We didn't include any restoration, which would
5 be seeding or sodding of lawns, because we figured there was
6 no -- for the most part there would be no development. When
7 the sewers were put in, this was a new area. We had no
8 pavement repairs for driveways or roadways. We didn't use
9 granular backfill or rock backfill under any roads because
10 we just, again, couldn't confirm that those things were
11 there, so we didn't include them, things that we would
12 typically include in a cost estimate.

13 Q. Did you include any real estate in your
14 estimate?

15 A. We did not include any real estate. We did

16 not include any cost for easements.

17 Q. Are you saying in your professional opinion,
18 then, that if the costs were to change in the study, it
19 would go up, is what you're telling me?

20 A. If it was going to change, if we had more time
21 to do more detail, it would go up, I believe. You know,
22 again, I don't know that we would have any better
23 information to base our estimate on, but we would have -- be
24 able to pick that information apart in more detail and put
25 more of those things in, try to confirm more of those things

ASSOCIATED COURT REPORTERS
JEFFERSON CITY - COLUMBIA - ROLLA
(888) 636-7551
213

1 that we left out.

2 Q. I'm going to try to go back a little bit to
3 something Ms. O'Neill asked you a couple of questions about.

4 A. Uh-huh.

5 Q. Why do we do original cost studies?

6 A. You know, my simple answer is because you
7 hired us to do one.

8 Q. Is it because there is maybe a lack of
9 information or knowledge about what the system's worth?

10 A. There is. There's no records here that tell
11 us, you know, what the system cost to put in. We had -- we
12 got some information from Mr. Smith on a couple of items
13 where he had an idea of what he paid for them for some
14 replacement of some equipment, but in this case there wasn't
15 any information.

16 In other cases, with our rate study group, we

17 do original cost studies to set rates for municipalities.
18 We do work for, I guess, literally hundreds of
19 municipalities across the country as far as rate study work.

20 Q. I guess what I'm getting to is when you go out
21 and you make computer models and you look at some plats and
22 you take estimates as to vintage and all, is that out of the
23 norm of doing original cost studies?

24 A. No. Typically we would have more information
25 to base our numbers off of, but the general process that we

ASSOCIATED COURT REPORTERS
JEFFERSON CITY - COLUMBIA - ROLLA
(888) 636-7551
214

1 went through is typical of what gets done.

2 Q. We touched on it again earlier, but I want to
3 double check for the number. There was a replacement cost
4 number for the system in your study; is that right?

5 A. Yes. Yes.

6 Q. What is that the number?

7 A. The replacement cost number was approximately
8 \$2.9 million.

9 Q. Thank you. When you did your study, was there
10 any way of knowing by looking at all the records that Warren
11 County Water & Sewer had as to what property was contributed
12 and what was not?

13 A. No. I would have no way of knowing that.

14 MR. ABERNATHY: I have nothing further at this
15 time.

16 JUDGE DIPPELL: Thank you. Is there

17 cross-examination from Warren County?

18 MR. DeFORD: None, your Honor.

19 JUDGE DIPPELL: Staff?

20 MR. KRUEGER: Yes, your Honor.

21 CROSS-EXAMINATION BY MR. KRUEGER:

22 Q. Good morning, Mr. Kaiser.

23 A. Good morning.

24 Q. Is it fair to characterize the approach that

25 you utilized in preparing this study as follows: You

ASSOCIATED COURT REPORTERS
JEFFERSON CITY - COLUMBIA - ROLLA
(888) 636-7551
215

1 estimated how much it would cost to build these facilities
2 in 2000, then you estimated how much it would have cost to
3 build them in the year they might have been built, and then
4 you depreciated it to 2003?

5 A. We depreciated it through 2002, but yes,
6 that's correct.

7 Q. Thank you. And you prepared this study in
8 about five days; is that right?

9 A. In approximately five days, yes.

10 Q. Would you characterize it as a careful,
11 detailed study?

12 A. I would from the standpoint that where we had
13 things that we felt we couldn't make reasonable assumptions,
14 we left them out. In general, we would spend -- yes, we
15 would spend more time and do more detail if we had more
16 time.

17 Q. For the vast majority of these assets, you

18 don't have any idea of the actual cost, do you?

19 A. As far as the actual cost that was paid to put
20 them in, no.

21 Q. Correct. And you don't know who paid for the
22 assets when they were first placed in service?

23 A. That's correct.

24 Q. And you don't know whether the assets were
25 contributed to the utility by the developer?

ASSOCIATED COURT REPORTERS
JEFFERSON CITY - COLUMBIA - ROLLA
(888) 636-7551
216

1 A. No, I do not.

2 Q. And you don't know whether Warren County
3 Water & Sewer Company paid anything for the assets or how
4 much it paid?

5 A. I do not.

6 Q. Is there any place in this study where I can
7 find information about the assets that Warren County Water &
8 Sewer Company installed and paid for?

9 A. It is not specifically culled out. If you
10 look, I can point a few things out if you would like.

11 Q. Would you please do that?

12 A. Sure. If you go to -- if you go to just the
13 first spreadsheet -- and again, these are the things that I
14 know of. There may have been others. Under the
15 miscellaneous equipment, my understanding is basically,
16 other than the dump truck, everything under that heading was
17 bought and paid for by -- by Warren County.

18 If you go under the water facilities under the
19 water supply, there's an item that says well pump. That
20 item was paid for by Warren County. In fact, the pump that
21 was recently removed was still at the site. There have
22 been -- and I do not know how many, on the residential water
23 meters that have been, but I could not -- I know some of
24 them have been, but I do not know how many have been
25 purchased by Warren County.

ASSOCIATED COURT REPORTERS
JEFFERSON CITY - COLUMBIA - ROLLA
(888) 636-7551
217

1 Q. Now, were those -- anything that was installed
2 by Warren County would have been since 1991, I believe; is
3 that right?

4 A. I believe that would be correct, yes.

5 Q. Are those assets a substantial part of the
6 assets that now comprise the utility plant there?

7 A. I would say no, they're not a substantial
8 part.

9 Q. I notice on several of the pages of the
10 spreadsheet, page 9 -- or page 8, for example, it says due
11 to -- there's a note at the bottom, due to the uncertainty
12 of exact vintages, all plant additions after 2000 which
13 total approximately \$18,000 in reproduction costs are
14 included with 1996 to 2000 additions in the context of this
15 limited study.

16 A. Correct.

17 Q. Do you see that? So that suggests that there
18 was no more than \$18,000 installed since 2000; is that

19 correct?

20 A. As far as I'm aware. I mean, there may have
21 been other things, but really nothing else that I'm aware
22 of.

23 Q. But you don't know when the plant was
24 installed or what the actual cost of construction was or who
25 paid for it?

ASSOCIATED COURT REPORTERS
JEFFERSON CITY - COLUMBIA - ROLLA
(888) 636-7551
218

1 A. No. On the -- as far as with the wastewater
2 plants, no, I don't believe we had any information on that.
3 There may have been -- I'd have to go back through the
4 records. I know on the well and possibly on one of the
5 wastewater plants, there was an MDNR report that had a final
6 inspection date on there. But I can't -- off the top of my
7 head, I can't say what those were.

8 Q. When you went to the deeds office and you
9 reviewed the DNR permits, did you make copies of those
10 permits?

11 A. The DNR permits were provided to me by
12 Missouri-American.

13 Q. So did you make note of whom the permit was
14 awarded to?

15 A. It's on the permit, but again, off the top of
16 my head, I couldn't tell you who was on there.

17 Q. In your 17 years experience as a civil
18 engineer, have you ever participated in a utility rate case?

19 A. I've not participated in any rate case. I've
20 helped prepare some rate studies for municipalities. It's
21 essentially the same function, but it doesn't have the
22 Public Service Commission type of --

23 Q. Have you ever had to make a determination
24 between contributed plant and rate base for ratemaking
25 purposes?

ASSOCIATED COURT REPORTERS
JEFFERSON CITY - COLUMBIA - ROLLA
(888) 636-7551
219

1 A. No, I have not.

2 Q. Did you make any attempt to do that in this
3 case?

4 A. I really have no background to do that type of
5 thing.

6 MR. KRUEGER: May I have a moment?

7 JUDGE DIPPELL: Sure.

8 BY MR. KRUEGER:

9 Q. I'd like to call your attention to -- I
10 believe it's sheet 2 of the spreadsheets.

11 A. Uh-huh.

12 Q. There are pumping stations listed there as the
13 second kind of group of assets. Do you see that?

14 A. Which are you on --

15 Q. Perhaps we're not on the same page.

16 MR. KRUEGER: May I approach, your Honor?

17 JUDGE DIPPELL: Yes.

18 BY MR. KRUEGER:

19 Q. This is what I'm looking at (indicating).

20 A. All right.

21 Q. The pumping stations group of assets there, do
22 you know when they were placed in service?

23 A. A couple of them I do. We made some
24 assumptions on the other ones, based on the plat years that
25 they were adjacent to or what they may have served. I

ASSOCIATED COURT REPORTERS
JEFFERSON CITY - COLUMBIA - ROLLA
(888) 636-7551
220

1 believe the Shady Oaks, there was some soil information on
2 that, and I believe the pump station at Sewer Treatment
3 Plant No. 2 had some information also.

4 I believe, if I'm remembering right, the boat
5 dock pump station, we gave that a newer date, if I'm
6 remembering correctly, because they -- the pumps and whatnot
7 had been replaced in that in a relatively newer time, the
8 mechanical equipment.

9 Q. Do you know what dates you came up with for
10 those?

11 A. Well, I can go back through here and look in
12 the previous page, if you will, in the previous spreadsheet
13 to what you're looking at. Sewer treatment plant No. 2 we
14 had in the '81 to '85 time frame. The boat dock, '81 to
15 '85. Shady Oaks was in the '91 to '95.

16 And then, right, the boat dock we counted in
17 the -- in the newer time frame, when we did our site
18 inspection, that was one of the ones we inspected, and
19 Mr. Smith had indicated that he had replaced the pumps,

20 controls and other mechanical equipment in that relatively
21 recently.

22 Q. Within the last few years you mean?

23 A. Yes.

24 Q. And then with regard to the next group of
25 assets, treatment facilities?

ASSOCIATED COURT REPORTERS
JEFFERSON CITY - COLUMBIA - ROLLA
(888) 636-7551
221

1 A. Yes.

2 Q. Do you have information about when they were
3 placed in service?

4 A. On one of them we had a final inspection
5 report from MDNR. I don't remember which one. I believe it
6 was Plant No. 1, but I'm not positive, and I believe we
7 counted both of those as going in at the same time in the --
8 I believe it was 1981 was the year that we looked at on
9 that.

10 Q. Okay. Thank you. If you were provided
11 documents that showed the sewer -- showed the water system's
12 original cost was \$729,500, would you be surprised?

13 A. Yes, I would. I would be surprised that
14 that's what it was. Let me rephrase that. In some ways I
15 would, and some ways I wouldn't. Knowing how developers
16 tend to put things in, that would not necessarily surprise
17 me. You're in an area again, like I said, a green field
18 site, non-union labor. You know, they can go pretty quickly
19 with that.

20 My understanding of the way things were

21 constructed out there in phases, I would be interested to
22 know if -- as far as an original cost, if that was all or a
23 piece of what went in.

24 Q. You said knowing how developers put things in.
25 You mean that they might do it at less cost than your

ASSOCIATED COURT REPORTERS
JEFFERSON CITY - COLUMBIA - ROLLA
(888) 636-7551
222

1 estimates would suggest?

2 A. They would do it at less cost than clients
3 such as a metropolitan sewer district would do things in. I
4 think based on one of the -- that's one of the assumptions
5 we made in using the Means cost, was that this thing was put
6 in -- I don't -- I don't want to say hastily or haphazardly,
7 but it was put in as a developer would put things in in a
8 green field site, no impedances, non-union labor. So it
9 will go in typically less expensively than what we would see
10 for some other clients, yes.

11 Q. Then if you were provided documents that
12 showed the sewer system's original cost was \$497,155, would
13 you be surprised?

14 A. Yes, I would be.

15 Q. For the same reasons?

16 A. For the same reasons. And based on some of
17 the equipment costs, the package treatment plants, the --
18 there's a great deal of pipe and manholes in the ground.
19 You can change costs on installation, but costs as far as
20 precast concrete manholes, those are -- you know, there's --

21 those have set costs on them. They're just -- that's what
22 they cost to buy. You can install them less expensively,
23 but they cost so much to buy.

24 Q. So you would be surprised but probably not a
25 lot surprised?

ASSOCIATED COURT REPORTERS
JEFFERSON CITY - COLUMBIA - ROLLA
(888) 636-7551
223

1 A. I would not be shocked, no.

2 MR. KRUEGER: That's all the questions I have,
3 your Honor.

4 JUDGE DIPPELL: Thank you. Is there cross
5 from Public Counsel?

6 MS. O'NEILL: Yes, your Honor.

7 CROSS-EXAMINATION BY MS. O'NEILL:

8 Q. Good morning, Mr. Kaiser.

9 A. Good morning.

10 Q. Now, you indicated that Black & Veatch has a
11 rate study group. Are you part of that group?

12 A. No, I am not. I'm a civil engineer. My
13 background -- my involvement, if you'd like me to -- well,
14 I'll go ahead and let you ask the questions.

15 Q. Well, what is your connection to the rate
16 study group? Do you have any connection to them?

17 A. Yes. We work routinely with that group on
18 projects. Essentially the rate study group does not have
19 the engineering staff to develop cost estimates. We don't
20 have the financial group that does the trending. So these
21 two groups typically work together on projects.

22 Q. Okay. Now, in Exhibit 2 on the narrative,
23 you've got some figures regarding existing infrastructure.
24 Are those figures regarding -- on that -- that you have in
25 that category there and the first page of your narrative,

ASSOCIATED COURT REPORTERS
JEFFERSON CITY - COLUMBIA - ROLLA
(888) 636-7551
224

1 are those estimates or are those actuals?

2 A. Those are estimates. Those are from our
3 quantity takeoffs, our estimates taken off the maps and
4 other documentation.

5 Q. So you have assumptions that you ran in this
6 study, assuming that certain development took place and
7 certain pipe was laid, you don't know if it actually
8 happened?

9 A. Yes, that's correct.

10 Q. And when you were doing this estimate on
11 lines, you have some -- I apologize that I didn't have
12 enough time to go through this any more carefully, and so I
13 won't go through very much of your assumptions, because
14 frankly, I'll probably get in over my head. But you have
15 certain assumptions regarding excavation, bedding, backfill,
16 that kind of thing?

17 A. Yes.

18 Q. Did you dig up any pipes to see whether or not
19 you were using factual assumptions, or is this something
20 you're estimating also?

21 A. This is something we're estimating. We based

22 that on typical installation details that we would use and
23 design, based on MDNR requirements. Pipe that's -- when
24 it's installed, if it is installed correctly, which MDNR is
25 supposed to make the checks that that's done, it has the

ASSOCIATED COURT REPORTERS
JEFFERSON CITY - COLUMBIA - ROLLA
(888) 636-7551
225

1 pipe bedding and proper backfill and that type of thing.

2 Q. Did you also make estimates as to the size of
3 pipe that would have been installed on your estimated
4 locations?

5 A. In some of it we did. For example, for the
6 water lines, we were -- there were no sizes on the maps. We
7 were told that in Incline Village, for example, the water
8 lines are 8-inch and 6-inch. There was a previous report
9 and -- I believe, an inspection report by MDNR that
10 indicated there was 1,721 lineal feet of 8-inch pipe. And
11 at the time, because it was not the complete development,
12 another amount of 6-inch pipe.

13 When we did our quantity takeoff off the map,
14 we assumed that the remaining pipe was 6-inch, as opposed to
15 8-inch, that it would have been connected to 6-inch pipe
16 that was already existing. The 8-inch was kind of the main
17 trunk, and the 6-inch came off that.

18 Q. You didn't consider whether or not it could be
19 smaller pipe than 6-inch?

20 A. We did not. Again, that was information that
21 we were given that in Incline Village, for example, it was
22 8-inch and 6-inch. I believe we did include -- let me amend

23 that a little bit. We did include, I believe, a little bit
24 of 4-inch pipe.

25 On some of the records that we reviewed, there

ASSOCIATED COURT REPORTERS
JEFFERSON CITY - COLUMBIA - ROLLA
(888) 636-7551
226

1 was a reference to 5,700 feet of 4-inch pipe on one of the
2 other developments that we were told was 4-inch pipe, there
3 was only about 4,000 feet. So we assumed of the pipe in
4 Incline Village that we counted, that other 1,700 feet or
5 approximately was -- would account for that other 4-inch
6 pipe. So, yes, we made assumptions and tried to fill in
7 those numbers the best we could.

8 Q. So you're still operating on things that you
9 think may have happened but you didn't know happened for
10 sure?

11 A. Correct. Yes.

12 Q. And you had indicated that you based these
13 costs and did your regressions and progressions based on
14 2000 costs?

15 A. Correct.

16 Q. Did you do any study to see whether or not
17 your formula was -- how that would play out in actual
18 numbers? Did you go back and do any checking to see what a
19 sewer treatment package plant actually cost in 1981, for
20 example?

21 A. The only thing we did there was I made a call
22 to a couple of manufacturers' representatives. I had the

23 manufacturer and the production number for the units that
24 were out there. The company that made those particular
25 units went out of business 15 years ago, is what I found

ASSOCIATED COURT REPORTERS
JEFFERSON CITY - COLUMBIA - ROLLA
(888) 636-7551
227

1 out.

2 So I was not able to -- had that manufacturer
3 still been around, I probably could have gotten those
4 numbers. But I was not able to, so those numbers came out
5 of a cost per gallon in treatment that is roughly out of
6 Means number. It was actually between two numbers, so we
7 used the lower number.

8 Q. And where did you come up with that estimated
9 numbers?

10 A. That's in the R.S. Means data, and it has a
11 cost per gallon of treatment. Those were 40,000 gallon per
12 day treatment units, and so we applied that cost per gallon
13 to that number.

14 Q. And you did testify, I believe, when you were
15 asked to do this study, you say you didn't consider CIAC; is
16 that correct?

17 A. Excuse me?

18 Q. You did not consider contributions?

19 A. No.

20 Q. Okay. You don't know how much of this was
21 contributed plant?

22 A. No.

23 Q. Were you given any information regarding the

24 date that the current owners bought this company?

25 A. Other than through conversations, I heard the

ASSOCIATED COURT REPORTERS
JEFFERSON CITY - COLUMBIA - ROLLA
(888) 636-7551
228

1 date, I believe, 1991 --

2 Q. Okay.

3 A. -- thrown out there, but I have no
4 verification to that.

5 Q. And the three last columns on your first
6 spreadsheet would indicate plant that you estimate was
7 installed between 1991 and 2003; is that correct? There's a
8 few things you said you know for sure, but --

9 A. Right. And again -- yeah. I mean, all of
10 those dates are estimates based on what information we could
11 obtain.

12 Q. Okay. But also the amounts of pipe,
13 especially in that 1991 to 1995 frame, is a lot of that
14 still estimated?

15 A. It is. Again, that comes off the plats, and a
16 lot of that is also with the newer developments separate
17 from Incline Village that we had a little bit better
18 information on, but really the same type of information.

19 Q. Okay. And you had a few things like this pump
20 that got replaced?

21 A. Correct.

22 Q. Under what -- of this well pump. Did you
23 actually have documentation for that?

24 A. No. That is what we were told by Mr. Smith.
25 The only other verification I had of that was that an

ASSOCIATED COURT REPORTERS
JEFFERSON CITY - COLUMBIA - ROLLA
(888) 636-7551
229

1 existing pump, a used pump, was sitting outside the
2 building. And my assumption was -- actually, I was told by
3 Mr. Smith that that was the pump that had come out of the
4 hole. But I had no way to verify that.

5 Q. As far as the amount, the \$15,000, was that a
6 number you got from Mr. Smith or was that a number from a
7 catalog or where did that come from?

8 A. Mr. Smith told me he paid approximately
9 \$15,000 for that well pump, and that would -- based on my
10 experience, that would be about an appropriate number for
11 that size pump.

12 Q. So you didn't verify that number, it just
13 seemed like it would be in the ballpark as far as you're
14 concerned?

15 A. Correct.

16 Q. Okay. Now, you're not part of the rate study
17 group and you don't do a lot of ratemaking testimony, but we
18 talked a little bit about contributed. You indicated in
19 your direct testimony that you didn't consider values of any
20 easements, but if easements had been contributed they
21 wouldn't have an original cost to the company; is that
22 correct?

23 A. I really couldn't answer. To be honest --

24 Q. Don't know?

25 A. -- that's outside my area of experience.

ASSOCIATED COURT REPORTERS
JEFFERSON CITY - COLUMBIA - ROLLA
(888) 636-7551
230

1 I mean, if you'd like, I can give you an
2 estimate of what easements cost.

3 Q. That wasn't my question, but thank you for
4 offering. I'm just -- I don't want to get into too much of
5 what Mr. Krueger did, because I know we need to move things
6 along. And I think when you did your depreciation rates,
7 those are depreciation rates from Black & Veatch, they're
8 not --

9 A. Correct. Those are numbers that we use
10 internally.

11 Q. You didn't specifically go and check what the
12 Commission would have done or anything like that?

13 A. No.

14 MS. O'NEILL: Okay. I don't have anything
15 further.

16 JUDGE DIPPELL: Thank you.

17 Mr. Kaiser, this is the part where the
18 Commissioners and I would usually ask you questions. Since
19 the Commissioners are in their regularly scheduled agenda
20 meeting, I'll have to continue theirs, but I have just a few
21 questions for you.

22 QUESTIONS BY JUDGE DIPPELL:

23 Q. Just a couple of clarifying things. You used
24 the term MDNR. I assume you're referring to the Missouri

25 Department of Natural Resources?

ASSOCIATED COURT REPORTERS
JEFFERSON CITY - COLUMBIA - ROLLA
(888) 636-7551
231

1 A. Correct.

2 Q. And also EPA indices are --

3 A. Environmental Protection Agency, yes.

4 Q. And are the indices that you use, the ENR and
5 Handy Whitman, are those -- because I'm not familiar with
6 any of these engineering things, are those regional or for
7 the U.S. or are they localized?

8 A. Yes and no. There are -- depending on which
9 ones you use, some of them have specific regional numbers.
10 Other ones have -- an example, for the Means data, it's a
11 U.S. number, and then there is a regional multiplier that
12 you apply to that number. So it becomes a regionalized
13 number.

14 Q. And did you -- then when making your
15 calculations, did you use the most local number that you
16 could use or --

17 A. On -- for the cost indices, we did. On the
18 Means we did not. The Means, the average number is actually
19 1.03, so we just went with the number that we had which
20 would then be a little bit lower.

21 Q. And then just so I'm clear, when you're
22 reading the first spreadsheet in your cost study --

23 A. Uh-huh.

24 Q. -- to determine the year that you estimated
25 the facilities were installed, I look at the -- the column

ASSOCIATED COURT REPORTERS
JEFFERSON CITY - COLUMBIA - ROLLA
(888) 636-7551
232

1 headings up above are the years, and if there's a number in
2 the column down below, that indicates that that particular
3 piece of equipment was, in your estimate, installed
4 somewhere in those years?

5 A. Correct.

6 JUDGE DIPPELL: That's all the questions I
7 have. I'm going to ask you to stay, because the
8 Commissioners may have some questions for you. I think I'll
9 go ahead and ask if there's any redirect based on the
10 cross-examination, if you want?

11 MR. ABERNATHY: No questions.

12 JUDGE DIPPELL: Then I will ask you to step
13 down, Mr. Kaiser, but I'll ask you also to remain until I
14 can determine if there are any Commission questions.

15 THE WITNESS: Thank you very much.

16 JUDGE DIPPELL: You had another witness,
17 Mr. Abernathy?

18 I'm planning at this point to go until ten,
19 and then we'll take a break and hopefully at that time I can
20 see what questions the Commissioners might have. So let's
21 go ahead if you have another witness.

22 MR. ABERNATHY: I do. I call Mr. Jenkins,
23 please.

24 (Witness sworn.)

25 JUDGE DIPPELL: Thank you. Go ahead,

ASSOCIATED COURT REPORTERS
JEFFERSON CITY - COLUMBIA - ROLLA
(888) 636-7551
233

1 Mr. Abernathy.

2 MR. ABERNATHY: Thank you, your Honor.

3 JAMES M. JENKINS testified as follows:

4 DIRECT EXAMINATION BY MR. ABERNATHY:

5 Q. Would you state your name for the record,
6 please.

7 A. James M. Jenkins.

8 Q. Where are you employed, Mr. Jenkins?

9 A. I'm employed at Missouri-American Water
10 Company.

11 Q. And what's your title there?

12 A. I am the vice president and treasurer.

13 Q. How long have you been with Missouri-American
14 Water Company?

15 A. Around since June of 1999.

16 Q. Is that when you became the vice president and
17 treasurer?

18 A. That is correct.

19 Q. And what was your employment before that?

20 A. Before that, I was employed by the predecessor
21 company, St. Louis County Water Company, and started there
22 in approximately 1993, I believe.

23 Q. And what job did you hold at St. Louis County
24 Water Company?

25 A. In the St. Louis County Water Company, I was

1 primarily responsible for the rates and budgets and did a
2 lot of rate work for the utility company.

3 Q. Prior to St. Louis County Water Company, where
4 did you work or where were you employed?

5 A. Prior to that, I worked for eight years with
6 the Illinois Commerce Commission and started as a staff
7 accountant. And when I left I was the director of
8 accounting and supervised all the utility accounting and
9 rate work for all the different industries, electric, gas,
10 telephone and water and sewer.

11 Q. You know, I didn't ask you, but what are your
12 duties as vice president and treasurer of Missouri-American?

13 A. My duties include directing the finance, the
14 treasury function, the business development function, and
15 the overall rate administration function for
16 Missouri-American Water Company. Also, our offices are
17 located at 535 North New Ballas Road, St. Louis, Missouri.

18 Q. What's your educational background,
19 Mr. Jenkins?

20 A. I have a bachelor's of science degree from the
21 University of Illinois in Champagne. I have an MBA from the
22 University of Illinois at Springfield, and I am a CPA.

23 Q. CPA meaning?

24 A. Certified public accountant.

25 Q. Okay. Thank you. I'm going to take you

1 through a few things that came up yesterday in Mr. LeGrand's
2 direct testimony. I think maybe you're better qualified to
3 answer these before we go too far in depth in your
4 testimony. One question asked Mr. LeGrand was, did we do an
5 OC study or not, an original cost study before we made an
6 offer on the Warren County Water & Sewer Company. And his
7 answer, I believe, was that we did not. Is that correct?

8 A. That is correct.

9 Q. Why didn't the company do that? Why does it
10 not do that?

11 A. The company -- first of all, with Mr. LeGrand
12 we need to keep in mind that Mr. LeGrand reports to me, and
13 he's -- on a day-to-day basis is looking in terms of
14 business opportunities with respect to various water and
15 sewer systems that we could bring into our operation.

16 When Mr. LeGrand is in that process, the rates
17 area of the company, which is under my direction, certainly
18 considers any type of purchase price recommendation in terms
19 of what we think the original cost value is in rates. I
20 mean, let's face it, we're a regulated utility, and the
21 original cost value, we're very familiar with that, and --
22 and we make a judgment in terms of what that value would be.

23 In this case, you take a look at it and step
24 back. The financial records are such that there's just
25 really no records to look at. And based on -- on my

1 experience and the experience we have in this state, as well
2 as prior experience with the Illinois Commission, certainly
3 felt that a \$335,000 purchase price would clearly support an
4 original cost value of that level and, quite frankly, felt
5 that we could come to some sort of agreement with Public
6 Counsel and Staff and not have to be here today going
7 through two dates of hearing for a system of this size.

8 Q. Is the cost of an original cost study an
9 issue?

10 A. Well, I mean, as I sat here over the --
11 since yesterday getting a little better picture in terms of
12 the history of Warren County Sewer & Water Company, it
13 certainly -- in terms of this original cost study, in my
14 opinion, in terms of the public interest, although I didn't
15 really like him to spend \$10,000 for it, I think it's the
16 best information that I've got available.

17 At least we've got information documented,
18 miles of main. We know the facilities. Right now we can't
19 get it from the owner. You've got bits and pieces of it
20 from the Staff, and there's no one place where this is all
21 together. And it's a pretty sad state of affairs in terms
22 of this regulated public utility.

23 Q. I believe it was somewhere in your answer, but
24 is an original cost value an assessment made before an offer
25 is made, a formal offer is made to buy a system?

1 A. Not always, no.

2 Q. I'm not talking about original cost study.
3 I'm talking about just the company making an original cost
4 value.

5 A. Yes. I mean, within the rates department,
6 whenever we're making an offer, we take a position
7 internally in terms of what we think the original cost value
8 would be. And naturally when we go before the Commission in
9 proceedings, there may be some issues in terms of what we
10 think the original cost value is versus what the Commission
11 Staff believes.

12 But, quite frankly, in the bigger systems,
13 we've got better sys-- better records. For example, our
14 United Water acquisition, we have records that identify all
15 the various detail. Here in this case, we just didn't have
16 it.

17 Q. So Mr. LeGrand will come to you with a concept
18 or a market price or some idea and you'll sit down and try
19 to come up with some kind of original cost, if I understand
20 you right. Do you then make a final decision to purchase a
21 property or does that go somewhere else?

22 A. Ultimately that goes to our board. Certainly
23 the board relies upon my recommendation, as is the case with
24 this particular acquisition.

25 Q. By board you mean board of directors?

1 A. Yes.

2 Q. And did the board of directors of
3 Missouri-American pass on the process of purchasing Warren
4 County Water & Sewer?

5 A. Yes.

6 Q. I believe if you'll look, that's attached
7 to -- the board approval is attached to the back of my
8 Exhibit 13, I believe.

9 When the company goes to purchase a company
10 like Warren County Water & Sewer, what things do they look
11 at, what determinations do they make, what factors are out
12 there?

13 A. With Warren County Water & Sewer, really this
14 is the first time in the state to take a look at what I
15 would call a troubled water and sewer company. And what we
16 looked at first is kind of what the record brought out
17 yesterday is in terms of what needs to be done from a public
18 interest standpoint to get this system up and running with
19 what all our citizens in this state should expect in terms
20 of water and sewer service.

21 And we quickly determined, I think Mr. LeGrand
22 did a real good job yesterday of highlighting the fire
23 protection problems. There was certainly pressure problems.
24 Certainly looks to be some issues with the sewer facilities,
25 and those kind of issues. So we definitely focused on that

1 with this troubled utility.

2 Now, when you take a look at other types of
3 utilities, we'd certainly look at the things in terms of
4 growth potential, certainly look at issues whether we can
5 run the facility more efficiently. And if we can run it
6 more efficiently, then that should be in the best interest
7 of all our ratepayers.

8 For example, some facilities that we've
9 brought in within our surrounding St. Louis district we're
10 able to operate today cheaper than what we would have been
11 had we not brought on the various type of utilities. So
12 those are things we look at.

13 If there's a premium involved, when I'm
14 looking at it from the perspective if I have to make an
15 initial cash outlay, which is the premium, can I
16 substantiate and drive enough efficiencies in the business
17 and pass those along through the ratemaking process, because
18 we don't get to keep them. We're a rising cost industry and
19 we have to come before the Commission every three years or
20 so to support, just like any other investment we make.

21 If we invest in technology and it derives
22 savings, we pass that along, and we expect when we make a
23 premium that we should be able to get recovery for it.

24 Q. Back to things you were talking about, is cost
25 spreading among a larger group of ratepayers a benefit, for

1 example?

2 A. It is, especially if you can better utilize
3 your fixed costs and be able to collect the additional
4 revenues to support those fixed costs across a bigger base.
5 I think we've been quite successful with that in the
6 St. Louis district.

7 Q. And another example was Webster Groves. If I
8 recall, the way the St. Louis system was set up, there was a
9 void in the system or was a hole where Webster Groves was,
10 and it was a troublesome area, getting water from one side
11 of the system to the other; am I correct?

12 A. That's correct.

13 Q. Now, with Webster Groves, we run water through
14 that system to get to the other side of our system?

15 A. Exactly. Not only did we improve the
16 pressures within Webster Groves, which is certainly in the
17 public interest for those -- those customers, we were able
18 to utilize their facilities that were in place, and then
19 once we owned them, able to help the, if you will, the other
20 St. Louis district customers in terms of some transmission
21 issues we had within the system.

22 Q. So like additional costs for capital outlay?

23 A. Absolutely.

24 Q. Now, a little bit ago, three or four questions
25 ago, you kind of made an allusion to the poor records of

1 Warren County Water & Sewer. In your opinion, is
2 Missouri-American responsible in any way for the poor
3 records of Warren County Water & Sewer?

4 A. No.

5 Q. Do you think there's some culpability for the
6 poor records of Warren County Water & Sewer?

7 A. I think, you know, based on my -- my
8 experience in regulation at the Illinois Commission, I've
9 seen situations like this before. However, this one is on
10 the extreme side. And based on that experience, what I had
11 done as the leader of the accounting function is actually
12 sent staff out to help some of the small operators in terms
13 of their recordkeeping, especially in the area of this
14 contribution accounting, because it is relatively
15 complicated.

16 Small operators and typically even small
17 practitioners are not familiar with the environment of the
18 regulatory process, and the depreciation is not allowed on
19 contributed property. And if you're not careful, the whole
20 rate base value can get totally distorted and not take into
21 account what those of us that are very familiar with this,
22 the impairment of the contribution account and actually
23 amortize that down at the same time that you amortize the --
24 the original cost facilities.

25 And it's been my experience that I've seen

1 companies like this with low rate bases, that it's not
2 proper, as well as extreme that their financial statements
3 show a negative rate base, which is really not proper, not
4 theoretically correct. And this is just an indication that
5 the -- the accounting process, the owners' understanding of
6 accounting slash regulatory process is confused and is in
7 need of assistance.

8 Q. Could you explain why a negative rate base
9 theoretically is not proper?

10 A. Yeah. Taken to the extreme and following our
11 cost of service ratemaking model, you would be allowed your
12 operating costs and then a negative return, and you wouldn't
13 have enough money to -- to pay your operating costs. It's
14 just an impossibility for a company to -- to basically
15 collect more in term of contributions than the assets, than
16 the assets constructed.

17 Q. I assume you've looked at the proposed rate
18 base of \$50,000 suggested by Staff in this case?

19 A. Yes.

20 Q. Do you have any thoughts on the viability of
21 that low of a rate base?

22 A. Yes. I mean, at that level of rate base, and
23 based on my experience, and even if we used a capital
24 structure as strong as Missouri-American's and factored in
25 an 11 percent return on equity, that would only provide this

ASSOCIATED COURT REPORTERS
JEFFERSON CITY - COLUMBIA - ROLLA
(888) 636-7551
243

1 operation with approximately \$2,400 of operating profit.

2 And, you know, the reality of the situation is
3 that when you run a business and run a water company, you're
4 going to run into operating issues that could certainly,
5 even the size of this operation, go plus or minus a \$2,400
6 expense level from what was set from the ratemaking process
7 of normalized costs. Quite frankly, I think a company like
8 this would find itself in a lot of trouble in terms of being
9 able to meet -- meet the needs of the public interest.

10 Q. In fact, that's kind of what's happened here,
11 isn't it, the company's having trouble meeting its duties?

12 A. Yeah. That's correct. I think when you take
13 a look at this \$50,000 level, in my view it really doesn't
14 pass a common sense test. You know, we just take an
15 operation like we have in Missouri, Brunswick operation's
16 got 468 customers.

17 The net rate base on that operation just for a
18 water facility alone is almost \$1.2 million, which means it
19 has plant of \$1.8 million. It has depreciation that we
20 would predict through the end of November here of about
21 \$563,000 of accumulated depreciation. Has contributions at
22 a level of \$151,000.

23 I'm confident we do the accounting right for
24 that. We take into account the impairment of the
25 contribution accounts, the system's grown over time.

ASSOCIATED COURT REPORTERS
JEFFERSON CITY - COLUMBIA - ROLLA
(888) 636-7551
244

1 Clearly when we made a purchase price recommendation of

2 \$335,000, based on a -- just our experience alone with
3 Brunswick, you'd expect the original cost value to get close
4 to a million dollars in terms of the net original cost
5 value.

6 Now, there's differences, I admit that. I
7 don't have the history. But sitting there as the treasurer
8 of the company and having to make decisions, having to move
9 quickly, we've got customers that are -- in the Warren
10 County area, as we heard yesterday, that are just fed up
11 with the situation.

12 And in what I think is our corporate
13 responsibility, we serve 20 percent of the state's
14 population, tried to move this forward as quickly as we
15 could, and -- and thought that we could come to some
16 agreement in terms of where this original cost value would
17 be for this company and just haven't been able to do that.

18 I think all of us have been busy with our
19 other properties. I know I have. This is very important to
20 me personally, and it's part of our business but, you know,
21 we've got a lot of other things going on in the state as
22 well when we serve customers.

23 Q. One point of clarification. You indicated
24 that \$50,000 of rate base with an approximately \$2,400 level
25 of income per year. What kind of capital structure were you

ASSOCIATED COURT REPORTERS
JEFFERSON CITY - COLUMBIA - ROLLA
(888) 636-7551
245

1 using when you made that estimate?

2 A. I was using a 60 percent debt, 40 percent

3 equity capital structure.

4 JUDGE DIPPELL: Let me go ahead and interrupt
5 here, Mr. Abernathy. We need to take a break for a while
6 and I'm going to make it a long break. So let's come back
7 at 10:30.

8 Thank you. We can go off the record.

9 (A BREAK WAS TAKEN.)

10 JUDGE DIPPELL: Okay. Before the break, we
11 had Mr. Jenkins on the stand, and I'd like to ask him to go
12 ahead and come forward. You can continue, Mr. Abernathy.

13 MR. ABERNATHY: Your Honor, should I let
14 Mr. Kaiser go or does he need to stay for Commission
15 questions?

16 JUDGE DIPPELL: I'm afraid I didn't have an
17 opportunity to discuss that with the Commissioners, so I'll
18 ask him to remain. Hopefully their agenda will end soon.

19 MR. ABERNATHY: They're still in agenda. I
20 see.

21 BY MR. ABERNATHY:

22 Q. Mr. Jenkins?

23 A. Yes.

24 Q. How are you doing?

25 A. Just fine.

ASSOCIATED COURT REPORTERS
JEFFERSON CITY - COLUMBIA - ROLLA
(888) 636-7551
246

1 Q. Have you had a chance to review some Public
2 Service Commission annual reports for Warren County Water &

3 Sewer?

4 A. Yes, I have.

5 Q. How did these come into possession of the
6 company?

7 A. These were given to us from the owner,
8 Mr. Smith.

9 Q. Do you have those in front of you? I think
10 they're marked Exhibits 3, 4, 5 and 6.

11 A. I do.

12 Q. What years are those reports?

13 A. I think they range from 1997 to the year 2000.

14 Q. So these are in your files of the company as
15 part of the acquisition files for Warren County Water &
16 Sewer?

17 A. That is correct.

18 MR. ABERNATHY: Your Honor, I'd like to offer
19 Exhibits 3, 4, 5 and 6 into evidence, please.

20 JUDGE DIPPELL: Is there any objection to
21 Exhibits 3, 4, 5 and 6?

22 MR. KRUEGER: No, your Honor.

23 MS. O'NEILL: No, your Honor.

24 JUDGE DIPPELL: All right. Then I will admit
25 Exhibit 3, 4, 5 and 6 into the record.

ASSOCIATED COURT REPORTERS
JEFFERSON CITY - COLUMBIA - ROLLA
(888) 636-7551
247

1 (EXHIBIT NOS. 3, 4, 5 AND 6 WERE RECEIVED INTO
2 EVIDENCE.)

3 BY MR. ABERNATHY:

4 Q. Mr. Jenkins, are these the most recent PSC
5 reports filed by Warren County Water & Sewer?

6 A. That is my understanding.

7 Q. So there's not a report filed by this company
8 for years 2001, 2002 or 2003?

9 A. Yes. The 2003 wouldn't be done yet, but
10 definitely not one for 2001 and 2002.

11 Q. At least to the best of your knowledge,
12 there's not one for those years?

13 A. That is correct.

14 Q. What's your overall opinion of these reports?

15 A. I've taken a quick look at them and, quite
16 frankly, from my experience of looking at similar type of
17 reports in the past, really find these to be incomplete and,
18 quite frankly, of extremely poor quality. For example,
19 there's no real balance sheet, limited operating expense
20 data, and no utility plant and, quite frankly, it's
21 indicative of a water company, water and sewer company
22 that's struggling with its operations.

23 You know, within these PSC reports there's
24 operational data that should be included, as well as
25 financial data. Whenever we prepare them at

ASSOCIATED COURT REPORTERS
JEFFERSON CITY - COLUMBIA - ROLLA
(888) 636-7551

248

1 Missouri-American, and if this transaction goes through, a
2 report like this would be thorough. Proper accounting would
3 be provided. The detailed operational data would be put

4 into this report.

5 And although I've seen things like this in the
6 past in my prior career, this -- this one ranks up pretty
7 close in terms of -- of one that is in serious -- in terms
8 of serious problems with filling out of an annual report.

9 Q. In terms of report condition, I guess for lack
10 of a better term, which report is in the best condition?

11 A. It looks like from 1997, at least when you
12 look at the data that's been recorded and written into the
13 report, the 1997 report has definitely got the most
14 information into it. It indicates, you know, information of
15 some repairs that were being done and it does identify you
16 know, a --

17 Q. Let me ask you before you go on through the
18 1997 report, as far as information in the reports goes, does
19 it get progressively less or more sketchy or worse as the
20 years go on here?

21 A. Yes. Once you get beyond 1997, really the
22 reports are sketchy at best and not complete at all.

23 Q. Okay. Thank you. Do any of these four
24 reports identify contribution in aid of construction
25 balance?

ASSOCIATED COURT REPORTERS
JEFFERSON CITY - COLUMBIA - ROLLA
(888) 636-7551
249

1 A. Yes. The -- the report in the 1997 PSC report
2 does indicate a contribution balance on page 9 of \$145,000.
3 You know, definitely with the history that I've learned
4 yesterday and that there seems to be a lot of controversy in

5 terms of what the contribution balance is for this system,
6 but this -- this owner has reported on this document that
7 that balance is \$145,000 as of 1997, and then it just
8 disappears.

9 Q. That was my next question. Is there anything
10 to -- any further entries in these reports in the ongoing
11 years showing contribution in aid of construction balance?

12 A. No.

13 Q. Is there any indication from the 1997 report
14 that that \$145,000 contribution in aid of construction
15 balance was not accepted by the Staff of the Commission?

16 A. Not that I'm aware of. It's my understanding
17 from the owner that this was presented in the report to the
18 Commission.

19 Q. In your experiences with the Illinois Commerce
20 Commission, have you encountered or dealt with small systems
21 like Warren County Water & Sewer before?

22 MR. KRUEGER: Your Honor, I don't see the
23 relevance of the question about how matters are handled at
24 the Illinois Commission.

25 JUDGE DIPPELL: Mr. Abernathy, do you have a

ASSOCIATED COURT REPORTERS
JEFFERSON CITY - COLUMBIA - ROLLA
(888) 636-7551
250

1 response?

2 MR. ABERNATHY: Yes, I do. Mr. Jenkins is
3 going to explain what was past practice, in his experience,
4 of how small companies like this have been regulated and

5 handled and how these problems with aid in construction
6 balances have been resolved, looked at, how it affects the
7 ratemaking of the organization, how the proposed \$50,000
8 balance here is way out of line with what normally would be
9 done with accounting procedures for regulated companies like
10 Warren County Water & Sewer. That's where we're going.

11 MR. KRUEGER: That's the direction I expected
12 he was going, but I don't think it responds to the
13 objection. I don't think that explains the relevance.

14 JUDGE DIPPELL: The relevance of the Illinois
15 procedures to this case?

16 MR. ABERNATHY: That's his experience level.
17 He's not worked for the Missouri Commission. He's worked
18 for the Illinois Commerce Commission.

19 MR. KRUEGER: I think if he doesn't have
20 experience before the relevant Commission, then he doesn't
21 have relevant evidence to offer.

22 MR. ABERNATHY: And that's the point of this.
23 We believe this Staff has not properly managed the
24 accounting procedures for this company. There is some
25 culpability here.

ASSOCIATED COURT REPORTERS
JEFFERSON CITY - COLUMBIA - ROLLA
(888) 636-7551
251

1 MR. KRUEGER: I don't think the question of
2 the Staff's handling of these annual reports has been raised
3 by any of the pleadings, and I don't see that that's
4 relevant to the decision in this case either.

5 MR. ABERNATHY: What we're also going to go

6 into with his experience is how contribution in aid of
7 construction balances have been properly accounted for in
8 dealing with companies like this and that the number should
9 be different. How else can we do that, except going through
10 his experiences? If you want to make him an expert witness,
11 we can do that.

12 JUDGE DIPPELL: Okay. I'm going to allow it
13 for the last reason that you said, because that's this
14 witness' experience, and in getting his opinion about how it
15 should be or how it has been done properly, I will allow it
16 relevance for those reasons, but I don't think we need a
17 long treatise on how the Illinois Commerce Commission
18 conducts its contributed capital.

19 BY MR. ABERNATHY:

20 Q. Okay. Mr. Jenkins, in what context and
21 situation have you encountered similar to Warren County
22 Water & Sewer?

23 A. Yes, in the late 1980s and early 1990s, in the
24 capacity of my prior experience had reviewed -- my staff had
25 reviewed similar annual reports. I must say not in this

ASSOCIATED COURT REPORTERS
JEFFERSON CITY - COLUMBIA - ROLLA
(888) 636-7551
252

1 condition, but had reviewed annual reports that clearly
2 identified problems with the accounting.

3 And to try to make it real quick, what we had
4 done at that time is -- is sent the staff out to help the
5 owners get their contribution accounting proper, because if

6 this was following appropriate accounting procedures, the
7 gross plant value would be in the annual report.

8 A level for accumulated depreciation would be
9 in the annual report. A level for contributions would be in
10 the annual report, and the contribution balance which is
11 being impaired, because it's not allowed for ratemaking
12 purposes, would show a decline over the years. Even with a
13 transfer of ownership that I understand has taken place
14 here, is that I would fully expect to see the gross plant
15 values.

16 The gross plant has not went away as evidenced
17 from our original cost study. It's still there, it's still
18 around, and it's -- in terms of trying to help a situation
19 out, it's very difficult for us, as an organization with
20 Missouri-American, to try to really find out where does the
21 Commission stand, what assets are there? And that's the
22 reason the Commission had the original cost study on short
23 notice, given the timing of this proceeding.

24 Q. And I believe you've already testified -- I'm
25 trying to recall what we went through here -- that the

ASSOCIATED COURT REPORTERS
JEFFERSON CITY - COLUMBIA - ROLLA
(888) 636-7551
253

1 \$50,000 proposed rate base would not make this company a
2 viable operation; is that true?

3 A. Yes. That's -- in my opinion, it would be
4 very difficult to operate the company with that level of
5 rate base given the size, the relative size of this
6 operation, and be able to meet day-to-day business needs.

7 Q. Does Missouri-American prepare such annual
8 reports?

9 A. Yes, we do.

10 Q. Why do we prepare those reports,
11 Missouri-American?

12 A. They're required by the Public Service
13 Commission, and it's a part of our charge of being a
14 regulated utility. And we take them quite seriously and we
15 send and put the information in the reports; that as owners
16 of that business and operators of that business we can stand
17 behind. If any future owners were to take us over, that
18 would be a clear record of what's transpired.

19 Q. And that's required by the Commission of
20 Missouri-American, you're saying?

21 A. Yes.

22 Q. So the same requirements would be on Warren
23 County Water & Sewer, I assume?

24 A. Yes.

25 Q. And there are no reports for Warren County

ASSOCIATED COURT REPORTERS
JEFFERSON CITY - COLUMBIA - ROLLA
(888) 636-7551
254

1 Water & Sewer, again, for 2001, 2002; is that correct?

2 A. That's correct.

3 Q. And there is no contribution in aid of
4 construction balance in the '98, '99 or 2000 reports, right?

5 A. That is correct.

6 Q. I don't know if you said or not, but did

7 you -- in your experience as a chief accountant with the
8 Illinois Commerce Commission, did you help small companies
9 try to resolve contribution in aid of construction
10 accounting problems?

11 A. Yes, we did from time to time, when we found
12 that the rate base values were -- when we found the rate
13 base values were out of line with what we thought would be
14 needed to support that operation. For example, if you're
15 not careful with these companies, you can develop negative
16 rate bases, which is improper, and we would correct for
17 that.

18 Q. What, in your opinion, is the rate base here
19 for Warren County Water & Sewer?

20 A. It's certainly a dilemma we have in this case.
21 We've commissioned an original cost study as a result of
22 this proceeding, and that original cost study, as testified
23 to earlier, identified a net rate base of \$742,851. The
24 dilemma we face is what's the contribution balance?

25 If I look at the PSC report for Warren County

ASSOCIATED COURT REPORTERS
JEFFERSON CITY - COLUMBIA - ROLLA
(888) 636-7551
255

1 in 1997, you'd see that number at \$145,000. If you took
2 that off, you could get to a net rate base balance of around
3 600,000. But given all the controversy and uncertainty
4 around what the contribution balance is, just based on my
5 experience and what I think an operation like this should
6 be -- should be priced at from the original cost standpoint
7 with proper accounting, proper capitalization, which clearly

8 hasn't happened in this business, then the rate base value
9 should -- should at a minimum be what we've offered to pay
10 for the property.

11 Q. Did you -- based on your opinion as to what
12 the rate base should be, did you do an analysis of what the
13 operating profit of Warren County Water & Sewer, that type
14 of rate base, type of income analysis? Just curious.

15 A. I did, but I don't have it in front of me
16 here.

17 Q. Will the record reflect that Mr. Jenkins is
18 getting his calculator out and punching away?

19 A. So that operating profit would have provided
20 with it \$17,000 of operating profit at that level of rate
21 base.

22 Q. Why did -- with your number of rate base being
23 almost \$600,000, why did Missouri-American just recommend a
24 rate base number of the purchase price, i.e., the \$335,000?

25 A. First, so I correct it, the \$17,000 was at a

ASSOCIATED COURT REPORTERS
JEFFERSON CITY - COLUMBIA - ROLLA
(888) 636-7551
256

1 \$335,000 original cost rate base. It would be close to
2 twice that if we drove it up to the \$600,000 level.

3 Q. Okay. Thank you.

4 A. But in terms of why we recommended the
5 purchase price as the original cost value, is that clearly,
6 based on our initial review of the system, the financial
7 records were incomplete and virtually impossible to make an

8 informed business judgment.

9 Secondly, we'd hoped to have been able to
10 reach an agreement with the Staff and Public Counsel, given
11 the poor state of the records, and have not been able to do
12 that.

13 Third, and I've been in this business for
14 20 years and certainly think that, based on our prior
15 experience, based on our own specific experience with the
16 Brunswick operation, that -- that had this company, over its
17 corporate history, applied proper regulatory accounting,
18 that the rate base value would -- would definitely be at the
19 purchase price that we offer.

20 Q. So do you have a recommendation? Is that your
21 recommendation?

22 A. Yes, my recommendation is that the original
23 cost value is the same as the purchase price in this
24 instance, and that that's what we're willing to accept.
25 Quite frankly, I think the original cost value's probably

ASSOCIATED COURT REPORTERS
JEFFERSON CITY - COLUMBIA - ROLLA
(888) 636-7551
257

1 higher than the purchase price.

2 Q. Is there any precedent for your recommendation
3 that the rate base be the purchase price?

4 A. Yes. In the states of both Indiana and
5 Pennsylvania, there's specific statutes that in terms of the
6 purchase price for small non-viable utilities, that that
7 becomes the basis for what's utilized in ratemaking, and
8 allows the state to move forward and solve non-viable system

9 issues.

10 Q. Is Missouri-American going to be flexible in
11 trying to set a rate for Warren County?

12 A. Absolutely. I think we mentioned yesterday
13 that this operation's very close to the St. Charles
14 operation, to the extent we can support the operation and
15 our plans are to do that through the St. Louis district. As
16 we work into the future, it may be appropriate to design
17 common rates with our St. Charles operation at this
18 facility, especially as things grow in the area, or we can
19 treat this as a stand-alone operation. We do that with
20 Brunswick district, and we can certainly do that.

21 We can assure this Commission that the
22 accounting will be done right, the operations will be done
23 right, and we'll solve these problems that the customers
24 face.

25 Q. If Staff's recommendation is upheld in this

ASSOCIATED COURT REPORTERS
JEFFERSON CITY - COLUMBIA - ROLLA
(888) 636-7551
258

1 matter for what the rate base number should be, will
2 Missouri-American purchase Warren County Water & Sewer?

3 A. I must say the original rate base at \$50,000
4 as we've discussed here this morning by the Staff, I just
5 find that very difficult for us as an organization to need
6 to write off \$285,000 of our purchase price in this system.
7 I mean, from our perspective, assigning the \$50,000 rate
8 base to this system's not fair, and the business decision

9 would tell me to walk away from the deal.

10 I'm confident that the record that we've
11 developed is going to demonstrate that the assigned rate
12 base value, that the \$50,000 is not reasonable.
13 Furthermore, at Missouri-American we're very serious about
14 helping the non-viable water and sewer companies that pose a
15 problem to Missouri citizens. And it's certainly our -- you
16 know, our position that we're here to help, help with
17 problems with system capacity, fire protection, wastewater
18 systems that are inadequate, systems that don't properly
19 treat water, systems that have manual alarm systems that
20 somebody that's a customer has to hear it, that there's an
21 alarm going on, and then have to trace down an owner.

22 We're prepared to help solve those problems.
23 Quite frankly, this is our first acquisition of what I'd
24 call a small, troubled water company in this state, and it's
25 our intention to do more, but -- we're not here to unduly

ASSOCIATED COURT REPORTERS
JEFFERSON CITY - COLUMBIA - ROLLA
(888) 636-7551
259

1 profit on these companies, but we're also here not to -- not
2 to be forced to -- to make writeoffs on them.

3 As we discussed earlier, there's many of these
4 in the state, and I think if we can -- as a resolution of
5 this, if we're not able to settle it, if we can find from
6 the Order that there's a clear read that we're going to be
7 treated fairly -- fairly in the future with respect to
8 acquisitions like this, then we'll move forward.

9 Q. I want to clarify something from yesterday.

10 We had numerous questions from the Commissioners, and I
11 think others, about what the rates would be for Warren
12 County Water & Sewer if we were to take them over and put
13 improvements in, et cetera, and the number 15 percent kept
14 getting tossed around as maybe a worst-case scenario or just
15 a number as to what the rate increase would be. That number
16 did not come from Missouri-American, correct?

17 A. No. That is correct.

18 Q. Is there any accuracy in that number? Do you
19 have any reason to think the number might be different?
20 What factor would want to make the number different?

21 Would you mind discussing that for a minute,
22 please?

23 A. Yeah. What you need to look at is your
24 assumptions with growth, your assumptions with capital
25 investment, your assumptions in terms of what you could

ASSOCIATED COURT REPORTERS
JEFFERSON CITY - COLUMBIA - ROLLA
(888) 636-7551
260

1 operate this systemat. And I have prepared something that
2 would -- I think would help the record in that area.

3 MR. ABERNATHY: And I have to find it. You
4 have it. I think we're up to 14.

5 JUDGE DIPPELL: 14.

6 (EXHIBIT NO. 14 WAS MARKED FOR IDENTIFICATION
7 BY THE REPORTER.)

8 BY MR. ABERNATHY:

9 Q. Would you real briefly explain what this is,

10 and we'll lay a foundation and get it in here. Mr. Jenkins,
11 what is this (indicating)?

12 A. Yes. What this represents is a high level
13 rate analysis from both the perspective of a no-growth
14 scenario, as well as a perspective of the 5 percent growth
15 scenario that we've heard in this record.

16 Q. Did you prepare this?

17 A. Yes, I did.

18 Q. When did you prepare this?

19 A. I prepared it last night at home.

20 Q. You prepared it in anticipation of today's
21 hearing?

22 A. Yes.

23 MR. ABERNATHY: I'd like to offer this into
24 evidence, your Honor.

25 JUDGE DIPPELL: Would there be any objection

ASSOCIATED COURT REPORTERS
JEFFERSON CITY - COLUMBIA - ROLLA
(888) 636-7551
261

1 to Exhibit No. 14?

2 MS. O'NEILL: No objection.

3 MR. KRUEGER: No objection.

4 JUDGE DIPPELL: All right. Then I will admit
5 Exhibit No. 14, which is -- it's titled Warren County
6 Water & Sewer Company Rate Analysis prepared by Mr. Jenkins.

7 (EXHIBIT NO. 14 WAS RECEIVED INTO EVIDENCE.)

8 BY MR. ABERNATHY:

9 Q. Mr. Jenkins, would you go ahead and explain
10 what this is and what it demonstrates for us, please?

11 A. Yes. What I've put together is -- in the top
12 half of the page is a no-growth scenario, and I based that
13 on an original cost value from the company's perspective of
14 \$335,000. And then what I've assumed is, as we've discussed
15 yesterday, the system's desperately in need of some capital
16 additions that we think would approximate \$550,000.

17 JUDGE DIPPELL: Can I get you to pull your
18 microphone down just a little bit? With the air conditioner
19 and --

20 THE WITNESS: I'm sorry.

21 JUDGE DIPPELL: That's fabulous. Thank you.

22 THE WITNESS: Then with the -- you add those
23 two together and it comes up with a net rate base of
24 \$885,000. Then what I've done is taken the return component
25 on that to develop what the revenue requirement at the rate

ASSOCIATED COURT REPORTERS
JEFFERSON CITY - COLUMBIA - ROLLA
(888) 636-7551
262

1 base level would be for this system, which in this scenario
2 on the top approximates \$97,000.

3 Then what I did is I took a look at the
4 Staff's last rate filing for Warren County Water & Sewer,
5 and at least from what I could see in that rate filing is
6 that the company had proposed a need to operate the system
7 at \$194,000 a year. The Staff had proposed that the system
8 in terms of what it needed to operate was \$132,000 a year.
9 Then I just took the midpoint between the two to arrive at
10 \$163,000 a year.

11 And then, just in terms of getting an overall
12 revenue requirement for this operation and trying to keep it
13 very simple, I don't have a lot of information, but to give
14 us an idea of what we're facing is that the revenue
15 requirement, then, on the high end of the operating expenses
16 would be about \$291,000, at the midpoint would be about
17 \$260,000, and then at the low end about \$229,000.

18 Then you take a look at the present rate
19 revenues for this system, which were in the \$180,000
20 category, what you'd see is that under all those scenarios,
21 a rate increase would be necessary. From the extreme of
22 62 percent, at the midpoint 44 percent, and at the low end
23 27 percent. And it would -- you know, on lines 19 and 20
24 gives you what the monthly water and sewer bills would be.

25 Now, keep in mind this is -- this is

ASSOCIATED COURT REPORTERS
JEFFERSON CITY - COLUMBIA - ROLLA
(888) 636-7551
263

1 worst-case scenario, because what I've put together here is
2 not what's there today. What's there today from our
3 perspective is the \$335,000 of rate base, but what we
4 quickly intend to do over the next five years is get the
5 \$550,000 of additional rate base. But when you have to look
6 at a system like this, will the growth that individuals
7 talked about yesterday materialize?

8 We think they will from what we know of the
9 area, but it's certainly something that I look at. These
10 are the type of things that I consider and think about when
11 we put together acquisitions, for example, of growth and

12 what kind of impact that would have. So I didn't have the
13 operating expense data that I was able to pick up from a
14 2001 viewpoint, at least from the Staff and the Warren
15 County's perspective.

16 Now, if you take a look at our Brunswick
17 operation, which we have around 468 just water customers,
18 our operating costs for that run around \$221,000 a year, so
19 roughly \$472 a customer. If we were to apply that to -- to
20 the present situation, present customer count, that would be
21 in the neighborhood of \$176,528, just trying to give the
22 Commission and the parties just kind of an understanding of
23 where this operating expense level could be. These are at
24 2001.

25 I'm giving you numbers that are in one of our

ASSOCIATED COURT REPORTERS
JEFFERSON CITY - COLUMBIA - ROLLA
(888) 636-7551
264

1 just a water operation that's well run and that we meet all
2 the requirements of this Commission and the EPA, et cetera,
3 what it takes to run one of those facilities.

4 Now, the challenge for us in terms of buying
5 this system and running this system is at what operating
6 level are we going to run this at? First of all, we're
7 going to do it right, as we've discussed. We're going to
8 fix the problems and get it done. Given the way this
9 operation has been run, I don't know exactly where we're
10 going to land.

11 Our target would be trying to keep it in this,

12 the \$150,000 to \$200,000 level in terms of running a system
13 like this. 'Til we get out there and really kick the tires
14 and get some experience, I don't know if we can keep it
15 there. If we can beat that, that's great, but just to give
16 the Commission a little bit of an understanding of what you
17 kind of have to look at, given the fact that we don't have a
18 lot of detailed records that give us any better operating
19 type practice.

20 Now, if you go to the second half of the
21 schedule, which starts on line 21, what I've done there is
22 taken a look at this 5 percent growth and kept it with the
23 original net rate base values, and then factored it up on
24 line 27 for the revenue requirement per rate base. And then
25 I've used the same operating expenses. That's really

ASSOCIATED COURT REPORTERS
JEFFERSON CITY - COLUMBIA - ROLLA
(888) 636-7551
265

1 conservative because, as we see, I've assumed a growth rate
2 of over three years later.

3 The challenge for us under this scenario would
4 be to be able to keep these operating expenses from growing
5 between the -- for example, the midpoint \$163,000 to what
6 they would be three years later, if we got in there and run
7 the company and inflation and those kind of things that
8 impact any water and sewer business. But what this shows is
9 what was discussed about -- discussed yesterday. It begins
10 to show the value of growth.

11 Growth is good for all of us. It's good for
12 the State of Missouri. It's going to be good for this

13 system. Just as one of the customers mentioned in his own
14 words, in terms of, you know, if we get more people out
15 there, we'll have better economies of scale. We'll be able
16 to spread these costs around. So what this shows is if we
17 can get that 5 percent growth over three years, then we can
18 keep this system's rate increase under 10 percent, provided
19 we can run this thing at the \$132,000 O&M level, grows, of
20 course, if it was at the midpoint of 163,000, and then
21 further grows, if you're having to run it close to 200,000.

22 I don't know today exactly where we're going
23 to be. Certainly will put all our resources, like we do
24 with everything else, to run this thing as efficiently and
25 as professionally as we can. And I'd contend that we can do

ASSOCIATED COURT REPORTERS
JEFFERSON CITY - COLUMBIA - ROLLA
(888) 636-7551
266

1 it better than anybody in the State of Missouri, given our
2 scope and given our breadth across the state.

3 Why did I pick the three years later? Just to
4 give the Commission an idea that our normal rate planning
5 cycle for this -- for this district would be to pick up with
6 where we're at with our entire system, and we don't plan to
7 file a rate case until 1996 with new rates sometime in
8 effect into 1997. That's our plans. I think all of us know
9 we have a current rate proceeding in this Commission, but
10 based on where I think that's going to come out, from my
11 perspective from the company, we would not need to be in
12 here for another three years.

13 Now, this is still very conservative, because
14 I've loaded all the capital investment as if we're going to
15 make them and get them done in three years. We talked about
16 getting that done in five years, with the bulk of it up in
17 the first three years, but we'd still have another probably
18 \$100,000 investment that would come in year four and five,
19 but it's still to give the Commission just a feel for where
20 these rates are headed, where they could be.

21 Clearly demonstrates that -- in terms of our
22 investment value that -- that during this time period, with
23 very conservative numbers, if there was a premium to be
24 determined, that we wouldn't be able to earn on that
25 premium. In fact, I think as we move through the next rate

ASSOCIATED COURT REPORTERS
JEFFERSON CITY - COLUMBIA - ROLLA
(888) 636-7551
267

1 cycle, we'll be challenged with this operation to -- to
2 really earn some good earnings for the small size of it.

3 But, you know, once we get into a rate
4 proceeding and get beyond this small issue in terms of the
5 acquisition price, that will be behind us, and we'll run
6 this system like we run the rest of our systems across the
7 state, and you'll have less complaints and I think we'll do
8 a real good job.

9 I think it's worthy to point out that even in
10 our Brunswick operation today, water is slightly under \$25 a
11 month. You know, even if you assume a sewer rate -- I don't
12 know what they pay for sewer, but people do have to pay for
13 that service as well. You know, these rates are not out of

14 line with what somebody would expect to pay in Missouri for
15 good quality water and sewer service.

16 The issue that we have is, we won't know
17 exactly what we have until we get out there and run it. And
18 this is our first one that's in this state of disrepair that
19 we're stepping up to the plate and saying, we'll take it on
20 and run it for the benefit of customers out there.

21 BY MR. ABERNATHY:

22 Q. Do you have anything further to add about this
23 exhibit?

24 A. No.

25 Q. Okay. Thank you.

ASSOCIATED COURT REPORTERS
JEFFERSON CITY - COLUMBIA - ROLLA
(888) 636-7551
268

1 MR. ABERNATHY: Your Honor, my next
2 question -- comment is a bit unusual, but Staff has proposed
3 two exhibits to be, I guess, introduced with their case,
4 Exhibits 7 and 8, and we were going to have Mr. Jenkins
5 comment on those, but I wasn't sure if you wanted me to wait
6 and use him as a rebuttal witness after Staff's direct case
7 is done or if we should do it now, while he's on the stand,
8 because we're going by the normal quorum between direct
9 testimony today instead of just doing cross, and so I was
10 curious how the Court wanted to handle that.

11 JUDGE DIPPELL: I would be okay with allowing
12 a rebuttal witness, but I want to see if there would be any
13 objection to that from the parties.

14 MR. KRUEGER: I think that would be a more
15 appropriate place to put the testimony.

16 MS. O'NEILL: I don't really have a
17 preference, your Honor. Whichever way the Court wants to go
18 is fine.

19 JUDGE DIPPELL: Okay. I think we'll do that.
20 I think it would be more appropriate to let Staff introduce
21 those exhibits and then -- I think that will save more time.
22 So we'll let you call Mr. Jenkins back as a rebuttal
23 witness.

24 MR. ABERNATHY: Okay. And I have no further
25 questions for Mr. Jenkins. Tender for cross.

ASSOCIATED COURT REPORTERS
JEFFERSON CITY - COLUMBIA - ROLLA
(888) 636-7551
269

1 JUDGE DIPPELL: I thought you were going to
2 clarify that. He discussed 1996 and 1997 rate cases, and I
3 assumed you meant 2006 is when you intend to file your next
4 rate case?

5 THE WITNESS: Yes. I got stuck on these old
6 annual reports, yes.

7 JUDGE DIPPELL: With the rates to be effective
8 in 2007?

9 THE WITNESS: Yes, your Honor. Thank you.

10 MR. ABERNATHY: Still living in the past.

11 THE WITNESS: That's right.

12 JUDGE DIPPELL: Is there cross for Warren
13 County?

14 MR. DeFORD: Maybe two questions.

15 CROSS-EXAMINATION BY MR. DeFORD:

16 Q. Good morning, Mr. Jenkins.

17 A. Good morning.

18 Q. You talked with Mr. Abernathy about the annual
19 reports that Warren County filed with the Commission; is
20 that correct?

21 A. That is correct.

22 Q. Could you give me an estimate about how much
23 it would cost to prepare a proper annual report for filing
24 with the Commission?

25 A. For the size of Warren County or for the size

ASSOCIATED COURT REPORTERS
JEFFERSON CITY - COLUMBIA - ROLLA
(888) 636-7551
270

1 of something in terms of Missouri-American?

2 Q. For the size of Warren County. Let me make it
3 easier. Would it exceed the \$2,400 that the company has
4 estimated to make in profit for a year?

5 A. I think if you were to engage a -- a -- for
6 example, a certified public accountant to perform this, that
7 I don't know if it would exceed that level, but it would
8 certainly be -- would eat into it quite a bit.

9 Q. So it would be fair to say that the company
10 probably wasn't in a position to retain a public utility
11 accountant to perform this kind of service?

12 A. Well, the issue is, in terms of the operating
13 costs -- keep in mind I talked about profit. The ratemaking
14 should allow for that ongoing level of some sort of, in this

15 case, professional expertise to support filling out an
16 annual report.

17 For Missouri-American, that's within my
18 accounting staff. That is allowed. It's on a normal basis.
19 I don't know enough about the details to know if that was --
20 if that was allowed. This should be something that's
21 routine, it should be built into rates and recovered as a
22 normalized operating expense, whatever the expense is.

23 Q. Let me ask you this: Given the rates -- I
24 assume you're familiar with the current rate structure for
25 this company?

ASSOCIATED COURT REPORTERS
JEFFERSON CITY - COLUMBIA - ROLLA
(888) 636-7551
271

1 A. Yes.

2 Q. Given the rates that this company is allowed
3 to currently charge, could that company properly engage
4 those services and be expected to, you know, file these
5 types of reports?

6 MR. KRUEGER: Your Honor, I object. It calls
7 for speculation.

8 BY MR. DeFORD:

9 Q. Could Warren County, if allowed to charge --
10 excuse me. Could Missouri-American, if allowed to charge
11 those rates, operate this profitably?

12 A. What I'm not clear on is what the ongoing
13 operating costs are. So if rates were set at the \$132,000
14 level, it would be based on the owner and the Commission to
15 determine if that had enough value in it to support an

16 ongoing level of expense. And I just don't know if -- from
17 the Staff's perspective if they gave them enough money to
18 properly fill this document out.

19 Q. Fair enough.

20 A. Given the rates that are in place now, can
21 Missouri-American operate this company or this portion of
22 the company profitably?

23 A. Depends on how you define profit. And as you
24 know, being a regulatory attorney, that there's different
25 opinions on what profit level should be. But I do think in

ASSOCIATED COURT REPORTERS
JEFFERSON CITY - COLUMBIA - ROLLA
(888) 636-7551
272

1 the initial stages we'll have some issues in terms of
2 earning what I would call a fair return, just because of the
3 rapid capital that we need to put into the system. But
4 ultimately, once we get through a ratemaking process, we'll
5 be able to true this up and get what I think will be fair
6 costs of service.

7 MR. DeFORD: Thank you. That's all I have.

8 JUDGE DIPPELL: Thank you, sir. Cross from
9 Staff?

10 MR. KRUEGER: Thank you, your Honor.

11 CROSS-EXAMINATION BY MR. KRUEGER:

12 Q. Good morning, Mr. Jenkins.

13 A. Good morning.

14 Q. I'm going to turn first to this Exhibit 14. I
15 believe it's 14 that you just discussed, the rate analysis?

16 A. Yes.

17 Q. If the expenses that you listed on your
18 schedule, if you are unable to maintain the expenses at the
19 level that is shown on your schedule but they actually
20 increased in the coming years, what would be the effect on
21 your percentage increase?

22 A. The impact of that would be, under each
23 scenario, the percentage increase would go up.

24 Q. Can you give some indication of how much it
25 would go up? For example, if the expenses increased by

ASSOCIATED COURT REPORTERS
JEFFERSON CITY - COLUMBIA - ROLLA
(888) 636-7551
273

1 10 percent, what kind of an effect would that have on the
2 percentage increase that you're looking at?

3 A. At a present rate level of 180,000, about a
4 7 percent impact in terms of the rate increase. Expenses up
5 10 percent, rates up 7 percent.

6 Q. Okay. So then the percentage increase in
7 that top portion of your rate analysis sheet would be about
8 68 percent or 69 percent for the company in the left column?

9 A. I picked the no-growth Staff model. So that
10 would be -- it would be about 34 percent if you went up
11 7 percent.

12 Q. Okay.

13 A. And then factoring in growth -- factoring in
14 growth, it would go up about 6 percent.

15 Q. So --

16 A. The Staff number would go up to about

17 15 percent, because what you can see is that the smaller
18 your rate base value, the bigger the impact that changes in
19 operating expenses has on your business considering we're
20 regulated on a cost-plus system.

21 And that's primarily the reason very small
22 investor-owned utilities struggle with it being a profitable
23 model, because they just don't have the economies of scale
24 that we have at Missouri-American to keep it operating.

25 Q. Just to make sure I understand what your

ASSOCIATED COURT REPORTERS
JEFFERSON CITY - COLUMBIA - ROLLA
(888) 636-7551
274

1 testimony is on that, you're saying that if the operating
2 expenses in the right-hand column, the no-growth column
3 increased by 10 percent, the percentage increase on line 17
4 would go up by about 7 percent to about 34 percent?

5 A. That's correct.

6 Q. And likewise, if the operating expenses shown
7 on line 29 in the right-hand column increased by 10 percent,
8 the percentage increase shown at the bottom of that column
9 on line 37 would go up about 6 percent to about 16 percent?

10 A. That is correct.

11 Q. Okay. Thank you. Mr. Jenkins, are you an
12 attorney?

13 A. No, I'm not.

14 Q. Do you know if the statutes in Indiana and
15 Pennsylvania that you referred to govern the way this
16 Commission determines rate base?

17 A. No, I do not.

18 Q. You don't know?

19 A. I would -- I would assume they do not govern
20 the way this Commission regulates its water and sewer
21 companies.

22 Q. Do you know if those statutes also allow a
23 negative allowance for acquisition premium in determining
24 rate base? The statutes in Indiana and Pennsylvania, I'm
25 talking about.

ASSOCIATED COURT REPORTERS
JEFFERSON CITY - COLUMBIA - ROLLA
(888) 636-7551
275

1 A. If you read the statutes, what it would
2 indicate is it removes -- that issue is what you pay for is
3 what the rate base value would be, only for the smaller
4 non-viable utilities.

5 Q. So then if there was a negative acquisition
6 premium, that would be --

7 A. By definition a negative acquisition
8 adjustment would not -- would not result, because the rate
9 base value would be the purchase price.

10 Q. Okay. Thank you.

11 I believe you testified that you've been
12 employed by Missouri-American since 1999; is that correct?

13 A. Yes, Missouri-American.

14 Q. Have you been continuously employed by
15 Missouri-American since that time?

16 A. For the -- I guess in the last 18 months, I've
17 spent some time in our corporate office in New Jersey

18 helping with the change of ownership related to the RWE
19 acquisition of American Water.

20 Q. What do you mean when you say you spent some
21 time there?

22 A. Well, for 2002, I was still participating in
23 the board meetings for Missouri-American. In 2003, up until
24 August of this year, and maybe a little bit of the end of
25 July, I was not participating in the daily activities of

ASSOCIATED COURT REPORTERS
JEFFERSON CITY - COLUMBIA - ROLLA
(888) 636-7551
276

1 Missouri-American. My full-time role was in the operation
2 in New Jersey, and then I returned back to Missouri-American
3 in late July, early August, from what I remember.

4 Q. When did you say you went to New Jersey
5 full-time?

6 A. Full-time, January of -- full-time January of
7 this year. And then prior to that I was working primarily
8 out of the New Jersey office, but I did help with our board
9 meetings and financial statement analysis, et cetera.

10 Q. When did you obtain these annual reports that
11 have been introduced as Exhibit 3, 4, 5 and 6?

12 A. I obtained those annual reports prior to the
13 not-- at the time of the notice of this hearing. So to get
14 ready for this hearing, I'd asked Mr. LeGrand to let me see
15 the annual reports that he had.

16 Q. Did you have any role in the negotiations with
17 Warren County regarding the purchase price to be included in

18 the contract?

19 A. Well, not initially, because I was out of --
20 out of the state working in the Vorhees office, for example,
21 but I did make the presentation to the board to get final
22 approval for the contract. I believe it was in the
23 September time frame.

24 Q. Okay. But that was after the purchase price
25 had already been settled upon; is that correct?

ASSOCIATED COURT REPORTERS
JEFFERSON CITY - COLUMBIA - ROLLA
(888) 636-7551
277

1 A. What you have to understand about our
2 procedures is that we, as part of the management team, have
3 full authority to -- to work with the initial offers for
4 acquisitions at this small level, and that to obtain formal
5 board approval, we moved that forward once a contract is
6 really signed off and ready to be delivered. And then we
7 move it through our board for very small acquisitions like
8 this.

9 Q. But your role, then, was just for presentation
10 to the board after the contract had been --

11 A. Yeah, my role would be to recommend as the
12 treasurer of the company that this would, if handled
13 appropriately through the regulatory process, was the right
14 design for our company to make. Prior to that, Mr. LeGrand
15 would work with the finance area and ultimately our
16 president, Mr. Thornburg, who would have reviewed this as
17 well and is very familiar with regulatory process, for
18 example.

19 Q. So you didn't negotiate with Warren County in
20 regard to the purchase price that was written into the
21 contract?

22 A. No. I don't typically get involved in those
23 negotiations.

24 Q. Did you rely on these annual reports in any
25 way? Did you or the company rely in any way on those annual

ASSOCIATED COURT REPORTERS
JEFFERSON CITY - COLUMBIA - ROLLA
(888) 636-7551
278

1 reports in determining how much to offer for the purchase of
2 Warren County's assets?

3 A. No. I mean -- no.

4 Q. To your knowledge, did anybody in the company
5 see or request copies of these annual reports prior to the
6 time the offer was made to Warren County?

7 A. Part of the review process would have been to
8 look at what records we had, and I think it's clear that
9 there were very limited records. Mr. LeGrand, in working
10 with our -- ultimately our president, would have taken a few
11 in terms of what we thought the original cost value would be
12 for a system like this. We just simply didn't have
13 something that you could go back and add up X plus Y plus Z
14 and get an answer.

15 Q. So the company's approach was to try to
16 determine the original cost value and not be concerned about
17 rate base?

18 A. Well, the company's always concerned with rate

19 base, and typically in our terminology, rate base and
20 original cost value I assume's the same thing.

21 Q. What was your original cost value of Warren
22 County Water & Sewer prior to the time that you made your
23 offer, your determination?

24 A. Can you clarify that question?

25 Q. Did Missouri-American determine the original

ASSOCIATED COURT REPORTERS
JEFFERSON CITY - COLUMBIA - ROLLA
(888) 636-7551
279

1 cost value of Warren County Water & Sewer Company's assets
2 prior to making an offer for Warren County?

3 A. Missouri-American worked on the expectation
4 that that purchase price would at least approximate what the
5 original cost value was. The problem is the records aren't
6 adequate to go back and try to -- to determine what they
7 were at the time that those negotiations were going on.

8 Q. But you don't have to first determine -- come
9 to some conclusion as to an original cost value?

10 A. When we take a look at these acquisitions
11 is -- there's two things. One is the owner of these assets
12 who, quite frankly, doesn't care about original cost. They
13 care about what the market value is. And similar to when
14 you sell your home, they don't care about what you
15 originally paid for it. They care about the market value.

16 So that's what Mr. LeGrand does is he takes a
17 look at what going market values are, what would be a fair
18 purchase price, based upon what we've seen across the
19 American system, based on what we've seen in other systems