

Missouri Public Service Commission

STATE OF MISSOURI
PUBLIC SERVICE COMMISSION

At a Hearing of the Public Service
Commission, held at Jefferson City,
Missouri, on the 15th day of
September, 1987.

C O N S O L I D A T E D R E C O R D

CASE NO. EA-87-102

In the matter of the application of
CUIVRE RIVER ELECTRIC SERVICE CO. for
permission, approval and a
certificate of convenience and
necessity authorizing it to construct,
install, own, operate, control, manage
and maintain an electric distribution
system for the public located in the
territory encompassing parts of
St. Charles, Lincoln, Pike, Warren and
Montgomery Counties.

CASE NO. EA-87-159

In the matter of the application of
UNION ELECTRIC COMPANY for a certificate
of convenience and necessity authorizing
it to own, control, manage and maintain
an electric power system for the public
in most of the service territory of its
former subsidiaries.

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1 BEFORE:

2 C. GENE FEE, Presiding,
3 CHIEF HEARING EXAMINER.

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24 REPORTED BY:

25 SHELLIE E. BYERS, CCR, RPR
BARBARA A. SKALLA, CCR

Missouri Public Service Commission

APPEARANCES:

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FOR: CUIVRE RIVER ELECTRIC SERVICE CO.
CUIVRE RIVER ELECTRIC COOPERATIVE, INC.

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and THE PUBLIC.

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FOR: STAFF OF THE MISSOURI PUBLIC
SERVICE COMMISSION.

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P R O C E E D I N G S

(Written Entries of Appearance filed.)

(EXHIBIT NOS. 1 TO 4 AND EXHIBIT 3,
SCHEDULE 1 WERE MARKED BY THE REPORTER FOR IDENTIFICATION.)

EXAMINER FEE: The hearing will come to
order please in Case No. EA-87-102, an application of
Cuivre River Electric Service Company, and that portion of
Case EA-87-159 which encompasses an application of Union
Electric to serve the same territory.

At this time will counsel make their entries
of appearance, both written and oral.

MR. WIDGER: Yes. Roger J. Widger,
P.O. Box 1280, Jefferson City, Missouri 65102, an attorney
for Cuivre River Electric Service Company and intervenor
Cuivre River Electric Cooperative, Inc.

MS. SWALLER: Kathy Swaller, 1901 Gratiot
Street, St. Louis, Missouri 63101 for Union Electric
Company.

MR. WALTHER: Douglas C. Walther,
P.O. Box 360, Jefferson City, Missouri 65102, appearing on
behalf of the Staff of the Missouri Public Service
Commission.

MS. BJELLAND: Carol L. Bjelland, appearing
on behalf of the Office of the Public Counsel and the
public. My address is Post Office Box 7800, Jefferson City,

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1 Missouri.

2 EXAMINER FEE: Before we commence the
3 testimony, the motion for partial summary judgment filed by
4 Union Electric on September the 4th will be denied.

5 The motion of the Staff to file rebuttal
6 testimony filed on September the 2nd is granted.

7 The motion of the Staff to file surrebuttal
8 testimony filed on September the 10th, 1987, is granted.

9 Mr. Widger, before you call your first
10 witness, do you have a desire to make an opening statement?

11 MR. WIDGER: No. We would waive opening
12 statement.

13 EXAMINER FEE: Call your first witness.

14 MR. WIDGER: Call Mr. Brown.

15 (Witness sworn.)

16
17 EXAMINER FEE: Mr. Brown's testimony has
18 previously been marked Exhibit 1. His rebuttal testimony
19 has been marked Exhibit 2.

20 DANNY LEWIS BROWN testified as follows:

21 DIRECT EXAMINATION MR. WIDGER:

22 Q. Would you state your full name for the
23 record, please.

24 A. Danny Lewis Brown.

25 Q. What is your address?

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1 A. No. 4 Summit Station, St. Charles, Missouri.

2 Q. By whom are you employed?

3 A. Cuivre River Electric Cooperative.

4 Q. Are you the same Dan L. Brown who has filed
5 direct and rebuttal testimony in this case?

6 A. Yes, I am.

7 Q. Let me hand you what's been marked as
8 Exhibit 1. Mr. Brown, if the same questions were asked of
9 you today as contained in Exhibit 1, would your answers be
10 the same?

11 A. Yes, they would.

12 Q. Let me direct your attention to Page 3 of
13 your testimony, Question 10. Has CRESCO filed an amended
14 application in this case which, in fact, deleted the towns
15 listed in your Schedule 3 and showed evidence of the county
16 franchises?

17 A. Yes, they have.

18 Q. Now, as to the schedules, Mr. Brown, the
19 Schedule 2 is apparently a map previously filed with the
20 application.

21 At this time I would like for the record to
22 reflect that we are supplying the maps designated with that
23 schedule.

24 (EXHIBIT NO. 1, SCHEDULE 2 WAS MARKED BY
25 THE REPORTER FOR IDENTIFICATION.)

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1 BY MR. WIDGER:

2 Q. As to Exhibit 2, Mr. Brown, if those
3 questions were asked of you today, would your answers be any
4 different?

5 A. Yes, they would.

6 Q. They would be different or would they be the
7 same?

8 A. I'm sorry. The answers would be the same.

9 Q. Do you adopt Exhibit 1, Exhibit 2 with the
10 attached schedules as your testimony in this proceeding?

11 A. I do.

12 MR. WIDGER: At this time I would offer
13 Exhibits 1 and 2 with their schedules into evidence and
14 tender the witness for cross-examination.

15 EXAMINER FEE: Mr. Walther.

16 CROSS-EXAMINATION BY MR. WALTHER:

17 Q. Mr. Brown, on Page 4 of your direct
18 testimony, you state that the details and timing of the
19 transfer of the electric distribution system of Cuivre River
20 Electric Cooperative to CRESCO would be developed
21 internally; is that correct?

22 A. That was our original intention, yes.

23 Q. Have these details been worked out since the
24 time you filed your testimony?

25 A. Not exact details, no, sir.

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1 Q. Do you have a general idea of what's going
2 to be done?

3 A. Well, the original intent of our application
4 was to transfer facilities from the cooperative to CRESCO as
5 we felt were necessary and convenient within the compliance
6 of the Order that might be issued by this Commission. By
7 that, we had in mind of transferring certain sections or
8 portions of our territory a piece at a time rather than a
9 whole system at once.

10 Q. So are you going to fashion it in accordance
11 with any Order that the Commission would issue in this case;
12 is that correct?

13 A. That is our intent, yes, sir.

14 Q. Is it correct that CRESCO's headquarters
15 will be provided by the cooperative?

16 A. The headquarters building?

17 Q. Correct.

18 A. Will be provided by the cooperative, that's
19 correct.

20 Q. And will the personnel be provided by the
21 cooperative?

22 A. Most certainly, yes. CRESCO has no
23 employees.

24 Q. And is it true that any services required
25 for CRESCO to function will be provided by the cooperative?

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A. That's correct also.

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Q. Is it correct that in your rebuttal statement, Page 1 of your rebuttal testimony, you make the statement that CRESCO is entitled to receive the full benefit of Commission practices and precedents which may work in its favor?

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A. Yes.

Q. Is that correct? Are you saying by that statement that any Commission practices and precedents that do not work in your favor should not be applied to CRESCO?

A. Well, that's not what I was saying. What we were saying here is that CRESCO is a company that's--it is under the jurisdiction of the Public Service Commission, and we feel that it should be treated in the same way that any other company under the jurisdiction of the Commission should be treated.

Q. So if there are past precedents and practices that would be adverse to CRESCO, you would acknowledge that?

A. Work both ways.

Q. Those should be applied as well. On Page 2 of your rebuttal testimony, did you make the statement that CRESCO made no attempt to include Union Electric's projection of customer growth in the area in question in

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1 CRESCO's feasibility study?

2 A. That's correct. We made no intention of
3 including the anticipated growth of Union Electric.

4 Q. And did you later, in your rebuttal
5 testimony, testify that CRESCO could certainly handle the
6 combined growth--or the combined customer growth projected
7 by Union Electric and CRESCO?

8 A. We feel that we could.

9 Q. What is the basis of that statement when
10 there is no study or analysis in the record to support that?

11 A. Well, I think that the basis would be that
12 we're talking about basically increasing the transformer
13 sizes within the substations, maybe enlarging the conductor
14 size, basically making improvements to the system. It would
15 be relatively little expansion, just a basic improvement of
16 the existing facilities.

17 Q. But you do acknowledge--

18 A. That would be necessary.

19 Q. --that your feasibility study did not
20 actually take that into account?

21 A. That's correct, it did not.

22 Q. Would you agree with the statement that it's
23 important for a public utility to have its own source of
24 financing?

25 A. Yes. It would have to have some source of

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1 financing. I don't know what you're specifying when you say
2 "its own source."

3 Q. Would you agree that CRESCO does not have
4 any credit or financial history?

5 A. CRESCO, as you know, is a relatively new
6 company and all the financing is provided by the
7 cooperative.

8 MR. WALTHER: I have no further questions.

9 EXAMINER FEE: Ms. Bjelland.

10 MS. BJELLAND: Yes.

11 CROSS-EXAMINATION BY MS. BJELLAND:

12 Q. Good morning, Mr. Brown.

13 A. Good morning.

14 Q. Who are you testifying on behalf of today at
15 these proceedings?

16 A. Cuivre River Electric Service Company.

17 Q. And it is correct that you are employed by
18 Cuivre River Electric Co-op?

19 A. That's correct. Uh-huh.

20 Q. And do you have any work relationship to
21 Cuivre River Electric Service Company?

22 A. I believe, as I mentioned briefly,
23 Cuivre River Electric Service Company, which we refer to as
24 CRESCO, has no employees. I've been designated by the
25 general manager on the Board to be the contact person

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1 between the two companies.

2 Q. But you are not actually employed by CRESCO?

3 A. That's correct.

4 Q. Okay. Mr. Brown, at Page 3 of your direct
5 testimony, you make a statement that the co-op and CRESCO
6 will strive to have the same rate structure; is that correct?

7 A. Yes, it is.

8 Q. Does this refer to all rates or some rates?

9 A. All rates.

10 Q. All rates. And are the rates currently the
11 same?

12 A. Yes, they are.

13 Q. Can you tell me or do you have any
14 information about the average cost for residential customer
15 for electric service provided by CRESCO?

16 A. In the way of dollars per month or kilowatt-
17 hours?

18 Q. Dollars per month.

19 A. It would be a guess. Somewhere around \$70,
20 \$75 average.

21 Q. Okay. Is it my understanding that CRESCO
22 will eventually own and operate all of the co-op's
23 facilities?

24 A. The distribution facilities, yes.

25 Q. Is that correct?

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1 A. Uh-huh.

2 Q. What will happen to the co-op? Will it
3 cease to exist?

4 A. No.

5 Q. It will continue to exist and operate with
6 respect to its existing customers?

7 A. No, it would have no customers. It would
8 have the employees, the buildings, the vehicles, provide the
9 services. It would have no customers except for CRESCO.

10 Q. So all customers and distribution facilities
11 would be owned--

12 A. Yes.

13 Q. --by CRESCO?

14 A. By CRESCO.

15 Q. Mr. Brown, at Page 6 of your testimony, in
16 your discussion of the closer-to principle, you also propose
17 a combination of the closer-to and customer preference when
18 distribution facilities of two providers lie in close
19 proximity. Can you please tell me or elaborate how this
20 combination of closer-to and customer preference would work?

21 A. Well, what we would anticipate, there would
22 be a certain amount--allowance of a distance, whether it
23 would be 200 feet, 500 feet, 1,000 feet; and anyone within
24 that given area would actually have a choice of their
25 supplier simply because both utilities are already there.

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1 There would be very little duplication required by either
2 company. If it would fall out of the range of whatever that
3 distance would agree to be, whether 200 or 1,000, then
4 whichever power supplier would have existing facilities
5 closer to that potential new load would be allowed to serve
6 that new customer.

7 Q. Okay. Where does customer preference fit
8 into that?

9 A. Customer preference would be within the
10 distance, the 200 or whatever footages is determined.

11 Q. Okay.

12 A. If it's within that 200 feet, the customer
13 would have choice, customer preference.

14 Q. Also in your answer to Question 16 on
15 Page 6, you indicate that least cost of construction might
16 be another alternative, do you not?

17 A. That's an alternative I suppose, yes.

18 Q. What elements would CRESCO include in the
19 least-cost approach?

20 A. Well, I think what I had in mind here was in
21 a situation where we're looking at a new load requiring
22 three-phase electric service, and the company that would be
23 closer to it would only have single-phase electric. But in
24 order for that company, even though they're closer to, to
25 convert that line to three-phase, it might be cheaper for

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1 the other company, which has three-phase farther away than
2 what the single service is, to allow that company to serve
3 it. Does that answer your question?

4 Q. Yes. And am I correct that CRESCO's power
5 source is through a requirements contract with the
6 cooperative?

7 A. That's correct.

8 Q. Who, in turn, purchases from some other
9 cooperative; is that correct?

10 A. That's Central Electric Power Cooperative,
11 yes.

12 Q. Do the members of CRESCO have any
13 representation in terms of setting rates for the power that
14 the co-op buys?

15 A. The CRESCO customers are represented on the
16 Board of Directors of both CRESCO and the cooperative.

17 Q. Okay. And from the cooperative to its
18 supplier, is there any representation?

19 A. Yes.

20 Q. To what degree?

21 A. There's two Board members, the general
22 manager and one Board of Directors represents CRESCO on the
23 Board of Central Electric.

24 Q. Okay. And when you speak of the closer-to
25 principle, you are referring to existing facilities as of a

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1 certain fixed date; is that correct?

2 A. That would be, yes, our anticipation of the
3 way that this could work.

4 MS. BJELLAND: I have no further questions.

5 EXAMINER FEE: Ms. Swaller.

6 CROSS-EXAMINATION BY MS. SWALLER:

7 Q. Mr. Brown, I'm Kathy Swaller. I'm an
8 attorney for Union Electric Company. I have a few questions
9 for you.

10 First, I would like to look at the
11 relationship between CREC--that's Cuivre River. I'll use
12 CREC for an abbreviation--and CRESCO. First of all, that
13 relationship is governed by an operating agreement; is that
14 correct?

15 A. One of several, yes.

16 Q. And the operating agreement is for a period
17 of 30 years?

18 A. Yes, ma'am.

19 Q. Okay. And pursuant to that agreement, CREC
20 supplies power, maintenance, repair and replacement of
21 facilities, purchasing services, accounting services,
22 engineering services, facility, safety, and protection
23 programs, communication services, tax consulting services,
24 legal services, training and educational courses. Is there
25 anything that I've left out?

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1 A. Not to my knowledge.

2 Q. Okay. Is there anything that CRESCO does
3 for itself?

4 A. It collects money from its customers.

5 Q. Who collects?

6 A. CRESCO.

7 Q. Who for CRESCO collects?

8 A. Well, the cooperative through CRESCO.

9 Q. Okay. Does CRESCO have any employees?

10 A. No.

11 Q. So CRESCO does not do anything on its own?
12 It's all done through CREC?

13 A. It's all done through the cooperative as a
14 contractor.

15 Q. Okay. What is CRESCO paying for all those
16 services?

17 A. CRESCO returns all of the revenue to the
18 cooperative in return for the services.

19 Q. So CRESCO pays absolutely everything that it
20 has for the services regardless of the value of the
21 services?

22 A. I guess it could be stated, yes.

23 Q. Okay. It's conceivable they could pay
24 substantially more for the services than they are worth?

25 A. Possibly.

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1 Q. What happens if one of the parties to that
2 contract breaches the contract?

3 A. The parties being the cooperative and
4 CRESCO?

5 Q. Right.

6 A. That has not occurred so I don't know that
7 I could answer that.

8 Q. Could you conceive that that could happen?

9 A. In what way? Did you have something in mind
10 as far as breaching?

11 Q. In other words, is it conceivable they could
12 breach--in other words, say--

13 A. I guess any contract could be breached; but
14 we don't anticipate that, have not conceived it.

15 Q. Right. But, you know, for example, CREC
16 could do a crummy job on maintenance or just refuse to
17 supply maintenance, something of that nature. They could,
18 in fact, violate the terms of the contract and, therefore,
19 breach it; is that correct?

20 A. Well, I suppose if a contract was made, it
21 can be breached.

22 Q. Okay. Now, if, in fact, it were breached,
23 what would happen? Would the party that was injured sue the
24 other party?

25 A. I think that it's in the contract that that

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1 cannot happen.

2 Q. I can either read it myself or hand it to
3 you and let you find it for me, but I've looked through this
4 contract pretty carefully and don't recall anything of that
5 nature in there. Are you sure that--

6 A. Are you referring to the operating
7 agreement again?

8 Q. Yes, I am.

9 A. Okay. I'm thinking somewhere in one of the
10 other agreements--again, there are several agreements--that
11 it's my understanding that that could not happen.

12 Q. Okay. The operating agreement is a separate
13 agreement. It's not contingent on any other agreement. At
14 least it's not mentioned in here if it is.

15 MR. WIDGER: I would object to the
16 questioning unless she's going to provide a copy of the
17 agreement to the witness so that he doesn't have to guess at
18 what's in there when counsel can read it.

19 MS. SWALLER: Sure. I'll be glad to show
20 you my copy. It's the only one I've got.

21 THE WITNESS: What was your question again?

22 BY MS. SWALLER:

23 Q. The question was: Does that contract
24 provide, as you've indicated, that the parties could not sue
25 each other?

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1 A. No. I'm not that familiar with each and
2 every paragraph of the operating contract. If you've looked
3 through it and say contrary to what I've said, I'm not going
4 to argue with that. I'm thinking that somewhere in one of
5 the agreements we have a facilities purchase and a power
6 purchase agreement and that there is a hold harmless clause.

7 Q. Let me borrow that back from you. So if the
8 relationship breaks down and one party breaches the contract
9 and they can't sue, how do they resolve it?

10 A. Well, we don't anticipate that happening.

11 Q. In fact, if it were to occur, since you have
12 the same attorney, there would be no possible way to
13 actually--

14 A. Well, one company is owned by the other.
15 CRESCO is owned by the cooperative.

16 Q. That's true. And is it your understanding
17 that subsidiaries cannot sue one another?

18 A. I'm not familiar with other subsidiaries.

19 Q. Okay. In fact, CREC and CRESCO are the same
20 and there's no difference between them and so conflict of
21 interest is not possible, is that your feeling?

22 A. Well, they are not one in the same. They
23 are two separate companies.

24 Q. What's the difference?

25 A. Well, CRESCO is a wholly-owned subsidiary of

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1 the cooperative. It's chartered in the state of Missouri
2 and not under the 394 Chapter. It has its own customers.
3 It has its own facilities.

4 Q. The facilities are owned by--

5 A. CRESCO.

6 Q. Are owned by CRESCO?

7 A. Yes, ma'am.

8 Q. But they're operated by CREC?

9 A. That's correct.

10 Q. And they're originally CREC's and they sold
11 them to CRESCO; is that right?

12 A. That's correct.

13 Q. So they own some separate facilities and the
14 facilities that will later be transferred are owned by CREC
15 right now and they've got a separate charter. Are there any
16 other differences that you can think of?

17 A. Well, I'm sure there are. I don't know--I
18 can't think of any other at this time.

19 Q. Okay. Let's talk about the operation of
20 CREC, of the co-op. Who pays for the cost of new
21 facilities? Let's say a new line is built, who pays for
22 building a line?

23 A. The cooperative's lines?

24 Q. Yes.

25 A. The cooperative pays for it.

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1 Q. Okay. When does a customer pay for a line
2 or part of a line?

3 A. The customer being of CRESCO?

4 Q. No. No. We're talking about CREC. If
5 there is a farmhouse and they ask for service out there,
6 under what circumstances would the people that live there
7 pay for that line?

8 A. I'm sorry. I lost you.

9 Q. Okay. We're talking about the co-op.

10 A. Uh-huh.

11 Q. And a customer, a perspective customer of
12 the co-op, needs a line built out to their farmhouse to
13 serve them. Under what circumstances would that customer
14 pay for the line?

15 A. There's an average investment that we allow
16 per consumer, per customer, and any amount above that
17 average is required to be paid by that customer requesting
18 service.

19 Q. Okay. Does that happen under all
20 circumstances?

21 A. To my knowledge.

22 Q. So every time that the cost of the line is
23 in excess of the average, then the customer has to pay that
24 excess?

25 A. As a deposit, yes.

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1 Q. What do you mean by "as a deposit"?

2 A. It's refundable.

3 Q. If they should ever use enough power to pay
4 for it, is that what you mean?

5 A. Yes.

6 Q. Before it reaches that average, it's, in
7 effect, given away free, is that a fair statement?

8 A. There's a certain allowance that is allowed
9 each new customer, a certain amount of facilities that we
10 will invest at no cost.

11 Q. Is it the same for every customer?

12 A. Yes.

13 Q. Same for industrial, same for farm?

14 A. That's my understanding, yes.

15 Q. You say it's your understanding. Is there
16 someone here who's more qualified to respond to that?

17 A. I don't believe so.

18 Q. Okay. Why would you give anything away
19 free? Why would you pay for some of the line yourself and
20 not have the customer pay for it?

21 A. Well, it's all owned by the customers.
22 We're a cooperative. The customers own the cooperatives.

23 Q. Okay. So the cooperative is going to pay
24 for it directly instead of the customer and accrue more
25 accounting expenses instead of just having them pay for it

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1 initially?

2 A. That's possible, yes.

3 Q. And, in fact, you're going to have some
4 customers paying for less than their share, right? I mean,
5 if it's a really big line and the co-op pays for it--

6 A. They're only going to pay for approximately
7 \$1,700 to \$2,000 worth which is the average investment per
8 customer.

9 Q. So anything over 72,000?

10 A. No. 1,700 to 2,000. I don't know what it
11 is. It fluctuates in that range.

12 Q. It fluctuates. What causes it to fluctuate?

13 A. Well, the amount of facilities and the
14 amount of customers.

15 Q. Okay. How does that work? I just don't
16 understand at what point they pay and how it's determined.

17 A. Well, I don't get involved on a daily basis
18 with this type of business myself. But it's determined by
19 the amount of facilities that the cooperative has, the
20 dollar value divided by the number of customers. And each
21 year that's going to change based on the dollar value and
22 based on the number of consumers.

23 Q. Okay. Does the proximity of UE's lines have
24 anything to do with when the customer pays and when it's
25 free?

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1 A. No.

2 Q. If CRESCO is granted a certificate for
3 certain parts of what's now CREC's territory, what will
4 their policy be with regard to having the customer pay for
5 lines? Will it be the same as the policy that CREC now has?

6 A. It would be the same as filed with the
7 existing tariffs--

8 Q. Is that the same as CREC's?

9 A. --of CRESCO. Yes, ma'am.

10 Q. So CRESCO and CREC have the same line
11 extention policy?

12 A. Yes, ma'am.

13 Q. Does CREC operate subject to REA and the REA
14 statutes?

15 A. Yes.

16 Q. Okay. As a CREC subsidiary, does CRESCO
17 operate subject to the REA?

18 A. Yes.

19 Q. In fact, there is a signature line on your
20 contracts for an REA person; is that correct?

21 A. Very possibly.

22 Q. Well, I can show it to you. It says for the
23 administrator of the Department of Agriculture.

24 A. Yes.

25 Q. But it's not signed. Do you know when

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1 that--

2 A. I don't know what copy you have. If that's
3 a sample or if that's an executed copy or--

4 Q. It's executed as to, you know, Cuivre River.
5 Anyway it's your understanding they operate subject to
6 REA; and REA, in fact, approves or signs your contracts?

7 A. Yes.

8 Q. Okay. Are you familiar with the purposes of
9 REA?

10 A. I suppose I am in general, yes.

11 Q. And what's your general understanding of
12 that?

13 A. To provide financing for rural electric
14 cooperatives.

15 Q. Okay. And what's rural?

16 A. That's anyone's guess. I suppose it's
17 different in each state.

18 Q. If I told you that in the federal statute
19 there is a provision that "rural" is defined as anything but
20 towns of 1,500 or more population--

21 A. I think that's pretty much the state statute
22 of Missouri also.

23 Q. Okay. So that is then a working definition
24 of rural?

25 A. Apparently, yes.

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1 Q. Okay. How does CRESCO fit into the purposes
2 of REA?

3 A. Well, presently CRESCO at this time serves
4 just Lake Saint Louis, which is, of course, greater than
5 1,500; so REA money is not available for CRESCO.

6 Q. Okay. But CRESCO is now seeking
7 application. And if that application is granted, in what
8 way will REA fit into and be consistent with the purposes?

9 A. Well, if any of the financing should be in
10 areas that are greater than 1,500, then again REA money
11 would not be available.

12 Q. Okay. Do you keep separate accounts so
13 that, you know, REA money that CREC has isn't used for
14 facilities that eventually go to CRESCO or isn't used in
15 Lake Saint Louis?

16 A. I honestly cannot answer that. I'm not
17 qualified.

18 Q. Who here is best qualified to answer that?

19 A. I would think either Mrs. Goetz or Mr. Deal.

20 Q. Okay. In fact, if any REA money is used by
21 CRESCO in towns over 1,500 or in nonrural areas, then, in
22 fact, that would not be consistent with the purposes of the
23 REA statute?

24 A. If it's a nonrural area?

25 Q. Yes.

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1 A. I would think that it would be.

2 Q. It would be contradicting it, in fact, going
3 against it?

4 A. Not if it's in a nonrural area, I would
5 think not.

6 Q. Nonrural. It's in an urban area and you're
7 using REA money?

8 A. I'm sorry. You're correct.

9 Q. Okay. Now, we all pay taxes in April or
10 thereabouts and they go to the federal government. The
11 federal government divides that money up according to the
12 various departments or whatever, and REA gets a share of the
13 federal money. And then that money is used to loan money to
14 cooperatives at an interest rate that is less than the
15 standard interest rate offered by banks. Is that fair?

16 MR. WIDGER: Let me object to the question
17 because it misstates the facts that are public facts and
18 that is that REA does not get annual appropriations, that
19 all the funding of the cooperatives now is done through a
20 revolving fund established in 1979.

21 BY MS. SWALLER:

22 Q. Okay. Then let me put it this way: If REA
23 is loaning money at lower than the interest rates that are
24 offered everywhere else, is the federal government in some
25 way subsidizing REA? Are they not receiving some benefit

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1 from having that money loaned through them by REA?

2 A. Well, this money was put into a revolving
3 fund, so this money that the cooperatives are using is
4 really not out of the budget.

5 Q. Okay. It may not be out of the federal
6 budget, but if they're loaning it at a lower interest rate
7 and the government is not collecting 15 percent that could
8 be collected if it were loaned from a bank--and I'm just
9 using 15 percent. I don't know what the interest rate is
10 right now but substantially more than the below 5 percent
11 that the REA is offering, as it's my understanding--is
12 that not some direct financial benefit to the co-op?

13 A. Well, it's cheaper financing that's
14 otherwise available.

15 Q. Okay. And it's through the federal
16 government?

17 A. (The witness nodded his head.)

18 Q. And the federal government would have more
19 money if it required a higher interest rate? It would be
20 bringing more money back in when the loans were paid back?

21 MR. WIDGER: My objection would continue
22 because of the question is based on a misunderstanding of
23 what's going on.

24 MS. SWALLER: Let me just--

25 EXAMINER FEE: Overruled.

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1 BY MS. SWALLER:

2 Q. Let me just try to clear this up. And I'll
3 tell you right where I'm going. I'm not trying to snow you
4 or anything. I just simply want you to recognize and admit
5 that there is a benefit to co-ops and that benefit comes
6 from the federal government, that they are giving a break.
7 It's a supported program by the federal government, albeit
8 not directly.

9 A. I think that there are some benefits, and I
10 think there are some disadvantages. I don't know whether
11 one outweighs the other.

12 Q. Okay. Well, the benefit I'm talking about
13 is financial. I'm not talking about any disadvantages
14 connected with--you know, I'm sure there is tons of paper
15 work. But I'm just talking strictly about money. And there
16 is some benefit flowing to the co-ops from the federal
17 government?

18 A. The 5 percent money is available to the
19 cooperatives. I doubt very seriously we could get 5 percent
20 money in other institutions.

21 Q. So it's a benefit?

22 A. Well, if you can get it at 5 percent rather
23 than 10, I suppose that that's a--

24 Q. You prefer it. So would I. Okay.

25 The people in nonrural areas, urban areas,

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1 are not served by REA co-ops, correct?

2 A. Traditionally, yes.

3 Q. Okay. Those people pay taxes. Those taxes
4 run the federal government. In the long run, if you
5 complete that circle, are the people in the urban areas
6 subsidizing the people that are taking electricity from the
7 co-ops?

8 A. I don't know that I'm qualified to answer
9 that question.

10 Q. Okay. Do you participate in the planning
11 for CREC, their long-range planning?

12 A. No, ma'am.

13 Q. Is there anybody in this room that does?

14 A. Mr. Noel and Mr. Didion. Mr. Didion is not
15 here, but they do our planning.

16 Q. Okay. You may or may not feel qualified
17 then to answer this question; but if you do, fine. Do you
18 have any feeling for yourself or for CREC where REA is
19 going? Is that money always going to be available to you in
20 the future?

21 A. No, we feel not.

22 Q. Okay. Do you have any feeling as to when
23 that unavailability is going to become--

24 A. It would just be pure speculation.

25 Q. Excuse me?

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1 A. It would just be speculation on my part.

2 Q. Okay. Do you see it as a good--as a good
3 thing that REA will eventually die out and therefore all
4 customers will simply be taking service from investor-owned
5 utilities?

6 A. Well, whether the money comes from REA or
7 not has nothing do to with whether--to be taking service
8 from investor-owned utilities. The cooperative does not
9 have to get financing from REA.

10 Q. Well, that's true. That's true. Do you see
11 it good that REA will eventually not exist and that
12 everybody will be supporting themselves?

13 A. Again, I don't know that I'm qualified to
14 look at all the different gamuts involved to make that
15 judgment.

16 Q. Okay. We'll turn to another area now and
17 that is the growth of CRESCO as opposed to CREC. Do you
18 envision any problems in connection with CRESCO's rapid
19 growth, and the rapid growth I'm talking about is if you
20 were granted your certificate?

21 A. No, ma'am.

22 Q. Okay. Now, that growth will be--and I
23 haven't figured it out exactly. But we're talking about the
24 town of Lake Saint Louis--and I don't know how many square
25 miles that is--as opposed to five counties. So that growth

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1 will be more than a hundredfold, if not a thousandfold. Is
2 that fair?

3 A. I think presently on Lake Saint Louis,
4 CRESCO has in the vicinity of 2800 or 2900 customers. The
5 cooperative presently has between 25,000 and 26,000. So it
6 would be--

7 Q. So double?

8 A. Well, we're talking about tenfold.

9 Q. Tenfold. Okay. I see what you're saying.
10 Tenfold customerwise, linewise just a lot?

11 A. Well, it's existing. It's just a transfer
12 of the existing facilities over to CRESCO, so it would be
13 very minimal additional new facilities required.

14 Q. True. But the growth of what belongs to
15 CRESCO and what they're responsible for grows tremendously?

16 A. I don't know that I'm following your
17 question.

18 Q. Okay. Now, you have--CRESCO owns a
19 certain number of lines and facilities right now. They're
20 all within the City of Lake Saint Louis?

21 A. That's correct.

22 Q. If your application is granted in its
23 entirety, you will have facilities and lines in
24 five counties?

25 A. That's correct.

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1 Q. CRESCO is then going to gain a substantial
2 amount of facilities if this application is granted?

3 A. Yes.

4 Q. Have you done--not you. Has CRESCO done any
5 studies to analyze the changes that are going to occur and
6 how you are going to handle that change?

7 A. Now, CRESCO, again, looking outside of Lake
8 Saint Louis in this five-county area?

9 Q. Exactly. In other words, studies to show
10 how they would be able to handle that change if the
11 application is granted?

12 A. I think Mr. Noel has made those studies,
13 yes.

14 Q. Are you talking about the feasibility study?

15 A. Yes.

16 Q. And that is the only study that has been
17 done to your knowledge?

18 A. Mr. Noel would be more qualified to answer
19 that than I am.

20 Q. Have you had any changes in your rates
21 since--CRESCO's rates since--

22 A. No, ma'am.

23 Q. So since '85, it's the same rates? '85 is
24 when you started. I guess maybe '86 you filed the case?

25 A. '86. CRESCO went into operation in July of

Missouri Public Service Commission

1 '86. We have not had a rate increase in that time, no.

2 Q. Has CREC had a rate increase since 1981?

3 A. Since 1981?

4 Q. '81.

5 A. Yes.

6 Q. How many?

7 A. It would be just a guess.

8 Q. I'll take a guess.

9 A. Three. Again, that's just a guess.

10 Q. Could be more? Could be less?

11 A. Very possible. You did say since 1981,
12 didn't you?

13 Q. '81.

14 A. Yes.

15 Q. Let's look at the rate issue then for just a
16 few minutes. Which facilities will--strike that.

17 If your application is granted, which
18 facilities will CREC own and which facilities will CRESCO
19 own?

20 A. All of the facilities would be transferred
21 to CRESCO, all the distribution, everything related to the
22 distribution of electric service.

23 Q. But not at any time certain?

24 A. No.

25 Q. So from month to month and year to year,

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1 depending on how long the transfer were to take place, at
2 certain moments CREC would own some things and CRESCO own
3 some things and then that--you know, CREC's ownership would
4 get smaller and CRESCO's bigger as we go along, right?

5 A. That was our original intent, yes.

6 Q. Has it changed?

7 A. After seeing the written testimony of
8 certain Staff members of this Commission, it appears that
9 this process that we had planned will not be acceptable.

10 Q. Okay. So what are you going to do about it?

11 A. Well, we're willing to comply with whatever
12 the Commission's request is.

13 Q. So if the Order granting an application of
14 CRESCO requires an immediate transfer, then CRESCO will
15 accept that?

16 A. If we could in conjunction with that receive
17 the territory that we are asking for, yes.

18 Q. In other words, if you're getting what you
19 want, you'll do it; and if you're not, you won't?

20 A. Well, I don't know that it's going to be
21 that black and white.

22 Q. If it's gray?

23 MR. WIDGER: I don't understand the
24 question. I'm not sure how the witness can. So I'll have
25 to object to it.

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1 EXAMINER FEE: Overruled.

2 BY MR. SWALLER:

3 Q. You understand where we're going. I mean,
4 we're just talking about--if you get--if you don't get
5 exactly what you want, you only get part of your territory,
6 then you would not go with an immediate transfer?

7 A. I really don't know that I could answer that
8 honestly for you.

9 Q. Okay. Does who own which--that's terrible
10 grammar. Does the party that owns each facilities at a
11 given time affect the rates and the rate base?

12 A. The facilities in Lake Saint Louis now as
13 opposed to--

14 Q. No.

15 A. Okay.

16 Q. Basically, I am in a hypothetical. Say next
17 year--your application is granted. We're in next year some
18 time. CREC owns certain facilities. CRESCO owns certain
19 facilities--

20 A. Maybe I can answer your question. I do not
21 get involved with rate studies. I've never been involved as
22 far as what is considered as far as determining rates. I'm
23 really, again, not qualified.

24 Q. Okay. Who here is?

25 A. I don't know that anyone here has been

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1 involved with rate cases. Mr. Didion within our company
2 has been.

3 Q. Okay. You are the sponsoring witness for
4 this case--

5 A. Uh-huh.

6 Q. --is that correct?

7 A. Yes.

8 Q. And you are not prepared to discuss rates?

9 A. As far as how rates are determined and what
10 goes into making rates?

11 Q. Right.

12 A. I myself am not prepared.

13 Q. And none of the witnesses that CRESCO has
14 offered are prepared to discuss that issue; is that correct?

15 A. Well, I am not aware of it if they had any
16 of this information included in any of their testimony or
17 any of their information requested in their data requests.

18 Q. Okay. Oh, I can read you my data requests
19 if you want me to; but I did ask for rate studies.

20 A. Weren't they provided?

21 Q. Yes, they were. But I would like to ask you
22 about them.

23 A. Well, I would be glad to answer what I can.

24 Q. Okay.

25 A. But, again, I think what you requested was

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1 our latest rate study which was done by Ledbetter and Toth.

2 Q. Exactly. And that was in 1981?

3 A. That's correct.

4 Q. And since that time, Mr. Didion, our
5 assistant engineer, has developed our rate increases
6 through--in coordination with REA.

7 Q. In accordance with REA?

8 A. Yes.

9 Q. Does REA help you set rates?

10 A. Yes. We work with them. We make
11 recommendations and they take a look at them and approve
12 them or disapprove them.

13 Q. How is it done, do you know?

14 A. No, I really don't.

15 Q. Do you know if any cost analysis is done?

16 A. I do not.

17 Q. Okay. I didn't get any cost studies; so I
18 guess if you had done them, you would have sent them to me?

19 A. Again, this was requested of Mr. Didion, I
20 believe.

21 Q. No. It was a request--it was a data
22 request which was sent to the company, and you signed the
23 answers to the data request.

24 A. I'm sure that everything that was available
25 was sent to you.

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1 Q. Okay. So if there was a cost study, I would
2 have got it and I didn't get it; therefore, there wasn't
3 one?

4 A. Again, I'm not certain.

5 Q. You did sign my response to data requests;
6 so you were the responsible party for supplying the
7 information and you did check everything, I'm sure.
8 Therefore, you sent me everything I asked for.

9 A. Okay.

10 Q. I hope. I trust you did. If you don't have
11 a cost study, how are rates set? Do you know?

12 A. I'm sorry--

13 Q. You don't feel qualified to defend--

14 A. Well, again, that information I went to
15 various department heads to gather that information. You
16 know, I'm not an authority on all those areas covered in the
17 data request.

18 Q. And no one here is?

19 A. You can ask them as they appear, but I--
20 again, within the company, Mr. Didion is the responsible
21 person for rates.

22 Q. Is it fair to say that rates are the way
23 that a company makes its revenue, that's how--financially
24 stated?

25 A. I most certainly think so.

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1 Q. The way your rates are set and whether those
2 rates are going to make a profit for the company or not
3 directly affects whether CRESCO is financially stable, does
4 it not?

5 A. Well, you mentioned the word "profit." Of
6 course, we are a nonprofit company; so we don't attempt to
7 really make profits.

8 Q. That's me and my lack of accounting. When I
9 say "profit," I just mean when you're making more than your
10 bills. I know that you eventually filter that back to the
11 customers.

12 A. Okay. I'm sorry. What was your question?

13 MS. SWALLER: What was my question? Could
14 you read it back, please?

15 MR. WIDGER: While she's looking for it, I'm
16 going to go ahead and make an objection because CRESCO's
17 rates have not been introduced as an issue in this case.
18 It's been--everyone has been informed that CRESCO's rates
19 are presently on file with the Commission, and there have
20 been no--nothing to indicate that this is a rate case.

21 EXAMINER FEE: Overruled.

22 (The reporter read back the last question.)

23 THE WITNESS: Yes.

24 BY MS. SWALLER:

25 Q. Okay. But you're not prepared to defend

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1 your rates or your rate study or how rates are made today?

2 A. I am not an authority on rates. As
3 Mr. Widger expressed, our rates that we filed with the
4 Commission were approved; and we have not had any rate
5 increases since that time.

6 Q. But you gave me the rate study you did, and
7 the only rate study you have is 1981. So your rates are
8 based on a 1981 study, but there's been three increases
9 since 1981?

10 A. I didn't say that the rates were based on
11 the '81 study. I told you that there had been rate
12 increases. And Mr. Didion, in conjunction with REA, have
13 done work on rate studies.

14 Q. Well, if they did studies, you would have
15 sent it to me because I asked you for all the studies.

16 A. Well, I requested information from
17 Mr. Didion.

18 Q. You don't know whether or not there has been
19 any study since 1981?

20 A. Well, I guess--what do you call a rate
21 study? I mean, if not Mr. Didion working in conjunction
22 with REA, if that's not defined as a rate study, then the
23 answer is no, there is not one.

24 Q. Okay. Then we may be using different
25 terminology. When I say "study," I'm talking about some

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1 kind of document analyzing your rates or your rate design
2 or--

3 A. From an outside party?

4 Q. No, not necessarily. It could be in-house.
5 It could just be a memo if you're studying the rates.

6 A. I'm sure we just didn't, you know, reach up
7 and grab rates. There was a study done to determine those
8 rates to see if it would bring in the revenue that was
9 needed.

10 Q. Okay. But there weren't any documents
11 resulting from that because if there were you would have
12 sent them to me, right?

13 A. Mr. Didion compiled the information that
14 was requested of him. If it was not in there, again, I
15 assume it's not available.

16 Q. Well, I'm not talking about the
17 interrogatories I sent to Mr. Didion; I'm talking about
18 the data requests that I sent to the company. And the
19 response that I received from the company is signed by you.

20 A. Yes. And the information request regarding
21 rates was requested by me to Mr. Didion, and he provided me
22 with what was requested. And if they are not in there, I
23 assume that they are not available.

24 Q. Okay. Therefore, the only rate study that
25 you got--I'm talking about paper as opposed to people

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1 thinking--is a 1981 study?

2 A. I'm not going to agree with that because I'm
3 not certain.

4 Q. Okay. Well, we've either got two things:
5 we've either got there's only a 1981 study, or we've got
6 that CRESCO did not fully comply with my data requests.
7 It's one of two things.

8 A. We certainly intended to fully comply.

9 Q. I'm going to try and ask you a few questions
10 about this rate study; and if you're uncomfortable with it,
11 just tell me because I know you've already told me that this
12 isn't your area, that there are some things in here that you
13 might--might be in your area. There's one customer in here
14 that's treated separately from everybody else and that's
15 Amoco. Are they still your customer?

16 A. I can't even think of who that customer is
17 to be right honest with you. We have a large piping--
18 pipeline. When I think of Amoco, I think of a service
19 station. But I'm thinking you're talking about--

20 Q. It's a big user, real big user.

21 A. --Amoco pipeline. I think they are still a
22 customer. I don't think they are a major customer any
23 longer.

24 Q. Okay. In '81, they had \$70,000 worth of
25 revenue?

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1 A. I'm certain that they're not--

2 Q. I'm sorry. 56,000. You're not familiar
3 with them?

4 A. I'm not familiar with them, but I do know
5 that they're not as a major factor as they were. I think
6 they've cut way back on their operation.

7 Q. Do you still give them a rate different from
8 every other customer that you have?

9 A. I'm not aware that we ever gave them a
10 special rate. That's why I answered your question I really
11 don't know.

12 Q. Okay. I'm not using the word "special,"
13 because I don't know that the rate was any better than any
14 other rate. But do you still give them a rate different
15 than every other customer?

16 A. I cannot answer that.

17 Q. Okay. You may or may not know the answer to
18 this; and if you don't, that's okay because I know this
19 isn't your study. Why are home and farm users, the family
20 people, lumped in the same category in your study and,
21 therefore, I assume, your rates as your single-phase users
22 and your three-phase users so your small commercial people
23 and your farm and family people are all lumped together? Do
24 you know why that's done or is it still done today?

25 A. We have a separation of single-phase and

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1 three-phase. Is that not contrary to what you said?

2 Q. It's not done that way in this study.

3 A. Well, it is done that way--is that the '81
4 study?

5 Q. Yes.

6 A. Well, it's done differently now.

7 Q. Okay. We'll get out of rates and into
8 something that both of us probably are more comfortable
9 with. You've already answered a number of questions on the
10 transfer of CREC and its facilities to CRESCO. And I'd like
11 to ask you a few more questions about that. You've already
12 told me that if the Commission should order an immediate
13 transfer--and in order to get your request, you have to do
14 that, that you'll do it, right?

15 A. Are you telling me that we--

16 Q. No. I'm repeating what you said back to me
17 and asking you if that's accurate?

18 A. Yes. As our application was presented, if
19 we can get the territory as was presented, yes, we would be
20 willing to transfer the facilities.

21 Q. Okay. When? Immediately?

22 A. At the discretion of the Commission.

23 Q. So you'll let the Commission pick your
24 schedule?

25 A. We would certainly work with them, which I'm

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1 sure that they would, as to what a likely timetable could
2 be.

3 Q. Okay. At this point, you're not--CRESCO is
4 not willing though to, without any conditions, say that it
5 would do an immediate transfer?

6 A. I think that's correct. We'd have to know
7 what the conditions would be.

8 Q. So you won't simply agree to an immediate
9 transfer?

10 A. Not without knowing the conditions.

11 Q. Okay. Why would you want to wait on a
12 transfer, you know, do a transfer slowly as opposed to doing
13 it immediately?

14 A. As we initially--

15 Q. Yeah. Why would you do it the way you
16 originally wanted to?

17 A. Well, it was simply thought that it would be
18 an easier transfer, more timely, maybe less of an impact.

19 Q. Isn't it more costly though to do it slowly?

20 A. I really don't know.

21 Q. Keeping two sets of books? Accountants
22 aren't cheap.

23 A. It could be more costly. But where the cost
24 savings or the extra costs would not offset the
25 inconvenience, you know, I really don't know.

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1 Q. Now the co-op is never going to go out of
2 existence, correct?

3 A. Not planning on it.

4 Q. So you'll always have two sets of
5 regulations to deal with, the PSC and the Department of
6 Agriculture; is that correct?

7 A. If the cooperative should continue its
8 financing with REA, but we don't know for how long that will
9 continue.

10 Q. But you've got loans with REA, and it's
11 going to take you a whole long time to pay all those loans
12 back. In fact, you've got a \$4 million loan from this
13 March. So you're going to have to file paper work with them
14 until those are all paid back; is that correct?

15 A. Well, yes, but we don't know what time frame
16 that those may be paid back.

17 Q. You don't anticipate a \$4 million loan being
18 paid back in the next ten years, do you?

19 A. It's quite possible.

20 Q. How soon?

21 A. I don't know.

22 Q. It's not going to be next year?

23 A. I really don't know.

24 Q. Why will CREC continue to exist after the
25 complete transfer?

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1 A. Well, again, it's the charter company; and
2 it will be necessary to house the employees, the buildings,
3 the vehicles, and provide the service which is the contract
4 that it has entered with CRESCO.

5 Q. But they could all become CRESCO employees,
6 couldn't they?

7 A. Not according to contract.

8 Q. True. But you've already told me that it
9 could be breached without either party suing each other.

10 A. Well, as I told you, I guess any contract
11 could be breached; but we certainly don't anticipate that.
12 There would no advantage for the employees to become CRESCO
13 employees.

14 Q. Well, is the real reason that CREC is going
15 to continue to exist after it has no customers is that it
16 can still borrow from REA and CRESCO can't?

17 A. CRESCO could.

18 Q. How can CRESCO borrow from REA?

19 A. Well, through the cooperative in areas that
20 are rural.

21 Q. Okay. But if you don't have a cooperative
22 anymore?

23 A. I never said we were going to do away with
24 the cooperative.

25 Q. I know, but--I think I'm getting confused.

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1 What I asked was--

2 A. Maybe it's me.

3 Q. Maybe we both are. What I asked was, is it
4 not true that the real reason that we're keeping CREC after
5 all of CREC's facilities have been transferred to CRESCO is
6 that CREC is in a position to borrow REA money?

7 A. That's not the real reason.

8 Q. What is the reason?

9 A. Well, as I stated to you, we think that we
10 need--I don't know what's involved with doing away with the
11 cooperative. I don't know if we could do that if we wanted
12 to.

13 Q. Have you looked at it?

14 A. I have not, no.

15 Q. CRESCO could employ all of those people
16 instead of CREC, right?

17 A. Again, there is an operating agreement that
18 says not; but you've told me that contracts could be
19 breached.

20 Q. Or you told me. Either way, we both know
21 that it's true. And so that's the only reason that CREC is
22 going to stay around because it's got all the employees?

23 A. We have never--we, being management, has
24 never given any serious consideration doing away with the
25 cooperative because we saw no need to do so.

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1 Q. Can CRESCO borrow directly from REA?

2 A. Can CRESCO borrow directly from REA?

3 Q. Yes.

4 A. I really don't know. I know they can borrow
5 directly from CFC.

6 Q. Have you tried?

7 A. No.

8 Q. Okay. Before the merger is complete--

9 A. Uh-huh.

10 Q. So CREC still owns some facilities and
11 CRESCO still owns some facilities, CREC could continue to
12 compete for UE customers, correct?

13 A. CREC. I'm sorry. You're throwing me with
14 CREC. You're talking about the cooperative? I've never
15 heard that term CREC before.

16 Q. Yes. Oh, okay.

17 A. The cooperative could compete with Union
18 Electric in rural areas.

19 Q. Right. And, in fact, it does now. And if
20 your application is granted but not fully so there's some
21 areas left for UE, some areas for CRESCO, CREC is still in
22 existence, CREC could compete with UE?

23 A. That would be my understanding.

24 Q. CREC could compete with CRESCO?

25 A. I have never given it that thought, but I

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1 don't know why they would.

2 Q. Well, CREC has an area coverage requirement.
3 They have to accept every customer that comes through their
4 door. So if a customer that's closer to a CRESCO facility
5 comes through their door, they have to accept that customer?

6 A. You said CREC or CRESCO?

7 Q. CREC has an area coverage requirement.

8 A. Yes.

9 Q. If a potential CRESCO customer comes through
10 the door, CREC has to serve them, not CRESCO?

11 A. If a potential CRESCO customer--

12 Q. In other words, they're living right next to
13 a facility that's already been transferred to CRESCO.

14 A. Okay.

15 Q. Say they're right outside Lake Saint Louis--

16 A. Okay.

17 Q. --but they ask CREC for service--

18 EXAMINER FEE: Don't alternate the parts of
19 the questions and the parts of the answers. It makes a very
20 unreadable transcript, and the reporter can't do a thing
21 about it if that's the way you talk.

22 MS. SWALLER: I'm not sure what you're
23 asking me.

24 EXAMINER FEE: I'm asking for you to wait
25 for him to finish his answer before you ask your next

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1 question. And I'm asking him to wait for you to finish your
2 question before he starts his answer--

3 MS. SWALLER: Okay.

4 EXAMINER FEE: --because otherwise I will
5 make you all read the transcript and see how silly it looks.
6 We get a lot of little dashes. I mean, she's getting plenty
7 of little dashes in the transcript.

8 MS. SWALLER: Okay. We'll try to do that.

9 BY MS. SWALLER:

10 Q. The question was--strike that.

11 First, you agree with the proposition that
12 CREC has an area coverage requirement?

13 A. Yes.

14 Q. Okay. Then during the period of time that
15 CREC still has facilities and CRESCO still has facilities,
16 if a potential CRESCO customer--by that I mean living close
17 to CRESCO facilities--comes to CREC and asks for service,
18 CREC will have to serve them?

19 A. Again, I've never thought about that
20 scenario; but I suppose it would depend on what kind of
21 certificate CRESCO is giving, whether it's a
22 line certificate area coverage, depending on the
23 certificate.

24 Q. Conceivably, it could happen though if the
25 certificate was of whatever type that you are envisioning?

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1 A. I suppose.

2 Q. Okay. So CREC will compete with CRESCO
3 conceivably?

4 A. No, not conceivably. Conceivably it could
5 happen, but that certainly wouldn't be the intentions.

6 Q. And they can also compete with UE?

7 A. CREC, the cooperative?

8 Q. Yes.

9 A. I would hope that the cooperative would be
10 allowed to continue to compete with Union Electric in areas
11 that are not urban.

12 Q. So now UE doesn't just have to deal with
13 CREC; they have to deal with CRESCO too for competition?

14 A. Again, it depends on what the Order would be
15 worded.

16 Q. When the merger is absolutely completed,
17 then the only two parties competing, if at all, will be
18 CRESCO and UE, correct?

19 A. Well, I would hope that it would take a lot
20 of the competition.

21 Q. But there will be still some areas even if
22 your closer to is accepted?

23 A. But it would be minimal.

24 Q. Why do you want to merge then if CREC can
25 always compete with UE, but CRESCO can only compete with UE

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1 where the Commission doesn't divide things neatly up?

2 MR. WIDGER: Before you answer, for
3 clarification, could we call this a divestiture or something
4 rather than a merger? I'm having a problem with the
5 question because it's using merger, which is not the process
6 we are talking about. Actually, it's the reverse of merger.

7 BY MS. SWALLER:

8 Q. Do you understand what I mean by "merger"?
9 I'm not using it as a technical legal term. I'm using it as
10 just everybody is coming together and--

11 A. Becoming CRESCO?

12 Q. Yes.

13 A. Yes.

14 Q. Okay. Can you answer my question then?

15 A. Could you restate it, please?

16 Q. I don't even remember what it was. Okay.

17 CREC can now compete with UE?

18 A. Presently?

19 Q. Right.

20 A. Yes.

21 Q. Well, in the future as long as they are
22 around they can, true?

23 A. Before this merger takes place?

24 Q. Right.

25 A. Yes.

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1 Q. Okay. Once the coming together, merger,
2 however you want to call it, divestiture, occurs, CREC can't
3 compete with UE because they don't have any facilities,
4 right?

5 A. That's correct.

6 Q. Why merge? Why not take the best of both
7 worlds?

8 A. I think a very good answer to that would be
9 to stop some of the wasteful duplication that is now being
10 practiced by both parties.

11 Q. So doing away with CREC is going to stop the
12 wasteful duplication?

13 A. I would certainly hope so. It would make a
14 big difference in it, yes.

15 Q. So the sooner that CREC and CRESCO come
16 together, divest, merge, whatever they do, the sooner that
17 duplication is going to stop?

18 A. I would think so, yes.

19 Q. So you would be in favor of the most
20 immediate transfer because it would stop the duplication?

21 A. Within certain limitations, yes.

22 Q. A new area. You are aware that UE has some
23 area certificates in the area that is being sought by both
24 parties in this case?

25 A. Yes.

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1 Q. The Commission keeps those area certificates
2 in its files. Are you aware of that?

3 A. I'm sure that they do, yes.

4 Q. And those files are open to the public and
5 to CREC and everybody who wants to look at them?

6 A. I wasn't aware of that, but I certainly
7 agree with you if you say so.

8 Q. I'd like to show you a map that I got from
9 you, but that I've added something to. What I've got on
10 this map are some red lines there and some red lines here
11 (indicating). Those red lines are in St. Charles County.
12 These red lines are in Warren County. And subject to my
13 being correct--and you'll have to take me at my word--this
14 is where UE has its two area certificates. It also has a
15 bunch of little towns in here, but we're not going to talk
16 about those. When were CREC's lines built in these two
17 areas? This is your map.

18 A. I do not know the exact dates the lines were
19 built in those areas.

20 Q. Okay. None of those lines were built before
21 1915--

22 A. No, ma'am.

23 Q. --because CREC wasn't in existence before
24 1915?

25 A. That's correct.

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1 Q. So at least in St. Charles County, UE had
2 its area certificate long before CREC, the co-op, even
3 existed, correct?

4 A. I don't know when they received their area
5 certificate.

6 Q. Assuming they received it in 1915 or
7 pre-1920, as mentioned in my Motion for Summary Judgment,
8 then UE was there first, for what it's worth?

9 A. Yes, in certain areas of those--

10 Q. Well, St. Charles County where it's--

11 A. Well, I know there are certain areas of
12 St. Charles County that's within that area that you have
13 drawn that the cooperative had lines before Union Electric.

14 Q. But not before 1920?

15 A. No.

16 Q. Do you think it's fair to charge CRESCO with
17 the knowledge of CREC; in other words, should CRESCO be
18 responsible for everything that the co-op knows? If the
19 co-op knew something in 1940, should CRESCO be responsible
20 for that knowledge now since it's its subsidiary?

21 A. What was the year?

22 Q. I said 1940. 1950, 19--any year you want to
23 pick, old knowledge.

24 A. Should CRESCO be informed?

25 Q. Should they be responsible for that

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1 knowledge; in other words, should they have to have the
2 memory of CREC since they're the same?

3 MR. WIDGER: Let me object to the question
4 because it calls for a legal conclusion regarding agency or
5 law or principle of nature or something.

6 MS. SWALLER: Let me just rephrase it
7 because I don't mean to ask you a legal question; and he's
8 right, it does have a legal effect. I'm just asking you
9 for a fairness question. Is it fair to charge CRESCO with
10 all the memory and knowledge of CREC since they're
11 subsidiaries? Do you think it's fair that CRESCO should be
12 responsible for CREC's old actions and old knowledge?

13 MR. WIDGER: Let me renew the objection and
14 suggest if counsel wants to ask whether co-op should not
15 have built there because UE had an area certificate--I mean,
16 that's what you're getting to. We're comparing time
17 of certificate with time of construction of facilities--

18 EXAMINER FEE: She's allowed to ask whatever
19 question she wants to ask, and the objection will be
20 overruled.

21 MR. WIDGER: I understand.

22 BY MS. SWALLER:

23 Q. Do you know where we are now?

24 A. I'm not so certain that I really understand
25 your question.

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1 Q. Okay. I'll just come flat out and quit
2 beating around the bush and trying to be clever.

3 A. I would appreciate that.

4 Q. Well, that's what I'm supposed to do.
5 That's what they pay me to do.

6 What I'm asking you is: Is it fair to UE
7 for CRESCO to now ask for an area certificate in an area
8 that UE has had an area certificate for more than 60 years?

9 A. Well, I think that, in that area and the
10 other five-county area that CRESCO is asking for, we're not
11 asking for an entire area. We're only asking closer to,
12 what is closer to our existing lines; and Union Electric
13 does not have any facilities in that area.

14 Q. Do you agree that it dilutes UE's area
15 certificate if part of that area is taken away from them and
16 that part being the area that's closest to the co-op's
17 lines?

18 A. I think it would probably dilute it if that
19 area certificate is considered to be exclusive.

20 Q. Assuming UE's area certificate at this point
21 is exclusive?

22 A. Assuming that?

23 Q. Yes.

24 A. Sure.

25 Q. Now, the question is: Is it fair to UE to

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1 take away something that they've always had?

2 A. We think so.

3 Q. Why?

4 A. Because we're going to lose ourselves if we
5 don't ask for it. In other words, we've got facilities in
6 the area, and if we're not allowed to expand off of those
7 facilities because the area would be incorporated, then we
8 lose. Is that fair to us?

9 Q. Okay. But you're losing expansion. You're
10 not losing any existing customers, right?

11 A. We would not be losing existing customers
12 and neither would Union Electric.

13 Q. And at the time that CREC built the lines,
14 they had the ability to know, if not the knowledge, that UE
15 had area certificates in those areas?

16 A. Yes.

17 Q. And at the time they made all of their
18 plans, they knew that or should have known that?

19 A. Well, I think that's more correct. Maybe it
20 was available to them, but I do not know whether they knew
21 it or not.

22 Q. Okay. New area. Let's talk about the
23 Staff's concerns with UE's--excuse me. Staff's concerns
24 with CRESCO's application--testimony. William Cochran has
25 recommended that the rates for CRESCO in the future be based

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1 on the cheapest power source. Is that your understanding?

2 A. Yes. I believe that was in his rebuttal.

3 Q. CRESCO doesn't intend to do that, do they?

4 A. CRESCO--

5 Q. Doesn't--excuse me. That doesn't make any
6 sense. CRESCO does not intend to buy power from anyone
7 other than the co-op?

8 A. Well, they cannot.

9 Q. True. They're contractually bound to buy
10 power from CREC regardless of whether it is the cheapest
11 source?

12 A. Yes.

13 Q. Okay. Then if CRESCO files a rate case or a
14 complaint case is filed against CRESCO and rates are set,
15 and the rates are set based on power cheaper than CREC--

16 A. Excuse me. Are we talking about existing
17 CRESCO or CRESCO assuming this application certificate is
18 granted?

19 Q. Well, we have to assume that a certificate
20 is granted because the old CRESCO--UE did the best it could
21 and we didn't win; so we're talking about the new one, the
22 new case. So assuming that rates are set, based on power
23 cheaper than CRESCO gets it from CREC--okay?

24 A. I don't know how they could be based on
25 power cheaper than it receives from the cooperative because

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1 that's going to be the source of the power.

2 Q. Okay. Mr. Cochran has recommended that
3 rates be set based on the cheapest power source, right?

4 A. Uh-huh, yes.

5 Q. It's possible that power from UE or from
6 Iowa or from some other utility could be cheaper than power
7 that CREC is buying, correct?

8 A. I'm sure that's possible, yes.

9 Q. Therefore, it is possible that in future
10 rate cases that CRESCO's rates will be set based on cheaper
11 power than it can buy from CREC?

12 A. Well, I'm not trying to evade you; but,
13 again, I do not get involved with what determines rate cases
14 and what constitutes--

15 EXAMINER FEE: Maybe I could suggest that "I
16 don't know" is a perfectly acceptable answer and sometimes
17 shorter than one that ends up meaning that.

18 THE WITNESS: I don't know.

19 BY MS. SWALLER:

20 Q. If it were to happen--and here again the
21 answer may be "I don't know," I don't know. But if it were
22 to happen that your rates were set based on a cheaper power
23 source, your rates wouldn't be high enough to cover the
24 cost; is that true?

25 A. I really don't know. I'd rather not

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1 speculate.

2 Q. Okay. If a company's rates, the money they
3 are bringing in, is less than their costs, they would not be
4 financially stable, would they?

5 A. No, ma'am.

6 Q. Mr. Ketter recommends that facilities all be
7 transferred at one time. And we've already talked about the
8 fact that that's possible that you'd do that. It just
9 depends on the deal or the Order from the Commission?

10 A. Yes, ma'am.

11 Q. Mr. Meyer recommends that CRESCO file a rate
12 case or is CRESCO planning on doing that?

13 A. If we're instructed so by the Commission.

14 Q. So you're not going to do it on your own
15 accord?

16 A. Well, I don't know that we have decided at
17 this time to do that based on Mr. Meyer's testimony.

18 Q. So there's no plans in the immediate future
19 for CRESCO to file a rate case?

20 A. We're not anticipating a needed rate
21 increase for quite some time. It's my understanding that
22 that will not be done until a rate increase is necessary.

23 Q. I see. And the type of rate case that
24 Mr. Meyer is suggesting is not the small company rate case
25 but the full-blown rate case. Is that your understanding?

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1 A. From my knowledge or understanding of the
2 matter, yes, that's correct.

3 Q. And that's going to be a fairly--or would be
4 a fairly involved process?

5 A. It's my understanding. We've never been
6 involved in one of those; but yes, that's what I've been
7 told.

8 Q. It's my understanding there is one going on
9 next door.

10 A. And they've got the large room.

11 Q. One final area and then I will let you go.
12 Why was CRESCO formed originally?

13 A. CRESCO?

14 Q. CRESCO.

15 A. CRESCO was formed to serve in an area of
16 Lake Saint Louis, Missouri, which the cooperative by state
17 statute was not allowed to serve because of population
18 limitations.

19 Q. Is that the same purpose that CRESCO has
20 today?

21 A. That's one of the purposes.

22 Q. What's the other?

23 A. To stop the wasteful duplication.

24 Q. Okay. So there's two purposes for CRESCO,
25 and that's to serve in towns over 1,500 where you have a

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1 franchise and to stop wasteful duplication?

2 A. In towns which we presently have a franchise
3 or in towns that we could possibly receive a franchise, in
4 areas where we already have existing facilities closer to
5 that new load than what the power company would have.

6 Q. And those are the purposes of CRESCO?

7 A. I think that pretty well sums it up.

8 Q. In your testimony, when you talk about what
9 need exists for CRESCO, that's also your response,
10 duplication and towns over 1,500; is that accurate?

11 A. Yes, ma'am.

12 Q. Those needs are the needs of CRESCO, aren't
13 they?

14 A. The needs of CRESCO and the cooperative.

15 Q. Okay. But they are not the needs of the
16 customers?

17 A. I think it's the needs of the customer if we
18 can stop the unnecessary duplication, how it's costing him
19 money by raising his rates.

20 Q. There's nobody out there that's asking for
21 service that can't get any service, is there?

22 A. No. But I don't think it makes much sense
23 for somebody building a house and one of the two companies
24 built two miles of line to get to that house when the other
25 company is right there. To me, that's not the way to run an

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1 electric utility company.

2 Q. So the primary need is that of CRESCO and
3 the co-op, and then there's this secondary filter through
4 need of the public that you just talked about?

5 A. I don't know which would be considered the
6 primary. I guess me being a member of the staff of the
7 company, I guess our sites would be--probably consider that
8 the primary. But I think that if we would look at it in a
9 wider perspective, the needs of the customer would probably
10 be equally as important.

11 Q. But it's not a need to get service? It's
12 this need to save money for the companies that are involved?

13 A. That's correct.

14 MS. SWALLER: That's all I have at this
15 time. Thank you.

16 EXAMINER FEE: Will you have any redirect?

17 MR. WIDGER: Yes.

18 EXAMINER FEE: We'll be in recess 15 minutes.

19 (A recess was taken.)

20

21 EXAMINER FEE: The hearing will come to
22 order, please.

23 Mr. Widger.

24 MR. WIDGER: Yes, sir.

25 REDIRECT EXAMINATION BY MR. WIDGER:

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1 Q. Just a few loose ends, Mr. Brown. First of
2 all, are you aware of any--that any studies have been made
3 comparing the tax benefits that utilities receive versus
4 perhaps the interest rate benefit that cooperatives receive?

5 MS. SWALLER: I'll object on the grounds
6 that this does in no way touch upon any cross-examination or
7 even the direct testimony of the witness.

8 EXAMINER FEE: Overruled.

9 BY MR. WIDGER:

10 Q. Are you aware that any studies comparing the
11 benefits available to the different entities have been made?

12 A. Between private utilities and cooperatives?

13 Q. Yes.

14 A. Yes, I am.

15 Q. Do you have a recollection of how those
16 compared?

17 MS. SWALLER: Excuse me. Could I have a
18 running objection on this line of questioning?

19 EXAMINER FEE: Yes.

20 THE WITNESS: Considering the different
21 advantages available to both parties, overall it was very
22 close as far as the amount of so-called subsidy to each
23 customer.

24 BY MR. WIDGER:

25 Q. Do you recall that such studies would

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1 indicate that the subsidy then to private utilities was the
2 same or as much as that available to cooperatives?

3 A. From our recollection, it was very close.

4 Q. Okay. As to the service in the area we're
5 talking about here and focusing on the eastern part of
6 St. Charles County where UE's testimony is that they have
7 had an area certificate since about 1915. Do you have
8 reason to know whether REA funding was available to Union
9 Electric when it came available to build lines and extend to
10 customers in rural areas?

11 A. It's my understanding that the low interest
12 money was available from REA to any company, utility
13 company, nonprofit company.

14 Q. And that, in fact, it was the failure of
15 companies like UE to borrow that money that caused the
16 cooperatives to come into existence?

17 A. That's my understanding.

18 MS. SWALLER: I request the questions not be
19 leading to a friendly witness.

20 BY MR. WIDGER:

21 Q. Do you know the date of the Missouri REA
22 act, the Missouri version of the REA act?

23 A. No, I really do not.

24 Q. Would you agree that any dilution of utility
25 certificates was, in fact, done by the Legislature with the

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1 passage of an REA act?

2 A. Yes.

3 Q. Let's focus for a moment on the power supply
4 chain that's available to CRESCO. First of all,
5 Cuivre River Electric Cooperative is a nonprofit entity,
6 isn't it?

7 A. That's correct.

8 Q. All right. What's the next entity in the
9 chain of supply?

10 A. Central Electric Power Cooperative in
11 Jefferson City.

12 Q. Is it also an REA cooperative?

13 A. Yes, it is.

14 Q. And where does Central receive its power?

15 A. Through Associated Electric Cooperative,
16 Springfield, Missouri.

17 Q. Is that another similar entity?

18 A. Yes, sir.

19 Q. Of those, which are active in shopping for
20 the power that's ultimately provided down to the cooperative
21 in CRESCO's level?

22 A. Associated Electric.

23 Q. Do you have any knowledge of how Associated
24 goes about doing that?

25 A. Well, they shop on the open market. They

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1 have, I believe, 18 or 19 different points of
2 interconnection where they can buy or sell from all
3 different electric utilities throughout the Midwest.

4 Q. Do you have an opinion then as to whether or
5 not the cooperative is and CRESCO are receiving the cheapest
6 available power?

7 A. Cheapest available as Associated Electric
8 can purchase.

9 Q. Now, in response to cross-examination, you
10 mentioned a couple of reasons for this transfer. Let me ask
11 this, Mr. Brown, isn't--given that power supply arrangement,
12 is CRESCO then a customer, a member of the cooperative?

13 A. Yes.

14 Q. And with the arrangement as you have
15 proposed here, is the cooperative form of ownership
16 preserved?

17 A. Yes.

18 Q. What does that mean to the ratepayer?

19 A. It means that he is a member/owner of the
20 cooperative of the utility that provides him with his
21 electric service.

22 Q. And what does that mean to him in dollars
23 and cents?

24 A. It means that since it's a nonprofit company
25 that he owns, he's being provided the lowest rates possible.

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1 Q. Does he see any return of his rates?

2 A. If there should be margins in excess of
3 expenses, those margins are allocated back to that customer.

4 Q. Historically, what percentage have those
5 allocations run?

6 A. Well, I don't know exactly. I do know that
7 they have run as high as 15 to close to 20 percent in a
8 given year.

9 Q. Do you know what the--the experience for the
10 past two years?

11 A. Not precisely. But in the neighborhood of 8
12 to 10 percent probably.

13 Q. So if you were to compare the rates of Union
14 Electric and CRESCO then, would you take that percentage of
15 capital credit into account?

16 A. Yes.

17 Q. But that's not determined until the
18 operating year is over?

19 A. That's correct.

20 Q. I believe in your testimony you indicated
21 that you report to the Board of Directors of the
22 cooperative as an employee of the cooperative and that you
23 report to the Board of CRESCO. Why are you the person
24 that's so involved with CRESCO?

25 A. Well, for one reason, my office is in Lake

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1 Saint Louis, which is the first area that CRESCO applied for
2 a certificated area. Secondly, there has to be some person,
3 I think, designated to be the coordinator between CRESCO and
4 the cooperative and between the Commission and CRESCO.

5 Q. Does the Board of Directors of CRESCO meet
6 on a regular basis?

7 A. Yes, they do.

8 Q. And do you attend those meetings?

9 A. Yes, I do.

10 Q. Of course, now you weren't around in 1943 or
11 whenever the cooperative came into existence, were you?

12 A. No, sir.

13 Q. So you can't tell us today the extent of
14 Union Electric's construction in St. Charles County then,
15 can you?

16 A. No, sir.

17 MR. WIDGER: I have no other questions.
18 Before I let it go, I would ask if there had been a ruling
19 on the admission of Exhibits 1 and 2 into evidence? I don't
20 recall that there was a ruling.

21 EXAMINER FEE: No, I have not yet.

22 Mr. Walther.

23 MR. WALTHER: Yes, I have one question.

24 RE-CROSS-EXAMINATION BY MR. WALTHER:

25 Q. Mr. Brown, are there any requirements or

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1 restrictions that the co-op places on distributing capital
2 credits?

3 A. Any requirements or restrictions. The
4 person must be a member of the cooperative.

5 Q. Anything else?

6 A. When he should leave the cooperative
7 system, you know, he could not leave owing a balance, an
8 amount due to the cooperative.

9 MR. WALTHER: No further questions.

10 EXAMINER FEE: Ms. Bjelland.

11 MS. BJELLAND: Yes.

12 RECROSS-EXAMINATION BY MS. BJELLAND:

13 Q. Mr. Brown, in response to the question of
14 capital credits, not all customers of either the co-op or
15 CRESCO have to be members of the co-op; is that correct?

16 A. Customers of CRESCO do not have to be
17 members of the co-op.

18 Q. But if you are, you then are entitled to
19 receive capital credits; is that correct?

20 A. That's correct.

21 Q. And is there a membership fee that one must
22 pay to become a member of the co-op?

23 A. No, ma'am.

24 Q. Okay. And just let me clarify. The 8 to
25 10 percent that you stated earlier in terms of capital

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1 credit, that would be 8 to 10 percent of that customer's--

2 A. Total annual bill.

3 Q. --total usage for that--for the year. And
4 one last question. If it is CRESCO's intent that, at some
5 point in the future, the co-op will cease to have any
6 customers and operations of its own, CRESCO's ratepayers
7 will still be cooperative members entitled to receive
8 capital credits; is that correct?

9 A. That's correct.

10 Q. They will be members of a co-op that has no
11 customers; is that correct?

12 A. The only customers would be through CRESCO.

13 Q. But my question is: They will be receiving
14 capital credits as members of a co-op that itself has no
15 customers or operations; is that correct?

16 A. Well, the one customer for the co-op would
17 be CRESCO.

18 Q. But they have no body of customers anymore;
19 is that correct?

20 A. None other than CRESCO, yes, that's
21 correct.

22 MS. BJELLAND: Thank you.

23 EXAMINER FEE: Ms. Swaller.

24 RECROSS-EXAMINATION BY MS. SWALLER:

25 Q. So who gets the capital credits? Do they

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1 flow to CRESCO? Following her question.

2 A. The customer.

3 Q. The customer of CRESCO?

4 A. Yes.

5 Q. So the profit, the extra money, goes to
6 CRESCO and then CRESCO distributes it?

7 A. The capital credits come directly from the
8 cooperative.

9 Q. Okay. But in the future that Ms. Bjelland--

10 A. It still would come from the cooperative.
11 The cooperative would still exist.

12 Q. Would you have to figure things differently
13 since it wouldn't have customers?

14 A. No, I don't believe.

15 Q. When does the flow back--I'm calling it a
16 flow back. Is there a technical term for it? Capital
17 credits, I guess, is that what it's called?

18 A. Yes.

19 Q. When does it occur?

20 A. It's not at a predetermined time right now.
21 The cooperative is on a pay schedule of about 14 years.

22 Q. So every 14 years they get capital credits?

23 A. That's correct. It's not every 14. There
24 may--a year go by that they'll skip a year, and then they
25 might catch up two years the following year.

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1 Q. If someone moves out of the system in the
2 meantime, do you keep up with them and send the money to
3 them elsewhere?

4 A. We attempt to, yes.

5 Q. So each year, pursuant to the rates, you're
6 earning a little more than you need. You're earning a
7 little profit. And then as it accumulates at the end of
8 14 years, then you send it back to them. Is that how it
9 works?

10 A. That profit or that margin that was earned
11 in that one particular year will be returned to that
12 membership 14 years from that time.

13 Q. Okay. And in the meantime, the co-op uses
14 the money?

15 A. That's correct.

16 Q. Okay. Now, if in the long run you're
17 returning 8 percent to the customers, then, in fact, your
18 rates have been 8 percent too high?

19 A. Well, I don't know that too high--but it
20 would be--it would be that much excessive margins above
21 expenses.

22 Q. Eight percent higher than cost?

23 A. Yeah.

24 Q. Eight percent has been the most recent
25 experience. Is that what you said?

Missouri Public Service Commission

1 A. No.

2 Q. Twenty percent?

3 A. I believe I told Mr. Widger that--those were
4 approximates, 8 to 10 percent. I do not know. Again, I
5 don't deal directly with capital credits. This is just some
6 general knowledge that I have.

7 Q. Now, if the Public Service Commission sets
8 rates, they also set exactly how much profit you can make;
9 but you don't want to make any profit, right?

10 A. We're a nonprofit company.

11 Q. So how does that work?

12 A. How does what work?

13 Q. Well, if the Public Service Commission sets
14 rates and they allow you a certain amount of return on your
15 property, used and useful, then do you just tell the
16 Commission, "No, we don't want that because we don't make a
17 profit"? How does that work?

18 A. Well, we have not had our first rate case
19 yet.

20 Q. Okay. You answered in response to redirect
21 that Associated is the one that shops for your power?

22 A. Yes. They generate power and buy power for
23 us.

24 Q. Okay. Now, when they buy power, they've got
25 certain costs associated with the purchase of the power,

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1 whatever accounting and overhead, whatever it is?

2 A. Sure.

3 Q. And then there is somebody in the chain next
4 before it gets to you and who is that?

5 A. Central Electric.

6 Q. And after Central comes Cuivre River?

7 A. That's correct.

8 Q. And every one of those parties has its own
9 costs, right?

10 A. That's correct.

11 Q. Does that mean that the power then is more
12 expensive in the long run, having gone through the process?

13 A. Than--what's the alternative?

14 Q. Than if you bought it directly from the
15 co-op generator?

16 A. Well, I don't think that the cooperative
17 could go out on the market and buy as Associated can. We
18 don't have the transmission facilities. We don't have the
19 expertise and the knowledge.

20 Q. But isn't there such a thing as wheeling
21 agreements where you can buy power directly and use someone
22 else's lines to get it to you?

23 A. I understand those exist, yes.

24 Q. So you could get a wheeling agreement from
25 Associated if they were willing to give--

Missouri Public Service Commission

1 A. We have an all power requirements with
2 Central.

3 Q. Now, Cuivre River and CRESCO, neither one of
4 them have looked to see if power is cheaper from--strike
5 that.

6 CRESCO has not looked to see if there is
7 cheaper power other than that supplied to them by CREC or
8 the co-op, correct?

9 A. That's correct because of the operating
10 agreement.

11 Q. Okay. The operating agreement--

12 A. The power purchase agreement.

13 Q. Okay. The power purchase agreement prevents
14 you from shopping for cheaper power?

15 A. That's correct.

16 Q. Earlier Mr. Widger asked you if, when
17 lines were being built in St. Charles years and years ago,
18 that companies could go to REA and get cheaper loans. And
19 you said yes. That wasn't the exact question, but--

20 A. It's my understanding that REA money was
21 available to private power companies.

22 Q. Your response, however, was that it was
23 available to any nonprofit company?

24 A. Private power companies that were nonprofit.

25 Q. UE is not a nonprofit company, to your

Missouri Public Service Commission

1 knowledge, is it?

2 A. To my knowledge, it's not.

3 Q. So UE could not have gotten an REA loan--

4 A. If they wanted to operate nonprofit, I guess
5 it would be available.

6 Q. Okay. Does the co-op have any lines in the
7 towns that were taken out of your application in response to
8 UE's motion to dismiss?

9 A. I'm sure that we have some lines in areas
10 that have been recently annexed, nothing in the downtown--
11 what I would call downtown portions of those villages or
12 cities. In the outlying areas that have recently been
13 annexed, yes, some of those.

14 Q. How can there be a complete transfer of CREC
15 facilities to CRESCO if some of those facilities are in
16 areas that are not covered by your application?

17 A. How could--would you restate that, please?

18 Q. Okay. There are some lines in areas--there
19 are some CREC co-op lines in areas that are not being sought
20 by CRESCO in this application, correct?

21 A. Yes.

22 Q. How can you have a complete transfer of
23 those facilities?

24 A. We would have to--I don't know a good answer
25 for your question.

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1 Q. So CRESCO can't serve customers in areas
2 where it doesn't have authority to serve, right?

3 A. I wouldn't think so.

4 Q. Okay. CREC has customers where they have
5 those lines, right?

6 A. Yes.

7 Q. So CREC cannot go out of existence and
8 cannot get rid of all its customers because there are some
9 areas that CREC serves in that CRESCO is not asking for?

10 A. I think the best answer would be that we
11 would have to go to those various municipalities and gain a
12 franchise. And then with that franchise in hand, come back
13 to the Commission and ask for those areas.

14 Q. So it can't be done right now? No matter
15 what Order the Commission offers, you can't have an
16 immediate transfer even if you want to?

17 A. Well, I don't know that I could answer that.
18 Perhaps legal counsel could.

19 MS. SWALLER: Okay. I'm not going to ask
20 him. That's all I have. Thank you.

21 EXAMINER FEE: Exhibits 1 and 2 are received
22 in evidence, and the witness may be excused.

23 (EXHIBIT NOS. 1 AND 2 WERE RECEIVED IN
24 EVIDENCE AND MADE A PART OF THIS RECORD.)

25 (Witness excused.)

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1
2 MR. WIDGER: Robert Noel.

3 (Witness sworn.)
4

5 EXAMINER FEE: Mr. Noel's testimony has
6 previously been marked as Exhibit 3.

7 ROBERT E. NOEL testified as follows:

8 DIRECT EXAMINATION BY MR. WIDGER:

9 Q. Would you state your name, please.

10 A. Robert E. Noel.

11 Q. And what's your address, Mr. Noel?

12 A. 104 East 11th Street, Lamar, Missouri.

13 Q. By whom are you employed?

14 A. Finley Engineering Company.

15 Q. Are you the same Robert Noel who has filed
16 testimony in this case designated here as Exhibit 3?

17 A. I am.

18 Q. Mr. Noel, if the same questions were asked
19 of you today as were asked in that testimony, would your
20 answers be the same?

21 A. They would with the qualification that there
22 has been ongoing planning during--all during 1987 and some
23 of the system improvements that we had in that testimony
24 have changed somewhat. I'm prepared to submit those
25 changes, if necessary.

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1 Q. Are you saying that the planning has
2 overtaken your testimony?

3 A. Yes, to some degree.

4 Q. All right. And would the effect of that
5 just be to increase some figures or what would the effect
6 be?

7 A. This represents some capacity additions and
8 increase in the cost estimate.

9 Q. Could you point out in your testimony where
10 those changes have taken place?

11 A. Well, they've been added to. Actually, I
12 don't think any of the ones that was in this testimony have
13 been deleted. They're just--as a result of ongoing
14 planning, some improvements have been added.

15 Q. Would those plans or those improvements in
16 any way change your opinion as to the sufficiency and
17 reliability of the system?

18 MS. SWALLER: I'd like to make an objection.
19 Unless all of these plans occurred since August 20th, which
20 was the date the testimony was filed, they were aware of
21 these things at the time the testimony was filed, and now is
22 not the time to change the testimony. And if this comes out
23 in cross-examination, fine; but more direct examination on
24 this point is, in my opinion, inappropriate.

25 MR. WIDGER: At this point, I'm not prepared

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1 to offer any substitute or additional information. I was
2 going to elicit from the witness whether the ongoing
3 planning changes would have had the effect of changing his
4 opinion regarding the reliability and sufficiency of this
5 electric distribution system.

6 EXAMINER FEE: The objection is overruled.

7 THE WITNESS: No, they would not.

8 BY MR. WIDGER:

9 Q. Now, in Schedule 1, a map is identified
10 which is not attached. Let me hand you this map and
11 ask you if that is the map that you referred to there as
12 your Schedule 1? I believe you refer to it on Page 3 of
13 your testimony.

14 (The witness was handed a document.)

15 A. That's correct.

16 Q. And so the map then constitutes this
17 Schedule 1 in your testimony?

18 A. That's correct.

19 MR. WIDGER: At this time, I would offer
20 Exhibit 3 with Schedules 1 and 2 into evidence and tender
21 the witness for cross-examination. I'm sorry. There are
22 three schedules there, sponsor all three schedules.

23 EXAMINER FEE: Mr. Walther.

24 CROSS-EXAMINATION BY MR. WALTHER:

25 Q. Mr. Noel, is it correct that the members of

Missouri Public Service Commission

1 the cooperative are primarily residential customers?

2 A. Primarily, yes.

3 Q. Who is presently the largest customer of the
4 cooperative and about how much electricity do they use per
5 month?

6 A. I can't answer that.

7 Q. Could you give me an idea of the size of
8 customer? And when I say that, I refer to kilowatt-hours
9 per month that the cooperative would consider to be a large
10 customer relative to the rest of the customers on the
11 system.

12 A. I'm going to say in the range of 50 kw.

13 Q. Are there any customers larger than that
14 that the cooperative is not serving within the area that
15 CRESCO has applied for?

16 A. I'm sure there are.

17 Q. Could you state how load growth would be
18 affected if numerous nonresidential customers would be
19 connected to the co-op's system?

20 A. Are you referring to consumers not now
21 being severed, new consumers to--

22 Q. Correct. Correct.

23 A. Well, in certain areas, it could be greatly
24 affected.

25 Q. I refer you to Exhibit 3, which is your

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1 direct testimony, Pages 7 and 8, the bottom line of Page 7
2 and the top part of Page 8. At that point, you state that
3 "Delivery of power is essentially over a 161Kv transmission
4 . . . and to a lesser extent by underlying 69Kv sub-
5 transmission." You go on to state that the 69Kv
6 subtransmission ". . . capacity is limited in some areas and
7 will be phased out over the long run." And that it will
8 likely be connected--or I'm sorry. --converted or rebuilt
9 to 161Kv on the existing right-of-way; is that correct?

10 A. Yes. I believe you referred to 161. It's
11 69.

12 Q. Okay. Over what time frame do you envision
13 that conversion or rebuilding process requirement?

14 A. That's a little difficult to answer because
15 I'm not involved in the transmission system planning. But,
16 to the best of my knowledge, I would say that in probably
17 the next 10 to 15 years.

18 Q. Could you tell me if Central Electric Power
19 Cooperative provides transformers at 24.9Kv?

20 A. They do.

21 Q. They do. And do they use a dual voltage
22 transformer?

23 A. Yes.

24 Q. What is the cost of providing dual voltage
25 transformers for the conversion project from 12.47Kv to

Missouri Public Service Commission

1 24.9Kv?

2 A. Now, are you referring to consumer
3 transformers?

4 Q. Yes.

5 A. Approximately 10 percent.

6 Q. And is it correct that CRESCO would pay the
7 cost of those transformers?

8 A. Yes.

9 Q. Just to clarify something. That is
10 10 percent more than the cost of a normal transformer?

11 A. That's correct.

12 Q. I refer you now to Schedule 2 of Exhibit 3.
13 That schedule contains three pages and this schedule
14 provides what I understand to be cost estimates for plant
15 system improvements over the next three years; is that
16 correct?

17 A. That's correct.

18 Q. On each of those pages, you have--I guess
19 Page 1 is cost estimates for '88; Page 2 for '89; Page 3 for
20 1990. Each one of those has a column "Miscellaneous." And
21 No. 7 under "Miscellaneous" is conversion of line from
22 7.2-12.47 to 14.4-24.9Kv; is that correct?

23 A. Yes.

24 Q. And Page 8 contains a cost for conversion of
25 customer transformers to 14.4Kv; is that correct?

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1 A. Yes.

2 Q. Could you provide us with an estimate of how
3 much time it will--or how much time you envision each
4 conversion taking, each one of the two conversions that I
5 just referred to?

6 A. Well, this is the--this would be over the
7 time frame of approximately a year.

8 Q. I mean the total conversion process. I'm
9 not referring to each cost item listed on the schedule. I'm
10 asking what the total amount of time for that conversion?

11 A. Very difficult to answer because the
12 cooperative has numerous lightly loaded lines which they may
13 not be changed or converted to the higher voltage for many,
14 many years. And this would be almost impossible to answer
15 with any degree of certainty.

16 Q. Could you provide just a general and a brief
17 explanation of what each conversion will involve from an
18 engineering standpoint?

19 A. Normally, we define a section of line that
20 needs to be converted to a higher voltage, say, four to
21 five miles in length. We know the number of consumer
22 transformers in that section of line. We specify where
23 transformers are to be installed that converts the voltage,
24 and we also specify the change in the system protection.
25 The first step usually is to upgrade the insulation to the

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1 higher voltage. The next step is to change the
2 transformers, the consumer transformers, so that they can be
3 switched over quickly, the line deenergized. And then the
4 third step would be to install the step down or step up auto
5 transformers in the line. And then at some given point in
6 time, this section of line is converted to the higher
7 voltage over a period of time, two to three hours maybe.

8 Q. Okay.

9 A. The overall process could take--let's say
10 for a five- to a ten mile section of line, it could take a
11 month or so.

12 Q. I refer you to Page 6 of Exhibit 3. You
13 state or you testify that in 1977 (sic) the co-op
14 implemented a plan ". . . to begin conversion of the system
15 from a voltage of 7.2/12.47 Kv to 14.4/24.9Kv." And you
16 said that the conversion is, at the time you filed your
17 testimony, about 17 percent complete and that it will be
18 ongoing into the foreseeable future. Could you tell us
19 about how far along that conversion will be at the end of
20 the three years covered in your feasibility study?

21 A. 25 percent.

22 Q. I now refer you to Page 10 of Exhibit 3.
23 You testified there that "With one exception, the present
24 substations are deemed adequate to supply projected loads
25 over the next three year period." And you go on to say that

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1 part of the system lying southeast of Wentzville is--within
2 that area studies are presently under way to see whether an
3 additional substation should be planned for that area.
4 Could you be a little more specific about where that area
5 is. Is it directly southeast of Wentzville? Are there any
6 particular characteristics of that area that are responsible
7 for the growth?

8 A. Well, southeast of Wentzville and directly
9 south of St. Peters, in that area, along either side of
10 Highway 94, there is intense buildup in that area. I don't
11 remember some of the geographical areas. I do know that
12 Highway 94 is a key location. It's all along through there,
13 to the north and south of there.

14 Q. And do I understand your concern to be then
15 that there may not be adequate substations there to serve
16 that area because it's growing too fast for the--

17 A. That's true. In fact, we have studies right
18 at this very moment in the process of determining whether
19 another substation would be needed in this area. Decisions
20 have not been made yet.

21 MR. WALTHER: I have no further questions.

22 EXAMINER FEE: Ms. Bjelland.

23 MS. BJELLAND: Yes.

24 CROSS-EXAMINATION BY MS. BJELLAND:

25 Q. I have just a few, Mr. Noel. If you could

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1 please refer to Page 7 of your direct testimony, which is
2 Exhibit No. 3. In the middle paragraph, you make a
3 statement about average usages. And one of the figures
4 there is 1,200 kilowatt-hours per month per consumer; is
5 that correct?

6 A. That's correct.

7 Q. What type of consumer is this? Are these
8 residential?

9 A. These are residential consumers.

10 Q. Okay. And, again, when you state 1,800
11 kilowatt-hours per month per consumer, that also is a
12 residential consumer?

13 A. That's correct.

14 Q. And further on in that paragraph, you
15 indicate that "Cuivre River presently supplies 24,000
16 consumers" Are those also all residential
17 consumers?

18 A. No, that's total.

19 Q. Okay. And then again you state that they
20 have a net yearly increase of up to 2,300 consumers. Are
21 those all residential consumers?

22 A. That's total.

23 Q. Wouldn't it make a difference if some of
24 those consumers are commercial or industrial consumers and
25 not residential consumers in terms of projected growth, load

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1 growth?

2 A. Well, these numbers do include total.
3 That's total industrial, commercial, residential consumers.

4 Q. Okay. Let's suppose hypothetically that in
5 the next year all of the anticipated 2,300 consumers are all
6 residential consumers, no commercial, no industrial. Will
7 that make a difference in your study in terms of anticipated
8 load growth?

9 A. Well, our studies are based on historical
10 growth. And we define, as well as we can, the breakdown
11 between industrial and commercial and the different types of
12 loads. But if for some reason you--certainly, if you were
13 to have the opportunity to serve a much larger group of
14 commercial accounts, it's obviously going to affect your
15 load growth.

16 Q. Let me ask you this then: Have you done any
17 type of study to break down the 2,300 estimated new
18 customers a year by category or classification, meaning how
19 many residential, how many commercial, how many industrial?

20 A. We have that in a study, as I noted earlier,
21 that is ongoing; but I don't have the numbers with me. We
22 do have a breakdown.

23 Q. You do but you cannot testify to that today?

24 A. I can't say what that would be.

25 MS. BJELLAND: I have no further questions.

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1 EXAMINER FEE: Ms. Swaller.

2 CROSS-EXAMINATION BY MS. SWALLER:

3 Q. Have any studies concerning customer growth
4 been done other than the feasibility study that you
5 prepared?

6 A. No.

7 MS. SWALLER: That's all I have.

8 EXAMINER FEE: Any redirect?

9 MR. WIDGER: No.

10 EXAMINER FEE: Exhibit 3 will be received in
11 evidence. The witness may be excused.

12 (EXHIBIT NO. 3 WAS RECEIVED IN EVIDENCE AND
13 MADE A PART OF THIS RECORD.)

14 (Witness excused.)

15 _____

16 MR. WIDGER: Call John Deal.

17 EXAMINER FEE: Mr. Deal's testimony
18 has previously been marked Exhibit 4.

19 (Witness sworn.)

20 _____

21 JOHN P. DEAL testified as follows:

22 DIRECT EXAMINATION BY MR. WIDGER:

23 Q. Would you state your full name for the
24 record, please.

25 A. John P. Deal.

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1 Q. What is your address, sir?

2 A. No. 4 Sheran Court, St. Charles, Missouri.

3 Q. By whom are you employed?

4 A. Botz, Deal and Company.

5 Q. Are you the same John Deal who has filed
6 direct testimony in this proceeding?

7 A. I am.

8 Q. If the same questions were asked of you
9 today, would your answers be the same as those shown in
10 Exhibit 4?

11 A. They would.

12 Q. Are there any changes that you would make to
13 your testimony or to the schedule attached to your
14 testimony?

15 A. No.

16 MR. WIDGER: At this time, I would offer
17 Exhibit 4 into evidence and tender the witness for
18 cross-examination.

19 EXAMINER FEE: Mr. Walther.

20 MR. WALTHER: Yes.

21 CROSS-EXAMINATION BY MR. WALTHER:

22 Q. Mr. Deal, would it be correct to say that
23 your involvement with this case was related to the part of
24 CRESCO's feasibility study that has been designated
25 "Projected Statement of Revenue and Patronage Capital

Missouri Public Service Commission

1 for the Year Ended December 31, 1987," and for the years
2 ended December 31, 1988, '89, and '90?

3 A. Yes.

4 Q. Was your involvement limited to checking the
5 reasonableness of certain projections made by the co-op and
6 CRESCO in that feasibility study?

7 A. I think you're referring to a feasibility
8 study. I think what we should be talking about are
9 projected statements of revenue.

10 Q. Is your involvement--

11 A. That's what I was involved with.

12 Q. Is your involvement limited to checking the
13 reasonableness of these projections?

14 A. That's correct.

15 Q. So you are providing no assurances in this
16 case on any of the assumptions underlying these projections;
17 is that correct?

18 A. That's correct.

19 Q. In the course of your job as a CPA, are you
20 ever called upon to express opinions or offer supports for
21 audits or examinations that you make?

22 A. Sure. Yes.

23 Q. In your involvement in this case, did you
24 make any examination or analysis of the ability of CRESCO to
25 purchase the electric distribution system of the

Missouri Public Service Commission

1 cooperative?

2 A. I don't think so.

3 MR. WALTHER: No further questions.

4 EXAMINER FEE: Ms. Bjelland.

5 MS. BJELLAND: Yes.

6 CROSS-EXAMINATION BY MS. BJELLAND:

7 Q. Mr. Deal, if I could refer you to Page 2 of
8 your direct testimony, which is marked Exhibit No. 4. In
9 response to question No. 8, you make reference to having
10 obtained from CRESCO's accounting department and from CRESCO
11 personnel the data that you've used in your testimony; is
12 that correct?

13 A. That's correct.

14 Q. Were you present in this hearing room when
15 Mr. Brown testified that CRESCO has no employees?

16 A. Yes.

17 Q. And so can you tell me then who you obtained
18 this information from if CRESCO has no employees, and I
19 would dare to say has no accounting department?

20 A. I checked with Cuivre River's accounting
21 department, the people that were assigned the duties of
22 performing accounting services for CRESCO.

23 Q. So your testimony would be more correct,
24 would it not, if you had stated that you obtained it from
25 Cuivre River Co-op's accounting department and Cuivre River

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1 Co-op's personnel?

2 A. Assigned to the CRESCO accounting
3 department.

4 Q. But they were personnel of Cuivre River?

5 A. That's correct.

6 Q. Okay. And can I ask you, who is Mr. Ramsey?

7 A. Mr. Ramsey is the general manager of the
8 co-op.

9 Q. And who is Ms. Hunsicker?

10 A. She is the chief financial officer for the
11 co-op. I don't know her--I don't recall her specific title;
12 but, in essence, she's the chief financial officer of the
13 co-op.

14 Q. So in preparing your testimony, all of your
15 information, and having reviewed these projections, all of
16 your contact was with employees of the co-op?

17 A. As you say, CRESCO has no employees.

18 Q. That is true. So your answer is it was
19 with employees of the co-op?

20 A. That's correct.

21 MS. BJELLAND: I have no further questions.

22 EXAMINER FEE: Ms. Swaller.

23 MS. SWALLER: I have no questions.

24 EXAMINER FEE: Any redirect?

25 MR. WIDGER: Yes.

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1 REDIRECT EXAMINATION BY MR. WIDGER:

2 Q. Mr. Deal, how long have you been the auditor
3 for the cooperative?

4 A. Since 1978.

5 Q. And in preparing your projections, do you
6 take into account your firsthand knowledge and past working
7 with the records of the cooperative?

8 A. Yes.

9 Q. Were you involved in the first CRESCO case?

10 A. Yes.

11 Q. Was there an exchange of money there from
12 CRESCO to the cooperative for the Lake Saint Louis
13 facilities?

14 A. No.

15 Q. What's your understanding regarding the
16 exchange of money for assets in this present case?

17 A. When you say exchange of assets for money,
18 that would be an exchange of assets for a note payable to
19 Cuivre River.

20 Q. All right. So then your projections of
21 incoming revenue then would not take into account the
22 necessity of borrowing money to buy facilities, would it?

23 A. These assumptions were based upon the
24 current mix of borrowing that the co-op enjoys.

25 Q. Is that borrowing though associated with the

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1 ongoing operations of the utility or is that borrowing
2 associated with the purchase of facilities by one company
3 from the other?

4 A. It's associated with the ongoing business of
5 the utility.

6 Q. Is it your understanding in this case that,
7 again, CRESCO would receive the assets of the cooperative
8 in exchange for a note for some amount representing those
9 facilities?

10 A. That's true.

11 MR. WIDGER: I have no other questions.

12 EXAMINER FEE: Anything further?

13 MR. WALTHER: Nothing.

14 MS. BJELLAND: No questions.

15 EXAMINER FEE: The witness may be excused.

16 Exhibit 4 is received in evidence.

17 (EXHIBIT NO. 4 WAS RECEIVED IN EVIDENCE AND
18 MADE A PART OF THIS RECORD.)

19 (Witness excused.)

20
21 EXAMINER FEE: Does the service company have
22 anything to offer?

23 MR. WIDGER: No.

24 EXAMINER FEE: We'll be in recess until one
25 o'clock.

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1 (EXHIBIT NO. 5 WAS MARKED BY THE REPORTER
2 FOR IDENTIFICATION.)

3 (The noon recess was taken.)
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1 (EXHIBIT NOS. 6 TO 15 WERE MARKED BY THE
2 REPORTER FOR IDENTIFICATION.)

3 EXAMINER FEE: The hearing will come to
4 order, please.

5 Exhibit 5, of necessity, will be received in
6 evidence.

7 It's my understanding that what has been
8 marked as Exhibit 6, the testimony of Ms. Borkowski, may be
9 received in evidence without the witness appearing and
10 standing cross-examination; is that right?

11 MR. WIDGER: That's right.

12 EXAMINER FEE: Exhibit 6 will be received in
13 evidence.

14 (EXHIBIT NOS. 5 AND 6 WERE RECEIVED IN
15 EVIDENCE AND MADE A PART OF THIS RECORD.)

16 EXAMINER FEE: Ms. Swaller, call your first
17 witness.

18 MS. SWALLER: I'd like to call adverse
19 witness Carlene Hunsicker Goetz.

20 (Witness sworn.)

21
22 CARLENE GOETZ testified as follows:

23 DIRECT EXAMINATION BY MS. SWALLER:

24 Q. Would you please state your name for the
25 record.

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1 A. Carlene Goetz.

2 Q. And by whom are you employed?

3 A. Cuivre River Electric.

4 Q. And how long have you been employed there?

5 A. Eighteen years.

6 Q. And what is your title currently?

7 A. Manager of Offices Services.

8 Q. And how long have you been in that position?

9 A. Four years.

10 Q. Does that make you the person at Cuivre
11 River who is most qualified to answer questions concerning
12 the financial relationship between CRESCO and CREC or Cuivre
13 River?

14 A. Yes.

15 Q. I, as attorney for Union Electric, sent
16 interrogatories to Carlene Hunsicker and got responses back
17 by Carlene Goetz. Are you the same person who answered
18 those interrogatories?

19 A. Yes, I am.

20 Q. And filed the answers with the Commission?

21 A. Yes, I am.

22 Q. In these interrogatories--let me show this
23 to you. You might have a copy with you--there is one
24 question that asks, for all of the loans that I had you list
25 in No. 4, what the money was used for. And I don't have

Missouri Public Service Commission

1 a response here. Are you prepared to respond to that
2 question now?

3 A. I had assumed that the REA loan agreement
4 was on file or, you know, was available. I didn't bring
5 that with me to put with this. It's just the normal REA
6 loan agreement that they have with co-ops, cooperatives.

7 Q. I've never seen one. Are you prepared then
8 to be able to tell me how the REA loans that CREC has
9 received in the last ten years have been spent?

10 A. Yes, uh-huh.

11 Q. Could you tell me that now then?

12 A. Okay. They've been spent for the
13 construction of our distribution facilities in the five
14 counties.

15 Q. In the last ten years roughly CREC has
16 received \$18.3 million from REA?

17 A. Is that--that's the total of these loans?

18 Q. I added those together.

19 A. Okay. We haven't drawn anything on that
20 last loan.

21 Q. It's a \$9.7 million loan on April 9, 1987.
22 When you say you haven't drawn anything on it, what do you
23 mean by that?

24 A. We haven't drawn the funds from REA yet. We
25 have not drawn the funds down.

Missouri Public Service Commission

1 Q. Is it within your power to draw them, or
2 does REA grant them?

3 A. No. We have to draw them.

4 Q. How do you do that?

5 A. They have a couple of--a set of forms that
6 we file to draw them.

7 Q. Okay. You applied for a loan at REA, and
8 they awarded it to Cuivre River, granted it?

9 A. Yes, uh-huh, approved it. Approved it.

10 Q. Approved the loan. And it is then within
11 your power to actually obtain the money at whatever time
12 you want to file the forms?

13 A. The advancement of funds, yes, uh-huh.

14 Q. When are you going to do that?

15 A. We have an application in for that now.
16 We've had it in for approximately a month and a half. We
17 have a request in to draw some of the funds now, but we
18 haven't received that yet.

19 Q. So it's just a matter of time before you
20 actually receive the money from REA, but you have approved
21 the request?

22 A. Yes.

23 Q. Where is CRESCO receiving its financing?

24 A. From Cuivre River, from the co-op.

25 Q. What does that financing consist of?

Missouri Public Service Commission

1 A. For the facilities, for the lines and
2 services.

3 Q. But what is the actual financing?

4 A. I'm sorry. I don't understand what you mean.

5 Q. Is it money, goods, people? What is the
6 financing? What are you actually giving to or loaning to
7 CRESCO? What is CREC loaning to CRESCO?

8 A. The money? Is--

9 Q. Okay.

10 A. I think what you mean is the money.

11 Q. How much?

12 A. Whatever we need to build the lines there.

13 Q. As CRESCO needs money to build lines, CREC
14 loans the money to them?

15 A. Yes.

16 Q. How many loans have already occurred? Any?

17 A. We don't have an established loan. We pay
18 the invoices for the construction. The cooperative pays the
19 invoices for CRESCO's construction.

20 Q. And so it's kind of a--what do they call
21 it? Letter of credit? Is it kind of analogous to that? In
22 other words, you pay as they go?

23 A. Yes. As the invoices, uh-huh.

24 Q. Do you know at this point how much has been
25 loaned to date?

Missouri Public Service Commission

1 A. No, I'm not sure how much has been drawn on
2 it. It would be in probably the latest operating report.

3 Q. And you've got no general estimate of what
4 that would be? Under a million, over a million?

5 A. Oh, yeah. It's three to four million, I
6 believe.

7 Q. Has CRESCO received financing from any other
8 source other than Cuivre River?

9 A. No.

10 Q. Did they receive a loan from CFC in 1986?

11 A. CRESCO?

12 Q. CRESCO.

13 A. No, it did not.

14 Q. You were a witness in Case EA-86-13, which
15 was the original CRESCO application; is that correct?

16 A. Yes.

17 Q. Another witness in that case on behalf of
18 CRESCO was Mr. Ramsey; is that right?

19 A. Yes.

20 Q. Do you know Mr. Ramsey?

21 A. Yes, I do.

22 Q. Who is he?

23 A. He's the general manager of the cooperative.

24 Q. And in his testimony, he stated that CFC has
25 committed to providing future financing directly to CRESCO.

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1 So did that not actually occur?

2 A. Okay. CFC is committed to that. I don't
3 believe we've drawn any funds. I know we haven't drawn any
4 funds on the CFC.

5 Q. Does CFC work like REA where you get a loan
6 approved and then you ask for the money later?

7 A. Right. Yes.

8 Q. Has CFC approved a loan directly to CRESCO?

9 A. I'm not sure what the status is on that
10 loan. I know we did have an application in. I'm not sure
11 if the CRESCO loan--what the status is.

12 Q. Has CFC ever told you that they're going to
13 loan the money directly to Cuivre River instead and let
14 Cuivre River give it to CRESCO?

15 A. I'm not sure about the technicality on that.
16 I know CFC has been in on the CRESCO application and so
17 forth, is aware of it. And they were in a board meeting
18 just a month ago when this was discussed.

19 Q. So CREC, Cuivre River, has loaned funds to
20 CRESCO; and it's just kind of on a month-to-month,
21 as-you-need-it basis to build facilities?

22 A. Yes.

23 Q. Now, where does that money come from that
24 CREC loans? Where does CREC get the money?

25 A. Well, some is from our operating revenue

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1 from our operations.

2 Q. And is some of it from REA?

3 A. Some of it would be REA funds to reimburse
4 us for the operations for the construction we have, yes.

5 Q. So the \$8.3 million REA loans in the last
6 actually nine years are used to build facilities for CREC
7 that will be transferred to CRESCO as the transfers occur?

8 A. Yes.

9 Q. Are you familiar with the REA statute and
10 its purposes?

11 A. Fairly well, yes.

12 Q. Do you believe that, if REA money is used
13 for nonrural purposes, that that violates REA?

14 A. Yes. I know that, uh-huh.

15 Q. Are you keeping separate accounting for
16 construction activity within Lake Saint Louis?

17 A. Yes, we are.

18 Q. And you're going to keep separate accounting
19 for every town over 1,500?

20 A. If that's the way it has to be done, yes.
21 We have the ability to do it now.

22 Q. Are there lines and facilities outside of
23 Lake Saint Louis that benefit people in Lake Saint Louis and
24 that they use?

25 A. Yes, there is.

Missouri Public Service Commission

1 Q. Are you keeping separate accounting on those
2 facilities?

3 A. Well, the lines, the transmission lines to
4 Lake Saint Louis, don't benefit only Lake Saint Louis. They
5 benefit other adjoining areas also.

6 Q. True. Are a percentage of--is a percentage
7 of that line directly benefiting Lake Saint Louis only? If
8 Lake Saint Louis makes up 10 percent of all the customers
9 served off of that line, then 10 percent of it is directly
10 urban, correct?

11 A. Right.

12 Q. Are you keeping accounting to reflect that
13 so that REA money is not used for urban purposes?

14 A. I'm not sure. I'm not sure how that would
15 be done.

16 Q. So there's nothing in place now to account
17 for that?

18 A. We are percentaging some of the expense,
19 yes, uh-huh, that is not just to CRESCO.

20 Q. But you're not sure whether or not it's
21 directly proportionate to the percentage of customers
22 benefiting from those lines in Lake Saint Louis?

23 A. Some of the expenses are. Some of them are
24 proportionate to whether it's overhead lines. Some of
25 them are proportionate to whether it's underground lines,

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1 et cetera.

2 Q. But they are not all proportionate to the
3 number of people in Lake Saint Louis benefiting from the
4 lines outside Lake Saint Louis?

5 A. Well, the expenses that relate directly to
6 the number of consumers are expensed by that percentage of
7 the number of consumers versus the total number of
8 consumers.

9 Q. Is there any place where REA money is being
10 used for the benefit of people in Lake Saint Louis where
11 it's not being accounted for?

12 A. Not that I know of, no.

13 Q. And if you were, it would be a violation of
14 REA, wouldn't it?

15 A. (The witness nodded her head.)

16 Q. Do you use any of the money loaned from--
17 borrowed from REA to pay employees?

18 A. No. We don't make any loans--to employees?

19 Q. Well, not directly to employees. When you
20 borrow money from REA, it goes into your general working
21 funds for the co-op?

22 A. Yes, our general funds.

23 Q. And then, out of those general funds,
24 employees are paid?

25 A. Yes, they are.

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1 Q. Does any of the REA money--is any of it used
2 indirectly to pay CREC employees?

3 A. Well, that's a little hard to determine, out
4 of an individual's salary, how much would be REA money, how
5 much would be operating capital, how much would be CFC
6 money.

7 Q. Is your operating capital alone sufficient
8 to pay every single employee in a year?

9 A. I'd have to think of what our annual payroll
10 is. I'm not really sure, but I don't think it would be.
11 I'm not sure that our total margins at the end of the year
12 would be the same as our total payroll for the year.

13 Q. And to the extent that it's not, money that
14 you borrowed from somewhere is being used to pay salaries
15 of employees?

16 A. Yes.

17 Q. Are you keeping any separate accounts so
18 that REA money is not going to employees for work that they
19 are performing in the urban areas?

20 A. Yes.

21 Q. You are keeping separate accounts?

22 A. Well, in the urban, for Lake Saint Louis, we
23 are. I don't know what other urban areas you'd be talking
24 about. Employees expense their time based on work order
25 numbers, job order numbers, particular account numbers.

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1 And, yes, it is separated on CRESCO's accounting.

2 Q. When they get their paycheck, is it coming
3 out of part of CRESCO's accounts and part of CREC's
4 accounts?

5 A. Cuivre pays all the bills for CRESCO.

6 Q. What I'm driving at is: Is there any
7 commingling of the funds? Is there any way that you can
8 right here tell me as a matter of fact that no REA money is
9 going for Lake Saint Louis purposes? Can you be sure, by
10 looking at your books, that that's not happening?

11 A. Well, yes. We can trace the expense through
12 the work order system or through the payroll system or any
13 of the accounting areas.

14 Q. What about purchase of facilities? When
15 CREC goes out and buys, I don't know, a transformer on the
16 open market and that transformer is eventually--I guess it
17 goes to a warehouse. I don't know how these things work.
18 But, you know, are you sure that that transformer, when
19 it's used in Lake Saint Louis, hasn't been paid for by REA
20 money?

21 A. Well, the facilities that are in Lake
22 Saint Louis now have partially been paid for by REA money.
23 They have been historically all along when they transferred
24 that. We haven't drawn any new loans since CRESCO went into
25 operation. As I said, we have a request for a draw; but we

Missouri Public Service Commission

1 haven't drawn any funds. Since CRESCO went into operation
2 in '86, we haven't drawn any REA funds.

3 Q. Have you spent any money?

4 A. Yes, out of our operating--

5 Q. You had a loan on December 5, 1983, for
6 \$2 million. Are you saying that that was all spent before
7 '86 and then you worked on operating revenue after that?

8 A. I'm not sure when we did the last draw on
9 that 1983 loan, just--you know, I'm not sure which month or
10 which year we drew that, made the last draw on it. But, as
11 far back as I can remember in making those draws, I believe
12 it was before June of '86, the last draw we had on the '86
13 loan.

14 Q. In your purchase order section of your
15 company, do you keep separate accounts to make sure that
16 no REA money is used for goods that will eventually be used
17 in urban areas?

18 A. Yes. Yes, we do. Well, say, on
19 transformers, we purchase transformers; and they go into
20 plant. Then, when the work order system comes through and
21 it's got the Lake Saint Louis area, then that goes into the
22 bookkeeping for CRESCO. And it doesn't go into the
23 cooperative's bookkeeping.

24 Q. And CRESCO gets its money from Cuivre River?

25 A. Yes.

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1 Q. Do you know whether Cuivre River's practice
2 of loaning money to CRESCO on an as-needed basis is
3 acceptable or legal under Missouri statutes?

4 A. I don't know Missouri statutes.

5 Q. So you're not in a position here today to
6 state whether or not that that relationship can legally take
7 place?

8 A. I would assume, if it was illegal, our
9 audits by the REA personnel and our audits by our auditors
10 and the other personnel would have discovered it if it was
11 illegal.

12 Q. Now, REA people are federal, right?

13 A. Yes, they are.

14 Q. And we're talking about a Missouri statute,
15 which they may or may not know about probably, right?

16 A. (The witness nodded her head.)

17 Q. If it is illegal and is eventually
18 determined to be illegal through some litigation, then what
19 financing would CRESCO have?

20 A. I'm sorry. I don't understand what you're
21 getting at.

22 Q. If the loaning of money by Cuivre River to
23 CRESCO is determined to be illegal, where would CRESCO get
24 money?

25 A. I would suppose from CFC.

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1 Q. Directly?

2 A. I don't know. I really don't know, but
3 that's--they have discussed with us and gone through the
4 process of getting a loan for CRESCO facilities.

5 Q. I believe I asked you before whether CRESCO
6 had borrowed any money from anybody else; and the answer
7 was, no, they'd only borrowed it from CREC?

8 A. Uh-huh.

9 Q. So if the financing from CREC to CRESCO
10 falls through, CRESCO has no money right now until you
11 should do something else, right?

12 A. I would suppose, yes.

13 Q. And, without any financing, CRESCO would not
14 be financially sound?

15 A. Well, that sounds logical, yes, uh-huh.

16 MS. SWALLER: That's all I have.

17 EXAMINER FEE: Mr. Walther.

18 MR. WALTHER: No questions.

19 EXAMINER FEE: Ms. Bjelland.

20 MS. BJELLAND: No questions.

21 EXAMINER FEE: Mr. Widger, do you have any
22 questions?

23 MR. WIDGER: Just a couple.

24 CROSS-EXAMINATION BY MR. WIDGER:

25 Q. Which comes first in this spending process?

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1 Do you commit the money into plant and then draw down the
2 loan money, or do you draw money and then build the plant?

3 A. We build the plant and then draw the money
4 based on the work orders.

5 Q. As to the possibility that there are
6 transmission lines which may benefit CRESCO, though they are
7 REA-financed lines, would that be a concern of the
8 cooperative or properly a concern of Central Electric
9 Cooperative?

10 A. Oh, the transmission lines would not be
11 Cuivre's. It would not be the cooperative. It would be
12 Central. The distribution lines. I'm sorry. I
13 misinterpreted that.

14 Q. So you don't maintain books on transmission
15 lines then?

16 A. No, we do not. Just strictly distribution.

17 Q. What sort of presence does the REA maintain
18 in the state of Missouri? Are there personnel present?

19 A. Yes, there is. There is field personnel.
20 There are two field personnel, I believe, in Jeff City.

21 Q. How frequently--

22 A. And Columbia.

23 Q. How frequently do they come around to look
24 at your operation?

25 A. Oh, at least every other month and sometimes

Missouri Public Service Commission

1 more often than that.

2 Q. When did you most recently see an REA field
3 person?

4 A. I think it was just in the last couple of
5 weeks. Wayne Groseclose was there.

6 Q. Is Mr. Groseclose stationed in Missouri?

7 A. Yes, he is.

8 Q. Do you operate with the assumption that he's
9 familiar with Missouri law?

10 A. Yes.

11 Q. And when did you last have contact with a
12 representative from CFC?

13 A. Let's see. The last Thursday of August was
14 the board meeting, and we had a CFC representative at that
15 board meeting. I was present then.

16 Q. Have you personally participated in other
17 face-to-face coordination with REA and CFC persons?

18 A. Yes, I have. I've been to Washington to
19 both CFC and REA, and their personnel were present in the
20 same day.

21 Q. Was that trip in preparation for the first
22 CRESCO hearing?

23 A. Yes, it was, to check into the financial--
24 how they felt about financially CRESCO and the cooperative
25 working.

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1 Q. Have you received any indication from REA or
2 CFC that what the cooperative and CRESCO are doing is
3 offensive to them?

4 A. No, I have not.

5 Q. Has there been any indication that, in fact,
6 they want no part of it and will have nothing to do with
7 financing?

8 A. No. It was expressed at those meetings in
9 Washington that they could understand the Missouri situation
10 and they were agreeable to it.

11 MR. WIDGER: I have no other questions.

12 EXAMINER FEE: Anything further?

13 MS. SWALLER: Yeah. I just need to think
14 for a second.

15 REDIRECT EXAMINATION BY MS. SWALLER:

16 Q. To your knowledge, was CRESCO and CREC the
17 first of their kind in Missouri?

18 A. I believe so.

19 Q. So a loan flowing directly from a co-op to a
20 subsidiary, the first time that occurred was with CRESCO?

21 A. As far as I know.

22 Q. So it hasn't been challenged yet? The
23 propriety of that has not been challenged yet, to your
24 knowledge?

25 A. No, I don't suppose.

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1 Q. Until a challenge of that nature occurs,
2 then no one can be certain whether or not that financial
3 arrangement will be found legal or not?

4 A. I don't know that much about the legal
5 aspect of it.

6 MS. SWALLER: That's all I have.

7 EXAMINER FEE: Anything further?

8 MR. WALTHER: Yes.

9 RECROSS-EXAMINATION BY MR. WALTHER:

10 Q. You referred to some meetings in Washington
11 that representatives of the co-op and the REA had. Could
12 you tell me when those meetings were held?

13 A. Let's see. It seems like it was in--I don't
14 know for sure. It seems like it was early, early spring of
15 '86, I believe.

16 MR. WALTHER: No further questions.

17 MS. BJELLAND: No questions.

18 EXAMINER FEE: The witness may be excused.
19 Thank you, ma'am.

20 (Witness excused.)

21 _____
22 MS. SWALLER: I'd like to call Gerald
23 Waters.

24 (Witness sworn.)
25 _____

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1 EXAMINER FEE: Mr. Waters' testimony has
2 previously been marked as Exhibit 7.

3 GERALD L. WATERS testified as follows:

4 DIRECT EXAMINATION BY MS. SWALLER:

5 Q. Could you state your name, please.

6 A. Gerald L. Waters.

7 Q. And your employer?

8 A. Union Electric Company.

9 Q. I hand you what has been previously marked
10 as Exhibit 7 and ask you if you can identify this?

11 A. Yes, I can.

12 Q. And what is it?

13 A. This is my direct testimony. And the
14 particular Case No.? In Case No. EA-87-102.

15 Q. So you are the same Gerald Waters that filed
16 direct testimony in this case at an earlier date?

17 A. Yes, I am.

18 Q. Do you have a copy of this with you?

19 A. Yes, I do.

20 Q. I'd like you to refer to Schedule 1. Was
21 that schedule prepared by you or at your direction?

22 A. Yes, it was.

23 Q. And Schedule 2?

24 A. Yes, it was.

25 Q. If I were to ask you the same questions that

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1 were asked in this prefiled testimony, would your answers be
2 the same?

3 A. No. The only addition that I would have to
4 that is that two towns were inadvertently omitted in
5 Schedule 1. And those towns were Cottleville and Weldon
6 Springs Heights, both in St. Charles County, Missouri.

7 Q. So Cottleville and Weldon Springs Heights
8 should be added to Schedule 1, which is a list of UE--or
9 towns from which UE has franchises?

10 A. That is correct.

11 MS. SWALLER: I tender the witness for
12 cross-examination. Well, first I move that his testimony be
13 admitted into evidence and then tender him for cross-
14 examination.

15 EXAMINER FEE: Mr. Walther.

16 MR. WALTHER: No questions.

17 EXAMINER FEE: Ms. Bjelland.

18 MS. BJELLAND: Yes.

19 CROSS-EXAMINATION BY MS. BJELLAND:

20 Q. Mr. Waters, can I refer you to Page 2 of
21 your direct testimony, which has been marked Exhibit 7. In
22 response to a question, you indicate that Union Electric has
23 permission from five county governments to use their public
24 right-of-ways; is that correct?

25 A. That is correct.

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1 Q. How has this permission been evidenced? Do
2 you have easements, or has there been some other type of
3 document that's been given to Union Electric from these
4 respective county governments?

5 A. What I would have to do then, to answer that
6 question, is our legal department comes down; and they pull
7 out the necessary documentation for what they would need for
8 this particular item. So I am not quite sure as to whether
9 or not--what form these items take place.

10 Q. But you have been informed and it is your
11 testimony that you do have permission to use the
12 right-of-way?

13 A. That is correct. Yes, I have been informed
14 by our legal staff.

15 MS. BJELLAND: No further questions.

16 EXAMINER FEE: Mr. Widger.

17 CROSS-EXAMINATION BY MR. WIDGER:

18 Q. Would it be your understanding that that
19 permission would be in the form of some kind of county
20 franchise?

21 A. That is correct.

22 Q. Have you seen the actual documents?

23 A. No, I have not seen those actual documents.

24 Q. As to Schedule 1--oh, I'm sorry. That would
25 be Schedule 2. Does Schedule 2 include a disclaimer to this

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1 effect in the first sentence: The management of Union
2 Electric Company is responsible for the information and
3 representations contained in the financial statements and in
4 other sections of this annual report? Did I read that
5 correctly from your schedule?

6 A. Yes, you did.

7 Q. Are you personally familiar with the area,
8 the geography, that we're talking about in this case?

9 A. No, I am not.

10 Q. Now, you've indicated that, besides having
11 city and municipal franchises, that Union Electric Company
12 also has certificates from this Commission for the city of
13 Bowling Green, Louisiana, Foley, Wright City, High Hill,
14 Marthasville, and Winfield; is that correct?

15 A. That is correct.

16 Q. Have you been here throughout this hearing
17 today?

18 A. No, I have not, not totally.

19 Q. Well, it's been represented in some
20 questioning of CRESCO witnesses that Union Electric has a
21 certificate of convenience and necessity from the Public
22 Service Commission for the areas that are shown with red
23 slash lines.

24 A. Okay.

25 Q. All right. Do you know what authority

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1 covers the red slash lines here on the western side of this
2 map (indicating)?

3 MS. SWALLER: Can the witness refer to his
4 testimony? I believe that it's answered in his testimony.

5 MR. WIDGER: Yes. If it's in your
6 testimony, please.

7 MS. SWALLER: Oh, I'm sorry. I'm talking
8 about the other side.

9 MR. WIDGER: Okay. Perhaps it's not in your
10 testimony.

11 BY MR. WIDGER:

12 Q. In your review of the records--

13 A. Back up then. What is your question then?

14 Q. My question is: In your testimony, there is
15 your statements that you have a franchise--certificate from
16 the Commission for this area, eastern St. Charles County.
17 But I don't see any reference to this in your testimony
18 (indicating). There's this (indicating), and then you've
19 listed some cities. But I see no reference to this
20 (indicating). Was that an omission, or do you know if there
21 is a certificate for this area?

22 A. We only supply to our legal staff the data
23 which they requested of us. So if the western half was not
24 requested, we did not supply that information to them.

25 Q. Okay. Then let me make sure I'm straight

Missouri Public Service Commission

1 here.

2 A. Okay.

3 Q. This is not, the easternmost part of
4 St. Charles County, certificated to UE's predecessor,
5 American Light & Power Company, is it?

6 A. I am totally unaware of that.

7 Q. And this is not Bowling Green, Louisiana,
8 Foley, Wright City, High Hill, Marthasville, or Winfield, is
9 it (indicating)?

10 A. No. It would not appear to be.

11 Q. So your testimony doesn't provide any
12 foundation for or support for the claim that UE has a PSC
13 certificate for this area (indicating)?

14 A. In answer to your question, we--what I'm
15 testifying to is that we supplied the documentation for
16 franchises for those municipalities which was requested by
17 our legal department. Now, in this particular area that
18 you're referencing, if that area was not requested by our
19 legal department, well, we did not supply the franchises
20 that I am making reference to.

21 Q. Well, I appreciate your insight about your
22 processes. But your testimony doesn't talk about this at
23 all, does it (indicating)?

24 A. Getting back to your earlier question, I'm
25 not even familiar with the area that you have specified

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1 there.

2 Q. Sir, does your testimony refer to anything
3 over here in this county (indicating)? I would take it that
4 that is the western part of Warren County. Does your
5 testimony have anything to say about the western part of
6 Warren County?

7 A. If those municipalities I have listed is not
8 included in that area, then my answer would be no.

9 Q. And let's take a look at this map. It shows
10 some little towns. It looks like Bridgeport. That's not
11 on the list, is it?

12 A. No.

13 Q. Case?

14 A. No.

15 Q. There's a national forest or a state forest
16 here?

17 A. Uh-huh.

18 Q. Do you see any other towns indicated on this
19 map?

20 A. No, I do not.

21 MR. WIDGER: Thank you. I have no other
22 questions.

23 EXAMINER FEE: Any redirect?

24 MS. SWALLER: Yes.

25 REDIRECT EXAMINATION BY MS. SWALLER:

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1 Q. The way our process worked is that I asked
2 you to find area certificates for specific areas? Or, in
3 actuality, I found them and showed them to you?

4 MR. WIDGER: I object to the form of the
5 question. Counsel is testifying.

6 EXAMINER FEE: Sustained.

7 MS. SWALLER: Let me rephrase it.

8 BY MS. SWALLER:

9 Q. How did you get the actual certificates?
10 Did you find them? Did I find them? Did someone else find
11 them? How did you actually get the certificates and verify
12 that this was accurate information?

13 A. You found the certificates.

14 Q. And brought them to you?

15 A. That is correct.

16 Q. And you verified that the information in
17 your testimony was accurate?

18 A. That is correct.

19 Q. To the extent I didn't bring you something,
20 it's not in your testimony?

21 A. That is correct.

22 MS. SWALLER: That's all.

23 EXAMINER FEE: Is there anything further?

24 (No response.)

25 EXAMINER FEE: The witness may be excused.

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1 (Witness excused.)

2
3 EXAMINER FEE: Exhibit 7 will be received
4 in evidence.

5 (EXHIBIT NO. 7 WAS RECEIVED IN EVIDENCE AND
6 MADE A PART OF THIS RECORD.)

7 MS. SWALLER: I'd like to call Mr. Charles
8 Hunsel.

9 (Witness sworn.)

10
11 EXAMINER FEE: Mr. Hunsel's testimony has
12 been marked as Exhibit 8.

13 CHARLES M. HUNSEL testified as follows:

14 DIRECT EXAMINATION BY MS. SWALLER:

15 Q. Could you state your name and your employer.

16 A. Charles M. Hunsel, Union Electric Company.

17 Q. I hand you what's been previously marked as
18 Exhibit 8 and ask you if you can identify this?

19 A. Yes. That's my direct testimony in Case
20 No. EA-87-102.

21 Q. So are you the same Charles Hunsel that
22 prepared and filed this direct testimony at an earlier date?

23 A. Yes, I am.

24 Q. If I asked you those questions today, would
25 your answers be the same?

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1 A. Yes, with minor exceptions.

2 Q. Do you have some minor corrections that
3 you'd like to make?

4 A. In clarification, on Page 3, I answered a
5 question, assuming--the question was asked of the Capital
6 District. I gave the answer as the Wentzville District.

7 Q. Because you're the manager for the
8 Wentzville District?

9 A. That's correct.

10 Q. And then, in the response to that question,
11 is there something omitted?

12 A. Yes, there is. In the last two sentences,
13 inadvertently 14.4 kv was omitted.

14 Q. So the correct response is that Union
15 Electric has all the lines listed there plus the 14.4 kv's
16 that were omitted?

17 A. That's correct.

18 Q. Was there one other correction?

19 A. Yes, there is. On Page 4, a question was
20 asked of the value of Union Electric's facilities in the
21 Wentzville District. The answer that I gave was \$30 million
22 when it should have been \$166.5 million.

23 Q. What was the \$30 million?

24 A. It was a figure given to me that I'm not
25 real sure where it came from.

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1 Q. And later you checked it and verified that
2 the 166.5 was accurate?

3 A. That is correct.

4 MS. SWALLER: That's all I have. And I move
5 that the Exhibit 8 be admitted into evidence and tender the
6 witness for cross-examination.

7 Oh, I'm sorry. I didn't cover some
8 exhibits, schedules. Let me reopen.

9 (Discussion off the record.)

10 B. MS. SWALLER:

11 Q. Schedules 1 through 5, as Mr. Fee has
12 mentioned, are maps of the counties in this case; is that
13 correct?

14 A. That is correct.

15 Q. Were they prepared at your direction or by
16 someone at your direction?

17 A. Yes, they were.

18 Q. And we have checked those maps for accuracy?

19 A. Yes, we have.

20 Q. And Schedule 6 is a legal description of the
21 Wentzville and Louisiana districts. Was that prepared at
22 your direction?

23 A. Yes, it was.

24 Q. And Schedule 7 reflects the number of
25 customers in the Wentzville area, which is your area. Is

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1 that accurate, and has it been prepared at your direction?

2 A. Yes, it was.

3 MS. SWALLER: That's all I have, and I would
4 move that the exhibit be entered and tender the witness for
5 cross-examination.

6 MR. WALTHER: No questions.

7 EXAMINER FEE: Ms. Bjelland.

8 MS. BJELLAND: Yes. I have just a few
9 questions.

10 CROSS-EXAMINATION BY MS. BJELLAND:

11 Q. If you could please refer to Page 4 of your
12 direct testimony, which has been marked as Exhibit No. 8.
13 You make a statement that "1,990 customers were added in the
14 area during 1986;" is that correct?

15 A. Yes, I did.

16 Q. Can you tell me, out of that 1,990, how many
17 were residential customers and how many were commercial
18 customers?

19 A. I could, but I don't have those figures in
20 front of me.

21 Q. Could you give me a rough guess?

22 A. Percentagewise, I would say about 75 to
23 80 percent are residential. And that's just an estimate.

24 Q. Now, if we could turn to Page 5 of your
25 direct testimony, in answer to a question, you indicate

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1 that, at numerous times, the question of who is to serve a
2 new customer has been litigated; is that correct?

3 A. Yes, I did mention that.

4 Q. You are not an attorney, are you, Mr. Hunsel?

5 A. No, I'm not.

6 Q. Do you have general knowledge of what the
7 issue was at stake in those cases, and would you feel
8 comfortable in answering?

9 A. I don't feel comfortable answering.

10 Q. Then I won't pursue it.

11 MS. BJELLAND: I have no further questions.

12 EXAMINER FEE: Mr. Widger.

13 CROSS-EXAMINATION BY MR. WIDGER:

14 Q. Wouldn't that list of litigation,
15 Mr. Hunsel, really have to go back to 1956 at the time of
16 the Cuivre River versus Missouri Edison case that is cited
17 for authority to make reasonable extensions off line
18 authority?

19 MS. SWALLER: I'll object to the extent that
20 it asks for legal knowledge. But if he's comfortable with
21 the answer, I don't mind if he answers.

22 EXAMINER FEE: The objection is overruled.

23 THE WITNESS: Would you reask the question?

24 BY MR. WIDGER:

25 Q. Wouldn't the list of litigation you provided

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1 there on Page 5, to be complete, wouldn't that include the
2 1956 case of Cuivre River versus Missouri Edison, which is
3 the case that's cited a lot for the principle that you can
4 make reasonable extensions off of line authority?

5 A. The list that I put together for my direct
6 testimonies was those cases that I am familiar with. I was
7 not familiar, nor was I employed, with any utility company
8 at the time that you're mentioning.

9 Q. But, you know, would it be fair to say that
10 there's been a tension between cooperative service and UE
11 service out in this area for many years?

12 A. Again, I'm not familiar with anything beyond
13 my own time.

14 Q. How far back can you go?

15 A. As I mentioned in my testimony, I started
16 with Missouri Edison Company in '73.

17 Q. Has there been a tension from that time on
18 that you were aware of between cooperative and UE?

19 A. There's always been competitiveness between
20 the two.

21 Q. Do you have any duties or oversight over the
22 day-to-day construction activities in your district?

23 A. Would you define "day-to-day"?

24 Q. Well, let me ask it this way: Are you aware
25 of in-house decisions regarding where and when to construct,

Missouri Public Service Commission

1 you know, specific lines?

2 A. Not always.

3 Q. Who would have a closer handle on that kind
4 of thing?

5 A. Our district engineer.

6 Q. And who is that?

7 A. Don Cobb.

8 Q. Now, if you'll refer to Page 6 of your
9 testimony, there's a statement in the--it's the last
10 sentence of the first paragraph of that answer. It says,
11 "This proposal is somewhat ironic"--and that's referring
12 back to some kind of closer-to test--"in that one of
13 CRESCO's professed reasons for seeking an area certificate
14 is to avoid further Public Service Commission hearings for
15 new line certificates." Where did CRESCO profess that, to
16 your knowledge?

17 A. In their testimony, there was a reference
18 made to it. I don't know if it was specifically stated that
19 way.

20 Q. Do you have any reason to know that CRESCO
21 has ever come in here asking for a line certificate?

22 A. Not to my knowledge.

23 Q. Back to Page 5, near the top where we're
24 asking about how a new customer goes to either cooperative
25 or Union Electric, you've stated here that, in a general

Missouri Public Service Commission

1 way, that if one supplier is near the customer, then
2 typically that electric supplier will serve that new
3 customer. How long has that operating principle been in
4 effect?

5 A. Well, as long as I can remember.

6 Q. So proximity to a supplier is a pretty
7 important thing?

8 A. It's one of the determining factors.

9 MR. WIDGER: I have no further questions.

10 EXAMINER FEE: Any redirect?

11 MS. SWALLER: No.

12 EXAMINER FEE: The witness may be excused.

13 (Witness excused.)

14

15 EXAMINER FEE: Exhibit 8 will be received in
16 evidence.

17 (EXHIBIT NO. 8 WAS RECEIVED IN EVIDENCE AND
18 MADE A PART OF THIS RECORD.)

19 MS. SWALLER: I'd like to call Don Cobb to
20 the stand.

21 (Witness sworn.)

22

23 DONALD W. COBB testified as follows:

24 DIRECT EXAMINATION BY MS. SWALLER:

25 Q. Would you state your name and your employer.

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1 A. Donald W. Cobb and employed by Union
2 Electric Company.

3 Q. I hand you what has been previously marked
4 as Exhibit 9 and ask you if you can identify this?

5 A. Yes. This is my direct testimony in Case
6 No. EA-87-102.

7 Q. And do you have a copy of that?

8 A. Yes, I do.

9 Q. Are you the same Don Cobb then that filed
10 this testimony before?

11 A. Yes, I am.

12 Q. And if you were asked those questions today,
13 your answers would be the same?

14 A. Yes, they would.

15 Q. I hand you what has been previously marked
16 as Exhibit 10 and ask you if you can identify it?

17 A. Yes. This is rebuttal testimony in the same
18 case, No. EA-87-102.

19 Q. And it's testimony that you prepared?

20 A. Yes.

21 Q. And if you were asked those questions today,
22 your answers would be the same?

23 A. Yes, they would.

24 MS. SWALLER: I move that Exhibits 9 and 10
25 be admitted into evidence and tender Mr. Cobb for cross-

Missouri Public Service Commission

1 examination.

2 EXAMINER FEE: Mr. Walther.

3 MR. WALTHER: No questions.

4 EXAMINER FEE: Ms. Bjelland.

5 MS. BJELLAND: Yes.

6 CROSS-EXAMINATION BY MS. BJELLAND:

7 Q. Mr. Cobb, in your rebuttal testimony, which
8 has been marked Exhibit 10, you indicate that, since
9 January, the average outage time per consumer in Wentzville
10 is 95 minutes; is that correct?

11 A. Yes.

12 Q. But then you go on to state that the average
13 outage time for the year 1986 was 75 minutes and that that
14 is a more typical number; is that correct?

15 A. Yes, I believe so.

16 Q. Can you tell me why, for the period January
17 through the present, Wentzville has had an outage--average
18 outage time that is higher than the 1986 average?

19 A. That was basically through the spring--
20 winter, spring storms that we incurred. During the summer,
21 our outages usually drop off.

22 Q. So is it your testimony that, for 1987, when
23 the whole year--figures for the whole year are in, that that
24 number will be more reflective of the 1986 average?

25 A. Yes, that's what we're saying.

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1 Q. And it isn't because it was an unusually
2 hard winter or a spring that had more storms than usual?

3 A. We may have had a few more storms. The
4 intensity of them, it's hard to say what effect they had
5 until you look at the whole year's picture of it.

6 MS. BJELLAND: I have no further questions.

7 EXAMINER FEE: Mr. Widger.

8 CROSS-EXAMINATION BY MR. WIDGER:

9 Q. Let's talk about outage for a little while,
10 Mr. Cobb. What can you compare outage to besides outage? I
11 mean, what's--the benefit of having an outage figure is to
12 compare it to another year's outage figure to see--to kind
13 of track your progress; is that correct?

14 A. Yes, uh-huh.

15 Q. And what does it mean to have an outage?

16 A. It means we lose service to a customer.

17 Q. And, generally, is that an unforeseen loss
18 of service?

19 A. Yes. Some numbers included here did include
20 planned outages.

21 Q. And your planned outages, though, will
22 generally be so scheduled as to include the fewest number
23 of customers and the shortest amount of time; is that
24 correct?

25 A. That's correct.

Missouri Public Service Commission

1 Q. So the outages that drive your average up
2 would be those unforeseen ones; is that right?

3 A. Yes, uh-huh.

4 Q. And your goal is to provide electricity 24
5 hours a day, just like a cooperative would do?

6 A. Yes.

7 Q. And isn't it a fact that outages can be
8 caused by a great number of problems?

9 A. Yes. You know, a lot of things can cause
10 outages.

11 Q. A contractor could dig into one of your
12 lines?

13 A. Yes.

14 Q. You could have a horrible ice storm?

15 A. Yes.

16 Q. Or windstorm?

17 A. Yes.

18 Q. You might have animals get into your lines
19 and cause an outage?

20 A. Yes.

21 Q. You might have lightning damage cause an
22 outage?

23 A. Yes.

24 Q. You could have an equipment failure cause an
25 outage?

Missouri Public Service Commission

1 A. Yes.

2 Q. And the outage could occur at a number of
3 places; is that correct?

4 A. Yes.

5 Q. It could affect the whole substation or just
6 part of a line; is that correct?

7 A. That's correct.

8 Q. Then would you agree that the overall amount
9 of time that lapses during an outage reflects the severity
10 of the cause?

11 A. I don't think I'd agree with that wording.

12 Q. Let me give you an example then. You know,
13 would an ice storm that drops lines all over your system
14 lead to a greater outage time than an animal, a squirrel,
15 getting into one transformer?

16 A. Yes.

17 Q. And it would affect a greater number of
18 customers?

19 A. That's correct.

20 Q. So that's what I mean when I talk about the
21 severity of the cause. Wouldn't the overall amount of time
22 also reflect--well, the multiplicity of causes; that is, the
23 number of lines dropped versus, you know, one line dropped?
24 The number of breaks in the system will increase your amount
25 of outage time?

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1 A. Yes. This was done based on number of
2 customers affected.

3 Q. We're talking about the things that go into
4 the total time. And, of course, the average you're talking
5 about is just a matter of total time, you know, divided by
6 number of customers, right?

7 A. Yes.

8 Q. So while we're on the things that add to the
9 amount of time that's involved, would the time be prolonged
10 by the amount of time it takes to find the location of the
11 break?

12 A. Yes. That can determine--may lengthen the
13 outage.

14 Q. Sure. And it also then could be prolonged
15 by the promptness of the response?

16 A. Yes.

17 Q. How long it takes to get a crew there. And,
18 of course, the amount of time it takes a crew to get there
19 could reflect how far they have to go; is that correct?

20 A. That's correct.

21 Q. And, once they get there, it's going to
22 reflect the amount of training and experience they have,
23 won't it?

24 A. Yes.

25 Q. And whether they got there with the right

Missouri Public Service Commission

1 tools or not?

2 A. Yes.

3 Q. Would it be fair to say that your system
4 includes both areas with urban and rural characteristics?

5 A. Yes, it would.

6 Q. Would it be fair to say that locating and
7 correcting the outage out on the rural part of your system
8 generally takes more time than that which occurs in your
9 more urban area?

10 A. Yes.

11 Q. And if it happens in your rural area, it's
12 going to take more travel time, is it not, among other
13 things?

14 A. It could, yes.

15 Q. And as to the frequency of a contractor
16 breaking a line for you, that would reflect then a
17 difference between established residential areas versus new
18 residential areas, wouldn't it?

19 A. We have outages in both locations to
20 contractors.

21 Q. Right. Would it follow that where there are
22 more contractors at work, there's a greater likelihood of an
23 interruption on your system?

24 A. Yes.

25 Q. Now, all those things go to the amount of

Missouri Public Service Commission

1 time. Let's talk about the average.

2 What does the average time reflect other
3 than the density of customers? Wouldn't you agree that
4 average time reflects density of customers? Well, you know,
5 let me give you an example.

6 A. Somewhat.

7 Q. Well, if you have a mile of line that goes
8 out and there's one customer on that line and it's out for
9 an hour, then you'd have one hour per customer. But if
10 there's two on that mile of line, then it would be just a
11 half hour per customer, wouldn't it?

12 A. Yes.

13 Q. So wouldn't you agree then that density has
14 some effect on figuring the average outage time?

15 A. Yes, uh-huh.

16 Q. How many customers per mile do you have in
17 the Wentzville district?

18 A. I really do not have that number at my--

19 Q. Do you have a ballpark guess?

20 A. No.

21 Q. Now, based on just the comparison of outage
22 time, you make a statement in your rebuttal testimony--and
23 correct me if I'm wrong. But are you implying here that the
24 fact that UE's outage time is lower, its average outage time
25 is lower than that of the cooperative, that that makes your

Missouri Public Service Commission

1 system more responsive and reliable? Are you implying that
2 in your testimony?

3 A. I basically stated that we had less outage
4 time, you know, per customer per outage than what the
5 co-op--

6 Q. Are you making then that second step,
7 though, to say that that makes you more reliable than co-op?

8 A. If we had less outages, if we had less
9 people out of lights for a shorter amount of time, that
10 would be one facet of reliability.

11 Q. But all an average outage time lets you do
12 is really compare outage time; isn't that correct? In other
13 words--and then it comes to all the other factors of urban
14 versus rural and distance and density; and all those things
15 come into play, don't they?

16 A. It affects it.

17 Q. Let me turn it around, and we'll just kind
18 of test you here. Let's say that the numbers are reversed
19 and the only fact you knew was that UE had an average outage
20 time of 2.61 hours per customer and that Cuivre River had a
21 1.25 per customer. On that fact alone, are you willing to
22 say that cooperative is more reliable?

23 A. I wouldn't want to be a customer on that
24 line.

25 Q. You wouldn't want to be a customer on the UE

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1 line in that instance, would you?

2 A. On the one with the longer outage time.

3 Q. That's right.

4 A. Which would be the co-op in that synopsis.

5 Q. No. I turned it around.

6 A. Yeah. Oh, okay.

7 Q. Just given, you know, a fact--and it's a
8 hypothetical fact--with the numbers reversed, if someone
9 told you that UE had outage of 2.61 hours per customer on
10 the average in any given year and that of cooperative was
11 1.25 hours per customer, would you come to the judgment as
12 an engineer that cooperative's system was more reliable than
13 that of UE?

14 A. Yes.

15 Q. And as a practicing engineer, you wouldn't
16 be interested in all the other factors that went into that?

17 A. It's one factor of measuring reliability.

18 Q. Okay. Maybe I should make sure that we're
19 talking about the same thing. What do you mean when you
20 talk about reliability?

21 A. Keeping service on to the customer and
22 keeping adequate service to our customer.

23 Q. And if an ice storm comes along, you know,
24 an event beyond the control of any utility, even UE, if an
25 ice storm comes along and just tears your lines down and you

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1 have to carry then an average outage time that appears high,
2 you would let that prejudice your notions, your opinion, of
3 the reliability of that utility?

4 A. You would have to know, like I say, what
5 makes up the outage time.

6 Q. Now, in your testimony, did you have any
7 information which allowed you to know what made up Cuivre
8 River's outage time?

9 A. No, I did not.

10 MR. WIDGER: No further questions. I'm
11 sorry. I do have some more questions.

12 BY MR. WIDGER:

13 Q. Are you the person that Mr. Hunsel
14 identified as the one who'd have greater knowledge than he
15 about the day-to-day construction activities of Union
16 Electric in the Wentzville district?

17 A. Yes.

18 Q. Let me ask you about some construction
19 activity. Let's focus on St. Charles County for a moment.
20 Are you familiar with a town called New Melle?

21 A. Yes, I am.

22 Q. And you're familiar with a road called Dyer
23 Road?

24 A. Yes, I am.

25 Q. Do you have knowledge of Union Electric

Missouri Public Service Commission

1 constructing 2.4 miles of line to reach one home, that line
2 being 101 poles from New Melle to Dyer Road?

3 A. Yes, I do.

4 Q. Is what I've said true?

5 A. I don't remember exact number of poles and
6 that; but it's in the general ballpark, yes.

7 Q. That you built 2.4 miles of line to reach
8 one home?

9 A. Yes. We had one customer out there.

10 Q. How about--are you familiar with Highway W
11 and construction of Union Electric from Highway W to Duenke
12 Road? That's D-u-e-n-k-e.

13 A. Yes.

14 Q. Are you familiar with construction where two
15 miles of line were put in place to reach one home
16 approximately September, 1987?

17 A. In that project?

18 Q. Yeah.

19 A. I believe it's one home now with a future
20 subdivision to be served there.

21 Q. Potential?

22 A. I think it's already been platted or--
23 subdivided at least. I'm not sure if it's been recorded and
24 platted.

25 Q. In each of those instances, did your

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1 construction parallel or duplicate that of the cooperative
2 that's already in place?

3 A. Yes.

4 Q. Are you familiar with a location--or
5 construction that ran from Highway P to Koch or Koch Road,
6 K-o-c-h Road?

7 A. Yes.

8 Q. In approximately July of this year?

9 A. Yes.

10 Q. Was that 1.8 miles of line constructed to
11 one home and one mobile home?

12 A. It was to serve eventually four customers
13 plus--don't hold me exactly--about 100 acres for future
14 development.

15 Q. Did that also parallel existing facilities
16 of the cooperative?

17 A. Yes, it did partly.

18 Q. How about the construction from Highway Z to
19 Highway N? Are you acquainted with approximately 3.3 miles
20 of construction in August of '87 to reach one home?

21 A. Yes, I am.

22 Q. About 113 poles?

23 A. I don't remember the number of poles.

24 Q. Did that parallel cooperative facilities?

25 A. Part of the way, yes.

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1 Q. How about from Foristell Road to Oberhelmann
2 Road, a span of 2.1 miles to reach a subdivision of seven
3 lots?

4 A. Yes, uh-huh.

5 Q. Did that parallel cooperative facilities?

6 A. Yes, it did.

7 Q. Let's go to Warren County, some construction
8 along South Stringtown Road. Do you recall building about
9 seven-tenths of a mile in May of '87 to reach a subdivision
10 of 19 lots?

11 A. Plat 1 is 19 lots, I believe, yes.

12 Q. Was that parallel to cooperative facilities?

13 A. Yes, it was.

14 Q. Let's go to Lincoln County, Blue Goose Road.
15 Highway 47 east of Troy, if that helps you locate it. Do
16 you recall construction of approximately eight-tenths of a
17 mile to reach a subdivision of 20 lots?

18 A. Yes, I do.

19 Q. Did that parallel or duplicate cooperative
20 construction?

21 A. It paralleled it.

22 Q. Staying in Lincoln County, Himmel Road south
23 of Moscow Mills on Highway 61, are you familiar with that?

24 A. Vaguely, yes.

25 Q. Are you aware of construction of

Missouri Public Service Commission

1 approximately seven-tenths of a mile in June of '87 to reach
2 a trailer and one house previously served by the
3 cooperative?

4 A. I'm not aware of any that we have installed
5 any lines that were previously served by a co-op.

6 Q. No. To reach a house previously served by
7 the cooperative.

8 A. In June, '87?

9 Q. Right. That would be the time of your
10 construction.

11 A. I'm not aware of any house out there that we
12 served that was previously served by the co-op.

13 Q. Well, okay. Then let's just take it that
14 there's a--was there a trailer and a house that were reached
15 and served by your seven-tenths of a mile of construction?

16 A. Yes.

17 Q. And did that construction parallel existing
18 cooperative facilities?

19 A. I believe most of the way. All these jobs
20 I'm not 100 percent sure of.

21 MR. WIDGER: No other questions.

22 EXAMINER FEE: Any redirect?

23 MS. SWALLER: Yes.

24 REDIRECT EXAMINATION BY MS. SWALLER:

25 Q. First, on the outage issue, Cuivre River and

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1 UE, in general, operate in the same area, correct?

2 A. That's correct.

3 Q. When a storm hits UE, a storm hits Cuivre
4 River?

5 A. That's correct.

6 Q. Response time, is that an important factor
7 in average outage, how quick you get there to fix it, how
8 quick it gets back on?

9 A. Yes, I expect so.

10 Q. The faster you fix it, the lower the outage
11 time on that particular project?

12 A. That's correct.

13 Q. The more people and the better trained those
14 people are to fix that outage time, does that affect it?

15 A. Yes, it does.

16 Q. Mr. Widger has asked you about a number of
17 construction projects of UE recently, which you have said
18 have paralleled Cuivre River lines. Have any construction
19 projects, to your knowledge, of Cuivre River in the last
20 year or two paralleled UE lines?

21 A. Yes.

22 Q. Do you have any estimate of the number?

23 A. No, not really.

24 Q. Is it a common practice among both companies?

25 A. Yes, it has been.

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1 Q. And if guilt is going to be assessed, it's
2 pretty much a shared guilt?

3 A. We've both been doing it.

4 MS. SWALLER: That's all I have.

5 EXAMINER FEE: Mr. Walther.

6 MR. WALTHER: No questions.

7 EXAMINER FEE: Ms. Bjelland.

8 MS. BJELLAND: Yes.

9 RECROSS-EXAMINATION BY MS. BJELLAND:

10 Q. Mr. Cobb, these construction projects that
11 you discussed both with Mr. Widger and Ms. Swaller, did
12 these particular customers request service from Union
13 Electric?

14 A. Yes, they did.

15 Q. All of them?

16 A. Yes.

17 MS. BJELLAND: No further questions.

18 EXAMINER FEE: Mr. Widger, anything further?

19 MR. WIDGER: No.

20 EXAMINER FEE: The witness may be excused.

21 (Witness excused.)

22
23 EXAMINER FEE: Exhibits 9 and 10 are
24 received in evidence.

25 (EXHIBIT NOS. 9 AND 10 WERE RECEIVED IN

Missouri Public Service Commission

1 EVIDENCE AND MADE A PART OF THIS RECORD.)

2 EXAMINER FEE: We'll be in recess.

3 (A recess was taken.)

4
5 EXAMINER FEE: The hearing will come to
6 order, please.

7 Ms. Swaller.

8 MS. SWALLER: I'd like to call Duey
9 Branstetter to the stand.

10 (Witness sworn.)

11
12 DUEY BRANSTETTER testified as follows:

13 DIRECT EXAMINATION BY MS. SWALLER:

14 Q. Could you state your name for the record,
15 please.

16 A. Duey Branstetter, employee of UE. My
17 address is 302 North 30th, Louisiana, Missouri.

18 Q. Let me hand you what has been previously
19 marked as Exhibit 11 and ask if you can identify this?

20 A. Yes. That is my testimony.

21 Q. And you're the same Duey Branstetter that
22 filed direct testimony at an earlier date?

23 A. I am the same one.

24 Q. And if I were to ask you those questions
25 today, your answers would be the same?

Missouri Public Service Commission

1 A. There is a couple of changes that I'd like
2 to make.

3 Q. What's the first change?

4 A. That is on Page No. 2. And the question
5 was: "Does UE's application seek a certificate for all of
6 your district?" At that time, I had not seen the maps.
7 And, since then, I realized that my answer should have been
8 "No" there because there is a small part of my district that
9 will come up in a later case called the super case.

10 Q. So UE is only asking for what CRESCO is
11 asking for; is that accurate?

12 A. That's right. This would be up to
13 Highway 54.

14 Q. Is there another correction?

15 A. Yes. On Page 3, the question was: "Do you
16 know the value of Union Electric's facilities in your
17 portion of this area?" And I'm going to have to make a
18 slight change there. I had the reproduction cost at
19 130 million. I want to make a slight change in that and
20 make that the reproduction cost 36.5 million.

21 Q. And those are the only corrections that you
22 need to make?

23 A. That's the only ones I'm aware of, yes.

24 Q. Schedule 1, was that prepared at your
25 direction?

Missouri Public Service Commission

1 A. Yes, it was.

2 Q. And it's accurate, to your knowledge?

3 A. Yes, it is.

4 MS. SWALLER: I would move that Exhibit 11
5 be admitted into evidence and tender Mr. Branstetter for
6 cross-examination.

7 EXAMINER FEE: Mr. Walther.

8 MR. WALTHER: I have no questions.

9 EXAMINER FEE: Ms. Bjelland.

10 MS. BJELLAND: Yes.

11 CROSS-EXAMINATION BY MS. BJELLAND:

12 Q. Mr. Branstetter, will you refer to Page 3 of
13 your direct testimony, which has been marked Exhibit No. 11.
14 And you indicate that approximately 150 customers were added
15 in the Louisiana district; is that correct?

16 A. That is correct.

17 Q. How many of those were residential customers?

18 A. I would say 97 percent.

19 Q. Then, if we could move down the page, in
20 response to a question, you provide the answer that you
21 consider Lincoln and Pike Counties to be a part of the Union
22 Electric service area; is that correct?

23 A. Yes.

24 Q. What's the basis for your opinion and your
25 answer there?

Missouri Public Service Commission

1 A. Well, since we have been serving there since
2 1924 as Missouri Edison Company, I feel like that that--that
3 we are entitled to that part of it.

4 Q. And again on Page 3, you indicate that where
5 there is a question between who's going to provide service,
6 that the supplier closest will serve the new customer, is
7 that correct, generally?

8 A. Yes. I used that just the same as
9 Mr. Hunsel before in his--

10 Q. In the past six months, has there ever been
11 an occasion where this determination has had to have been
12 made?

13 A. I'm not aware of it if there is.

14 MS. BJELLAND: I have no further questions.

15 EXAMINER FEE: Mr. Widger.

16 CROSS-EXAMINATION BY MR. WIDGER:

17 Q. On the correction you made on Page 3, you
18 corrected that from 130 million to 36.5?

19 A. As the reproduction, yes.

20 Q. Not 136.5?

21 A. No. I wish I could, but 36.5 would be
22 correct.

23 MR. WIDGER: I have no other questions of
24 this witness.

25 MS. SWALLER: I just have one.

Missouri Public Service Commission

1 REDIRECT EXAMINATION BY MS. SWALLER:

2 Q. Ms. Bjelland asked you why that's our
3 service territory?

4 A. Uh-huh.

5 Q. Why it's UE's service territory. Are there
6 maps of your two counties attached to Mr. Hunsel's testimony
7 as exhibits?

8 A. Yes, there is.

9 Q. Do those maps show line certificate
10 authority for UE?

11 A. Yes.

12 Q. Is that also a reason why you feel like
13 that's your service territory?

14 A. Yes.

15 MS. SWALLER: That's all I have.

16 EXAMINER FEE: Anything further?

17 (No response.)

18 EXAMINER FEE: The witness may be excused.

19 (Witness excused.)

20
21 EXAMINER FEE: Exhibit 11 is received in
22 evidence.

23 (EXHIBIT NO. 11 WAS RECEIVED IN EVIDENCE AND
24 MADE A PART OF THIS RECORD.)

25 MS. SWALLER: I call Mr. Hampton to the

Missouri Public Service Commission

1 stand, please.

2 (Witness sworn.)

3

4 FREDDIE J. HAMPTON testified as follows:

5 DIRECT EXAMINATION BY MS. SWALLER:

6 Q. Could you state your name and your employer,
7 please.

8 A. My name is Freddie J. Hampton, an employee
9 of Union Electric Company.

10 Q. I hand you what has previously been marked
11 as Exhibits 12 and 13 and ask you if you can identify those?

12 A. Yes, my direct testimony and my rebuttal
13 testimony in Case No. EA-87-102.

14 Q. And you're the same Freddie Hampton that
15 filed and prepared the testimony in this case before?

16 A. Yes, I am.

17 Q. And if I were to ask you those questions
18 today, would your responses be the same?

19 A. Yes.

20 Q. Do you have copies of these before you?

21 A. Yes, I do.

22 MS. SWALLER: I move that Exhibits 12 and 13
23 be admitted into evidence and tender Mr. Hampton for
24 cross-examination.

25 EXAMINER FEE: Mr. Walther.

Missouri Public Service Commission

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MR. WALTHER: No questions.

EXAMINER FEE: Ms. Bjelland.

MS. BJELLAND: No questions.

EXAMINER FEE: Mr. Widger.

MR. WIDGER: No questions.

EXAMINER FEE: You couldn't possibly have
any redirect.

MS. SWALLER: I don't.

EXAMINER FEE: The witness may be excused.
(Witness excused.)

EXAMINER FEE: Exhibits 12 and 13 are
received in evidence.

(EXHIBIT NOS. 12 AND 13 WERE RECEIVED IN
EVIDENCE AND MADE A PART OF THIS RECORD.)

MS. SWALLER: I call Mr. Ottolini to the
stand.

(Witness sworn.)

DENNIS E. OTTOLINI testified as follows:

DIRECT EXAMINATION BY MS. SWALLER:

Q. Could you state your name and your employer,
please.

A. My name is Dennis E. Ottolini, and my
employer is Union Electric Company.

Missouri Public Service Commission

1 Q. I hand you what has been previously marked
2 as Exhibit 14 and ask you to identify it.

3 A. Yes. This is my rebuttal testimony in
4 Case EA-87-102.

5 Q. So you are the same Dennis Ottolini that
6 previously filed testimony in this case?

7 A. Yes.

8 Q. If I were to ask you those questions today,
9 would your responses be the same?

10 A. Yes, they would.

11 MS. SWALLER: I move that Exhibit 14 be
12 admitted into evidence and tender Mr. Ottolini for
13 cross-examination.

14 EXAMINER FEE: Mr. Walther.

15 MR. WALTHER: No questions.

16 EXAMINER FEE: Ms. Bjelland.

17 CROSS-EXAMINATION BY MS. BJELLAND:

18 Q. Mr. Ottolini, on Page 2 of your rebuttal
19 testimony, which has been marked Exhibit 14, you state that
20 approximately 3,600 customers were added in the St. Charles
21 district last year; is that correct?

22 A. Yes. That's correct.

23 Q. How many of those or what percentage of
24 those were residential customers?

25 A. I would estimate that 3,000 of those

Missouri Public Service Commission

1 customers are residential.

2 MS. BJELLAND: Thank you. No further
3 questions.

4 EXAMINER FEE: Mr. Widger.

5 MR. WIDGER: No questions.

6 EXAMINER FEE: Do you have any redirect?

7 MS. SWALLER: No, I don't.

8 EXAMINER FEE: The witness may be excused.
9 (Witness excused.)

10 _____
11 EXAMINER FEE: Exhibit 14 is received in
12 evidence.

13 (EXHIBIT NO. 14 WAS RECEIVED IN EVIDENCE AND
14 MADE A PART OF THIS RECORD.)

15 MS. SWALLER: I call Mr. Fred Lamping to the
16 stand, please.

17 (Witness sworn.)

18 _____
19 FRED H. LAMPING testified as follows:

20 DIRECT EXAMINATION BY MS. SWALLER:

21 Q. Could you state your name and your employer
22 for the record.

23 A. Fred H. Lamping, and I'm employed by Union
24 Electric Company.

25 Q. I hand you what has been previously marked

Missouri Public Service Commission

1 as Exhibit 15 and ask you if you can identify this?

2 A. Yes. That's my rebuttal testimony, Case
3 No. EA- 87-102.

4 Q. Are you the same Fred Lamping that filed
5 this testimony?

6 A. Yes.

7 Q. And if I asked you these questions today,
8 would your responses be the same?

9 A. Yes.

10 MS. SWALLER: I move that Exhibit 15 be
11 admitted into evidence and tender Mr. Lamping for
12 cross-examination.

13 EXAMINER FEE: Mr. Walther.

14 MR. WALTHER: No questions.

15 EXAMINER FEE: Ms. Bjelland.

16 MS. BJELLAND: No questions.

17 EXAMINER FEE: Mr. Widger.

18 MR. WIDGER: Yes.

19 CROSS-EXAMINATION BY MR. WIDGER:

20 Q. Mr. Lamping, are your facilities in this
21 area addressed in your application sufficient, presently
22 sufficient, to handle any increase in load beyond that that
23 you have projected, that which has been projected by the
24 cooperative? In other words, can you handle your load and
25 the projections of the cooperative in this area?

Missouri Public Service Commission

1 A. Yes.

2 MS. SWALLER: I was going to make an
3 objection because UE isn't asking for those customers and
4 UE's application doesn't contemplate those customers. And,
5 therefore, his response would be irrelevant.

6 EXAMINER FEE: Anyway, we have an irrelevant
7 "Yes."

8 MS. SWALLER: I'll take the yes. I'll
9 withdraw my objection.

10 BY MR. WIDGER:

11 Q. If the cooperative went out of business
12 there and if it had no replacement, then UE would be the one
13 in place to handle all new load in the area, wouldn't it?

14 A. It would require some modifications; but
15 facilities are expandable that, yes, we probably could.

16 MR. WIDGER: No other questions.

17 EXAMINER FEE: Any redirect?

18 MS. SWALLER: No.

19 EXAMINER FEE: The witness may be excused.

20 (Witness excused.)

21

22 EXAMINER FEE: Exhibit 15 will be received
23 in evidence.

24 (EXHIBIT NO. 15 WAS RECEIVED IN EVIDENCE AND
25 MADE A PART OF THIS RECORD.)

Missouri Public Service Commission

1 EXAMINER FEE: Now, what's your pleasure?
2 That's the extent of your witnesses; is that right?

3 MS. SWALLER: I close my case.

4 EXAMINER FEE: We'll recess for the day.

5 MR. WALTHER: If I could have a recess until
6 3:30, I will be happy to present my case. I've talked while
7 we were off the record to counsel for UE, Public Counsel,
8 and CRESCO. And they've indicated that they believe that
9 the extent of their cross-examination is such that we could
10 get done by the end of the day if we adjourned again at
11 3:30.

12 EXAMINER FEE: All right. We'll be in
13 recess until 3:30.

14 (A recess was taken.)

15
16 (EXHIBIT NOS. 16 TO 22 WERE MARKED BY THE
17 REPORTER FOR IDENTIFICATION.)

18 EXAMINER FEE: The hearing will come to
19 order, please.

20 Mr. Walther.

21 MR. WALTHER: Yes. Staff calls James L.
22 Ketter to the stand.

23 (Witness sworn.)

24
25 JAMES L. KETTER testified as follows:

Missouri Public Service Commission

1 DIRECT EXAMINATION BY MR. WALTHER:

2 Q. Mr. Ketter, would you please state your name
3 and business address for the record, please.

4 A. James L. Ketter, Missouri Public Service
5 Commission, Post Office Box 360, Jefferson City, Missouri,
6 65102.

7 Q. And what is your occupation?

8 A. I'm the Assistant Manager of Electric Rates
9 for the Missouri Public Service Commission.

10 Q. Are you the same James L. Ketter who has
11 previously filed direct and surrebuttal testimony in this
12 case?

13 A. Yes, I am.

14 Q. Mr. Ketter, I'm showing you a copy of what
15 has been marked as Exhibit No. 16. Does Exhibit 16 contain
16 your direct testimony?

17 A. Yes, it does.

18 Q. And I'm now showing you a copy of what has
19 been marked as Exhibit 17. Does Exhibit 17 contain your
20 surrebuttal testimony?

21 A. Yes, it does.

22 Q. Do you have any changes to make to your
23 direct or surrebuttal testimony at this time?

24 A. No, I do not.

25 Q. If I asked you the same questions today that

Missouri Public Service Commission

1 you were asked in your direct and surrebuttal testimony,
2 would your answers be the same?

3 A. Yes, they would.

4 Q. And are the answers true and correct, to the
5 best of your knowledge and belief?

6 A. Yes.

7 MR. WALTHER: At this time, I offer
8 Exhibits 16 and 17 into evidence and tender the witness for
9 cross-examination.

10 EXAMINER FEE: Ms. Bjelland.

11 MS. BJELLAND: Yes. I have a few questions.

12 CROSS-EXAMINATION BY MS. BJELLAND:

13 Q. Mr. Ketter, as Assistant Manager of Electric
14 Rates for the Public Service Commission, are you familiar
15 with the tariffs and the rates contained in those tariffs
16 pursuant to which Union Electric and CRESCO provide electric
17 service to customers in this state?

18 A. Yes, I am.

19 Q. And could you tell us or provide to us a
20 rate comparison for residential customers for service
21 provided under UE and service provided by CRESCO?

22 A. Yes. Typically, in news releases, the
23 Commission provides a comparison of rates at the 750
24 kilowatt-hour level per month; and I have those figures.
25 That is an average residential customer. It may not be

Missouri Public Service Commission

1 typical. It's hard to find that typical customer.

2 But, for an annual use for CRESCO at 750
3 kilowatt-hours per month, it's \$756. For Union Electric,
4 using the rate differentials between summer and winter--
5 there's four summer months and eight winter months--the
6 annual bill for Union Electric is \$691, which shows a
7 difference of \$65. For this usage level, Union Electric is
8 cheaper.

9 Q. And it is your opinion that this 750
10 kilowatt-hours per month is an average figure? It may not
11 necessarily be true or actually representative, but it's
12 average for different months and--

13 A. It's average, and it also is an average
14 level use. Some customers may use more in the summer or the
15 wintertime. And each individual customer may have
16 characteristics that would alter the comparison. But, for
17 the average 750 kilowatt-hour use, these are the dollar
18 amounts of the bill.

19 MS. BJELLAND: Thank you. I have no further
20 questions.

21 EXAMINER FEE: Ms. Swaller.

22 CROSS-EXAMINATION BY MS. SWALLER:

23 Q. On that rate issue that we were just talking
24 about, UE has a rate case going on right now; is that
25 correct?

Missouri Public Service Commission

1 A. That's correct.

2 Q. And the purpose of that rate case is to
3 lower UE's rates?

4 A. That's the Staff position, yes.

5 Q. And if the Staff position prevails, then
6 UE's rates will be even lower?

7 A. That's a possibility, yes.

8 Q. And the comparison will be even greater?
9 UE's rates will be even more cheaper than CRESCO's rates?

10 A. That's a possibility, yes.

11 Q. In your testimony, you discuss line
12 extension policy briefly. And I'd like to elaborate on that
13 a little bit, if we could.

14 Would the line extension policy that you
15 reference--and I think it's on the last page of your
16 testimony, Page 10. It probably starts on 9 and goes into
17 10. Would you propose that that policy of, I guess it's
18 1,000 feet, in terms of when you would give away lines free
19 or not, would that policy apply to all classes, both
20 residential and industrial or nonresidential?

21 A. Typically, there is a difference between
22 residential and nonresidential customers. The typical
23 difference is that the commercial customers or
24 nonresidential customers typically have a revenue estimate
25 that would offset construction costs because some of those

Missouri Public Service Commission

1 customers may have the need for specific facilities. My
2 comment here, in general, was the residential class because
3 that's the typical extension policy that is determined in
4 feet for most of our regulated companies.

5 Q. So, for industrial customers or big users,
6 the revenue guarantees generally actually bring the revenues
7 back in so you're not giving away anything free? Is that
8 how it works?

9 A. An extension would be made on a reasonable
10 basis based upon the expected revenue of that customer. So,
11 within the time period of the estimated revenue, the total
12 cost of the extension would be recovered such that, from
13 that, it's judged to be a reasonable extension to that new
14 customer.

15 Q. Would your line extension policy of, you
16 know, the 1,000 feet apply if both providers were more than
17 200 feet away?

18 A. Yes, it would.

19 Q. So it's going to apply regardless of whether
20 there's nobody within five miles of that customer or if
21 everybody is next door?

22 A. In this case, we have areas where we have a
23 concentration of customers; and we have some that classify
24 as rural. So there are a broad range of different styles of
25 customer that may want extension of service, electric

Missouri Public Service Commission

1 service, to be provided. So that the 1,000 feet may be a
2 very, let's say, harsh pill for a customer who may be a mile
3 from the existing facility.

4 Now, that's--in this particular case with
5 Cuivre River and Union Electric, many customers have
6 received service past 1,000 feet at no cost. Many of the
7 other utilities across the state now operate with extension
8 policies that are within the 1,000 feet range presently. So
9 the 1,000 feet is an example of a way to--more than one
10 utility provide service or provide the extensions such that
11 both can compete for a new customer.

12 Q. Are those companies in rural areas, the ones
13 you just talked about?

14 A. Yes.

15 Q. What happens under your plan where you have
16 a customer that's more than 200 feet away from both
17 utilities and cannot afford to pay for a line out to their
18 farm or whatever? Do they get served? Do they have to take
19 out a loan? How do we solve that problem?

20 A. There are extension policies that allow a
21 guarantee of revenue such that the customer doesn't put up
22 the money in dollars and cents, that they sign a minimum
23 bill requirement. That might help alleviate these problems.

24 Q. And UE does that, don't they?

25 A. To some degree, yes.

Missouri Public Service Commission

1 Q. Now, the closer-to or least-cost solutions
2 that have been talked about, now, those wouldn't really work
3 unless CREC, Cuivre River, fully merged--I'm using the term
4 "merged," but I think we all kind of know what I'm talking
5 about by now. --with CRESCO? So those tests wouldn't work
6 unless CREC and CRESCO fully came together?

7 A. That's true, because an unregulated entity,
8 a utility, would be allowed to duplicate service outside of
9 the jurisdiction of the Commission. And if the Commission
10 was in a posture to address duplication, then both utilities
11 would have to be completely regulated.

12 Q. And were you here earlier when I was
13 cross-examining Mr. Brown?

14 A. Yes.

15 Q. We talked about the problem--the fact that
16 there are some areas that CREC serves that aren't in
17 CRESCO's application?

18 A. That's correct.

19 Q. And, since that's true, it's impossible, at
20 least at this time as the applications stand, for CREC and
21 CRESCO to fully merge?

22 A. That's correct.

23 Q. So closer-to and least-cost won't work as a
24 solution to this case, will they?

25 A. As it was presented in the application, no.

Missouri Public Service Commission

1 Q. Is there another way to make it work when
2 CREC would still be out there with some customers?

3 A. The conflict that I see is there are area
4 certificates that have been previously granted to Union
5 Electric that the cooperative is serving in. If all of
6 those territories were part of CRESCO and the Commission
7 regulated the competition in those areas, the previous
8 argument of the company about the exclusive authority of
9 those prior certificates would be a major question.

10 Q. So the fact that area certificates have
11 traditionally been exclusive also stands in the way of
12 closer-to or least-cost working? Is that what you're
13 saying?

14 A. Yes, with the operation of the cooperative
15 in the area that has been part of an area certificate to
16 Union Electric.

17 Q. Unless, of course, you fashion the remedy in
18 such a way that those areas previously certified to UE were
19 left out of the--you know, withdrawn out of the application?
20 CREC would continue to operate but only in that area?

21 A. Well, I believe the parties can fashion
22 their applications to address the problem. But also the
23 Commission has a broad authority in fashioning what kind
24 of certificate they would authorize to a utility.

25 Q. With the closer-to and least-cost ideas, how

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1 would you envision the particular needs of customers being
2 taken into consideration, such as three-phase, single-phase,
3 you know, those kinds of engineering things? Would it
4 matter that one is, you know, closer with a three-phase to
5 a potential three-phase customer?

6 A. I believe, in those situations, we have
7 addressed similar cases where the utilities understand that
8 they are further away, one utility is further away than the
9 other, but could provide service at a cheaper cost to the
10 customer, that the utilities could waive service of a
11 certain customer and bring that petition to the Commission
12 such that the Commission could authorize the best solution
13 if it didn't fall into the rules that were established for
14 an extension.

15 Q. But would a utility be willing to do that if
16 that customer that was closer to them but only closer to
17 their single-phase line were a big customer and there was
18 going to be substantial load? It's unlikely they'd be
19 willing to waive their right as the closest-to, right?

20 A. That's a possibility. The customer would
21 probably have the incentive to seek that cheaper remedy for
22 himself.

23 Q. If, in fact, rates were pretty much the same
24 and that type of thing?

25 A. Yes.

Missouri Public Service Commission

1 Q. So you envision having some kind of
2 mechanism in there to give--well, I guess it's already in
3 place. The customer can file some kind of a complaint with
4 the Commission seeking the service of the one that's not
5 closest to it?

6 A. That may be an alternative.

7 Q. But there aren't a lot of customers that are
8 sophisticated enough to do that, do you think?

9 A. Possibly not because of the economic impact.
10 Union Electric's rates now are \$65 cheaper a year than
11 CRESCO's. And that may not be a big enough differential to
12 go through the paper work of an alternative power supply.

13 Q. And that brings us to the next point. And
14 that is, when you've got disputes, whether it's with the
15 customer or with the alternative utility, how would those be
16 handled under your, not necessarily proposal, but what
17 you've discussed in your testimony?

18 A. The conflicts, I believe the Staff works
19 with utilities with problems that the customers have, that
20 in those instances, I believe the Staff would be brought
21 into the problems. Where a consensus could not be
22 determined, then it would have to be brought before the
23 Commission. And that would settle the argument, if you
24 would, if there was a difference of opinion.

25 Q. Would you characterize the situation between

Missouri Public Service Commission

1 the two utilities in that area right now as being, oh,
2 somewhat contentious?

3 A. To some degree. But I also observed in my
4 field inspections that there were a number of crossings of
5 cooperative lines and Union Electric lines, and there
6 appeared to be a great deal of cooperation on getting use
7 of joint poles in that area. Operationally, I believe there
8 is some cooperation. The competition for new customers is a
9 very strong component of the problems that are in that area
10 right now.

11 Q. So do you, therefore, envision a lot of
12 contests when you get into the gray areas of one test or
13 another test?

14 A. With the duplication of facilities in much
15 of that area, there's going to be a contested opinion or
16 ideas for most--all alternatives, I believe, except for the
17 black and white, whether it's one company given an exclusive
18 area certificate.

19 Q. So unless bright lines are drawn, there's
20 going to be a lot of litigation, with or without granting a
21 certificate?

22 A. Litigation wasn't the term I would have
23 used, but at least Staff input and Commission review of the
24 problems.

25 Q. So dispute resolution is going to involve

Missouri Public Service Commission

1 Commission time?

2 A. That's true.

3 Q. And there will probably be a lot of dispute
4 resolution, at least to the extent there's gray areas?

5 A. Yes.

6 Q. In that closer-to situation--you may have
7 already answered this for me. Let me make sure. --if one
8 utility were the closest-to but preferred not to serve and
9 the other utility was willing to serve, would that be okay?

10 A. That would require the process of the
11 utility who was required to serve to request that they be
12 relieved of that obligation by the Commission. And we had
13 an instance of that with Union Electric and Cuivre River
14 this past spring.

15 Q. Like with the antiflip-flop when you go in
16 and you ask to relinquish a customer and let the other one
17 serve?

18 A. Right. But, if the--the customers cannot
19 change power suppliers if they've had electric service
20 within the last 60 days, as stated in the statute, except by
21 Order of the Commission.

22 Q. So even that would require some kind of
23 paper work with the Commission?

24 A. That's true.

25 Q. It would also require some kind of a change

Missouri Public Service Commission

1 of thinking about what area certificates were all about,
2 wouldn't it, since they've been exclusive and, as exclusive
3 certificates, they have required that you serve everybody
4 who comes through the door?

5 A. That's correct. I believe the area
6 certificates that have been authorized by the Commission
7 have been to regulate monopolies and provide service areas
8 such that only one regulated utility is authorized in that
9 area. And, to address duplication, that previous standard
10 would have to be altered to some degree to take in the
11 problem of two utilities that are in close proximity to
12 existing customers, that each could provide service.

13 Q. At the time that precedent was established,
14 the rural electric cooperatives did have lines in the areas
15 where area certificates were granted to public utilities,
16 didn't they?

17 A. As I recall, the Commission was started in
18 1913. I don't know when the cooperatives started in the
19 state. But, from the time that the Commission has been
20 issuing area certificates, it's my observation that they
21 have been in an exclusive area.

22 Q. Even when a rural electric cooperative had
23 lines in the area?

24 A. That's true.

25 Q. And conceivably there was duplication of

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1 facilities of a co-op with a utility when area certificates
2 were granted previously?

3 A. That's true.

4 Q. Which is the situation that we have here
5 today, except for the fact that a subsidiary has been formed
6 by the co-op and that subsidiary is a public utility?

7 A. Yes.

8 Q. One other thing that would be necessary for
9 the closer-to or least-cost to work would be that both
10 utilities would have to have the same promotional practices
11 regulations, right?

12 A. Yes.

13 Q. Not just regulations, but tariffs to some
14 extent so that the customer could, you know, choose one for,
15 you know, the reasons of incentives?

16 A. That's true. And the Commission has
17 established rules on promotional practices.

18 Q. Right. And it applies to utilities only
19 obviously?

20 A. Yes. That's correct.

21 Q. In speaking about the area certificates, we
22 got into that a little bit just a minute ago. In your
23 testimony, you reference the fact that, in fact, the past
24 practice has been to grant only exclusive certificates,
25 right? It's also been the Commission's practice in past

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1 years to grant line certificates and also to let a utility
2 serve within a reasonable distance off of that line as a
3 part of their line certificate authority; is that true?

4 A. That's correct.

5 Q. A reasonable distance has been open to a lot
6 of dispute?

7 A. That's correct.

8 Q. At any rate, there is some distance that is
9 reasonable off of that line. Within a contested area in
10 this case, UE has two certificates for legally-described
11 portions of this area?

12 A. That's correct.

13 Q. One of them is St. Charles County, and
14 that's been testified to by Mr. Waters?

15 A. Yes.

16 Q. The other portion is Warren County, and
17 that's in your direct testimony?

18 A. That's correct.

19 Q. You do not envision taking those
20 certificates away from UE, do you?

21 A. I did not address that in my testimony.

22 Q. Do you envision it?

23 A. The problem is the precedent indicates that
24 that is exclusive territory. To address the problem of
25 duplication indicates an excursion into that may be

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1 necessary, if duplication is going to be addressed.

2 Q. So UE is going to have to suffer for a
3 problem that it didn't create?

4 A. There may be enough suffering to go around,
5 if that's not too light, that there are areas where two
6 utilities have extended because the customer has requested
7 that service. Union Electric has extended service from
8 customer requests and also the cooperative. And some
9 customers have a preference for one or the other, and that's
10 added to the problem of duplication because of this
11 competition.

12 Q. But at least at the time that UE was granted
13 its certificate for St. Charles County, there was no other
14 competitor, either a co-op or a public utility?

15 A. I'm not sure of the date, but that's--the
16 way the authority has been authorized by the Commission is
17 that only one regulated utility would be allowed to serve in
18 that territory.

19 Q. If you were to accept my statement that that
20 date is pre-1920, would you agree then that no one else was
21 there but UE?

22 A. That sounds reasonable, yes.

23 Q. UE's certificates in those two areas would
24 be diluted by giving part of it or giving overlapping
25 authority to CRESCO, wouldn't it?

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1 A. Yes, it would.

2 Q. Now, if overlapping authority were granted
3 to CRESCO, do you believe that the likely result would be
4 that other areas that have been previously certified to
5 other utilities, particularly in western Missouri which is
6 almost blanket area certificates, that in those areas,
7 people--not people, but other companies would start asking
8 for that territory, since now overlapping certificates are
9 available?

10 A. That's a possibility, yes.

11 Q. In fact, the likely result would be and is
12 already appearing to occur that other investor-owned
13 subsidiaries of co-ops would start asking for areas that
14 have previously been certificated to utilities, correct?

15 A. That's a possibility, yes.

16 Q. So what would happen, if overlapping
17 authority were granted to CRESCO, is that what has
18 previously been certain will become uncertain?

19 A. That's true.

20 Q. And we're going to have a whole lot more
21 cases like this one come down, do you imagine?

22 A. That's a possibility, yes.

23 Q. And, in fact, it's already occurring?

24 A. The Commission does have other service
25 companies requesting area certificates, yes, before it right

Missouri Public Service Commission

1 now.

2 Q. On the issue of reliability, is outage time,
3 average outage time, a reflection of a company's ability to
4 serve well?

5 A. I think the customer perceives how often his
6 lights go out. And I think, from that perspective, from the
7 customer's viewpoint, it's a very strong point on the
8 service reliability that the customer (sic) offers to their
9 customers.

10 Q. And it's not just the lights? It's the
11 refrigerator and the air conditioner and the heater and the
12 things that are even more important to customers?

13 A. That's true.

14 Q. And would the fact that, in this case, the
15 evidence shows that one company's outage time, UE's outage
16 time, is 100 percent better than CRESCO's outage time, is
17 that an important factor to you?

18 A. As a customer or as a Staff witness? I'm
19 kind of--

20 Q. Both.

21 A. As a customer, I would want my lights to be
22 on all the time or have the least outage time. I recognize
23 that outages are not totally predictable, or maybe even the
24 company doesn't have the ability to forestall those because
25 of the storms and so forth that might destroy even the best

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1 built facilities.

2 So I guess the outage statistic is somewhat
3 like the average kilowatt-hour per month comparison on
4 revenue. It may not be the typical customer. If you put it
5 in the newspaper, the customer says, "That's not me. I
6 can't relate to that two-hours outage time" or "I can't
7 relate to 750 kilowatt-hours per month."

8 Q. But a big part of the average outage time is
9 how fast you get it fixed and not when or why it occurs?

10 A. That's true. The response is a major part
11 of that.

12 Q. And if one company's outages are 100 percent
13 better than the other, it probably means that they're
14 getting things fixed faster?

15 A. I was present during the previous witnesses;
16 and the density of customers, I believe, would have an
17 impact on how that statistic is developed. But, again, if
18 I'm the customer with my lights out, I want the fewest
19 number of hours per year.

20 Q. I don't want to press you, but you haven't
21 answered my question. And that is, would response time--I
22 mean, that brings the outage time down--and would the fact
23 that one company's figures are 100 percent better than the
24 other reflect a quicker response time?

25 A. Yes, a response to the point of the incident

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1 and getting that problem fixed and restored service.

2 Q. You've been out to look at the facilities of
3 both companies?

4 A. To some degree, yes.

5 Q. The Louisiana district in Missouri, that's
6 about as rural as you can get, isn't it?

7 A. It's a fairly rural area, yes.

8 Q. In fact, there are no major towns there? I
9 mean, there are some towns; but they're not metropolises?

10 A. There's many small towns in that area, yes.

11 Q. The outage figures for UE are 100 percent
12 better than CRESCO in that district. What does that mean to
13 you?

14 A. If that is the level playing field, if Union
15 Electric is playing on the same density of customers, then
16 that would be a reasonable way to compare the amount of
17 outage time between utilities.

18 Q. Just two other quick points, and I will
19 release you.

20 On the issue of growth, you have, in your
21 testimony, stated that CRESCO doesn't appear, at least
22 through its testimony, able to absorb both its growth and
23 UE's growth?

24 A. That's correct.

25 Q. When you drafted your testimony or at least

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1 when you filed it, that was before UE filed its rebuttal
2 testimony. And, in that rebuttal testimony, we mentioned
3 3,600 more customers for our St. Charles district, for which
4 we already have an area certificate. Would the fact that
5 those customers would also be added to that problem
6 strengthen your opinion?

7 A. I believe it would in that that area, it has
8 been testified earlier today, is one of the areas where
9 additional substation capacity is needed by the co-op.

10 Q. Did your inspection of the lines of both
11 companies figure into your recommendation in your testimony?

12 A. To some degree. That five-county area is
13 very large. I used the distribution maps that were provided
14 by both utilities to assess that, the density and the areas
15 of coverage of their distribution lines presently.

16 MS. SWALLER: Thank you. That's all I have.

17 EXAMINER FEE: Mr. Widger.

18 CROSS-EXAMINATION BY MR. WIDGER:

19 Q. Moving down from the Louisiana district down
20 to the Wentzville district, how would you characterize the
21 cooperative facilities versus those of UE? Which is rural
22 and which is urban?

23 A. In the Wentzville area, let's say, close to
24 the towns, the cities there, they look pretty much the same,
25 except Union Electric provides the service inside the city

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1 limits of those towns. But the service outside the city
2 limits, the density is fairly comparable.

3 Q. So overall then, is it--would it be your
4 observation that UE's customer density is quite a bit
5 greater than that of the cooperative?

6 A. Well, it is because they have those towns
7 and cities that they presently serve, so that would take
8 their density much higher.

9 Q. And, as to outages, the more rural you get,
10 the more likely that a tree limb or something is going to
11 interfere with service; is that--

12 A. Yes. There's more exposure to the line with
13 more distance involved, yes.

14 Q. When did you--well, let me ask this: How
15 often have you made field trips down to that area, to this
16 five-county area?

17 A. Prior to this case?

18 Q. Yes. What was your familiarity with that
19 area before this case coming up?

20 A. I would say my knowledge was limited. Many
21 times my field inspections are related to customer
22 complaints or other things involved with cases that require
23 my time out of the office in the field. But, in those
24 particular areas, I have viewed, on a general basis, part of
25 the area. And some of it I haven't seen at all.

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1 Q. Have you had the opportunity to compare the
2 maps that the parties have each submitted?

3 A. Yes, I have.

4 Q. Did you make a specific trip there to
5 prepare for your testimony in this case? Did you make a
6 field trip in anticipation or in the progress of this case?

7 A. Yes, I did.

8 Q. And, on that trip, you observed actual
9 physical facilities of each company?

10 A. Yes, I did.

11 Q. Well, tell me this: Do we really have a
12 problem down there, or are we just wasting our time here and
13 this is just CRESCO or the co-op's imagination that
14 duplication is hurting the ratepayers for everybody down
15 there?

16 A. Well, it's obvious there's duplication.
17 Sometimes the lines may go down the same side of the road or
18 on opposite sides of the road. And, as I pointed out in my
19 testimony, that is not in the interest of all the ratepayers
20 because two systems are built to provide service to one
21 group of customers so that--the area certificates that have
22 been provided by this Commission to Union Electric have
23 designated them as the sole provider. But with the
24 nonregulated entities there and the competition and the
25 customer preference has caused a duplication of service that

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1 is expensive and probably, from the public's viewpoint, not
2 very sightly.

3 Q. In your opinion, as a member of the Staff,
4 does the problem justify our time here and our perhaps
5 compromising some of the old ways of operating in trying to
6 achieve a solution?

7 A. I think a solution would be advisable. The
8 problem has always been with the statutes in that, if I look
9 through the statutes, I don't see duplication because the
10 co-ops are not regulated.

11 Q. So, in fact, if you just looked at statutes,
12 you really don't see co-ops, do you?

13 A. Except for--

14 Q. Safety?

15 A. --safety. That's correct.

16 Q. And you weren't around in 1913, I don't
17 suppose, were you?

18 A. No, I was not.

19 Q. 1920?

20 A. No.

21 Q. There's an issue here of, you know--I don't
22 know if it's estoppel or whatever. But if Union Electric
23 had been about the business of lighting up rural St. Charles
24 County in the 1920s and '30s, then what opportunity do you
25 see that there would have been for the co-op to even be

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1 there today?

2 A. If service had been provided in all the
3 areas of St. Charles County, then I believe that the co-op
4 would not have expanded in that area. And I think if we--if
5 I think about the 1920s, I think about someone with some
6 small generator in a small town who has enough capacity to
7 serve the town down the road and a line is built to serve
8 those dense customers in those towns that would hook up to
9 this new service. And that's the way I observed that Union
10 Electric's service to the territory has evolved. And those
11 line certificates provided the authority to go from town to
12 town and has been extended from those line authorities.

13 Q. Then you don't see it as derogatory against
14 the cooperative that it took up the slack and provided
15 service to those rural farmsteads while UE was serving in
16 the towns?

17 A. I recognize that customers were there
18 seeking service and the co-op provided it because there was
19 a load there to serve.

20 Q. Now, did Union Electric file a feasibility
21 study in this case?

22 A. No.

23 Q. What basis do you have for an opinion as to
24 whether or not Union Electric can absorb the whole load in
25 these counties--

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1 MS. SWALLER: I was going to state an
2 objection. I thought you were done.

3 MR. WIDGER: I was catching my breath.

4 BY MR. WIDGER:

5 Q. --in contrast to your opinion or your
6 testimony that CRESCO has not alleged an ability to serve
7 its projections plus those of UE? Do you understand the
8 question?

9 A. Yes.

10 MS. SWALLER: Let me state an objection
11 before you try to respond. And that is, the question and
12 the response will be irrelevant because UE is not seeking
13 a certificate to take away all of CREC's customers. We're
14 seeking only to leave things alone and leave CREC still
15 competing with UE or, if a certificate has to be granted, it
16 goes to UE. But we're not going to take away CREC's
17 customers, so it doesn't matter whether UE is able to serve
18 those additional people or not because we're not asking for
19 it.

20 EXAMINER FEE: Overruled.

21 THE WITNESS: As I recall Union Electric's
22 application, they requested that a feasibility study not be
23 required because they are providing service and are an
24 ongoing utility in that area. And, in that regard, Union
25 Electric has been the regulated company throughout this area

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1 and been providing regulated service and have a system of
2 distribution plant to provide service to their customers.
3 And it's my perception that the co-op will remain intact and
4 those customers would not have to be taken over by Union
5 Electric.

6 BY MR. WIDGER:

7 Q. So it comes down then to a difference
8 between the two applications filed by the parties; is that
9 correct?

10 A. I believe that's correct.

11 Q. Whereas UE has filed for an exclusive
12 certificate which assumes the continuing existence of the
13 cooperative, CRESCO filed an application for a nonexclusive
14 certificate that assumed the continuing operation of Union
15 Electric?

16 A. I believe that's correct. And, again,
17 CRESCO has asked for a type of certificate that the
18 Commission has not historically provided.

19 Q. I understand. Now, do you have any
20 experience with Citizens Electric of Ste. Genevieve?

21 A. Yes.

22 MR. WALTHER: I object to the relevance of
23 the question.

24 MS. SWALLER: I'll join in that objection.

25 MR. WIDGER: If we can proceed, I think we

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1 can show relevance.

2 EXAMINER FEE: Overruled.

3 BY MR. WIDGER:

4 Q. In your experience, is Citizens Electric an
5 REA borrower that's regulated by this Commission?

6 A. Yes.

7 Q. Are you familiar with Sho-Me Electric?

8 A. Yes, I'm familiar with Sho-Me.

9 Q. And is Sho-Me a general business corporation
10 that's a borrower of REA?

11 A. That's my understanding, yes.

12 Q. If CRESCO's application were granted, would
13 you foresee then the effect that Cuivre River Cooperative
14 would become a regulated entity like Citizens Electric?

15 MR. WALTHER: I object to this. I think it
16 goes beyond the scope of his direct.

17 MS. SWALLER: It's also not within his
18 knowledge. He's asking him what CREC is going to do, and
19 there's no basis that this witness has that knowledge.

20 EXAMINER FEE: Sustained.

21 BY MR. WIDGER:

22 Q. Are you familiar with the testimony of
23 Mr. Brown filed in this case?

24 A. Yes, I am.

25 Q. Are you familiar with those provisions where

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1 he testified that the end result of this process would lead
2 to the cooperative basically being a regulated utility
3 through its subsidiary?

4 A. Yes, and that CRESCO would be the regulated
5 utility and all the facilities would be transferred to it.

6 Q. And so all of the utility functions and the
7 operations of CRESCO would absorb the operations of the
8 cooperative and you would regulate that?

9 A. Correct. That was his testimony, yes.

10 Q. Are you aware that there are some states
11 which regulate cooperatives?

12 A. Yes.

13 MR. WALTHER: I object to the relevancy of
14 that question.

15 EXAMINER FEE: Overruled.

16 MR. WIDGER: We're not confined to the
17 direct.

18 BY MR. WIDGER:

19 Q. Going back to the rate comparison, your
20 figure was \$756 for CRESCO and \$691 for Union Electric. Is
21 there any way that a Union Electric Company customer may
22 see part of that bill returned to him, with the exception of
23 him being a stockholder of Union Electric?

24 A. Not to my knowledge.

25 Q. Did your rate comparison here take into

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1 account the possibility of an 8 to 10 percent return of
2 capital credit based on the operating experience of the
3 company for the year, for CRESCO?

4 A. No, it did not.

5 Q. If we used the figure that we heard here
6 today from Mr. Brown that that capital credit may average
7 8 to 10 percent, if we used the 10 percent for ease of
8 figuring here, would that reduce the Cuivre River bill then
9 by \$75.60?

10 A. Yes, it would.

11 Q. And that customer then would see that some
12 years down the road when that capital credit is allocated
13 and distributed?

14 A. That's my understanding of the previous
15 testimony, that capital credits are rotated on about a
16 14-year cycle.

17 Q. So a capital credit that I earn this year,
18 based on the company's experience this year, I may see 14
19 years from now in the form of a check to myself?

20 A. That's the way I understand the capital
21 credits, yes.

22 Q. You've made two proposals really in your
23 testimony, first of all, that if the old rules are to apply
24 and there's to be one certificated supplier, you've
25 recommended that that be Union Electric; is that right?

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1 A. That's correct.

2 Q. Let's forget that and go to your second
3 proposal. Your second proposal comes up with a different
4 way of dealing with a problem that would remain even if your
5 first one was adopted; is that correct?

6 A. I point out the problem that exists there,
7 in spite of the presence of an area certificate, in some of
8 the areas that Union Electric is serving.

9 Q. Now, leaving aside legal problems for the
10 lawyers to work out and political problems, if your second,
11 you know, thoughts and second ideas here were implemented--
12 let's take, first of all, the area where Union Electric has
13 an existing certificate. There's no question about it. I
14 guess that would be eastern St. Charles County and in
15 certain cities that Mr. Waters referred to and, I believe,
16 in western Warren County?

17 A. That's correct.

18 Q. What are we going to do there? I mean,
19 under your proposal, how do we get control of the
20 duplication and put the utilities on a footing they can live
21 with?

22 A. My testimony hasn't developed that answer to
23 that question. The Commission's previous Orders have
24 indicated an exclusive area. I have brought up some areas
25 of duplication such that--of a customer who was, say, within

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1 200 feet of existing facilities of both companies, that
2 that might be an area that the customer may have a choice in
3 that only a service drop would be required.

4 Q. Are you envisioning that thought, that
5 possibility, in UE's present certificated area, as well as
6 in other areas of intense duplication?

7 A. I didn't delineate that in my testimony, but
8 there is duplication in both of those areas. And, if
9 duplication is going to be addressed, then it--it exists in
10 both places, so the solution may apply to both places.

11 Q. You would treat both areas the same, and
12 that's what would involve then the excursion into the
13 certificate that you spoke about earlier?

14 A. That would cause a problem with the
15 precedent set in previous area certificates.

16 Q. So then, instead of there being three areas
17 to deal with, we're kind of lumping together then the old
18 certificated area with the uncertificated areas of high, you
19 know, duplication. And giving one solution here, you talk
20 about customer choice if they're within 200 feet?

21 A. Yes.

22 Q. And short extensions of 1,000 feet?

23 A. Extensions of 1,000 feet that were the rules
24 for both utilities.

25 Q. And, if we move beyond that area--and that's

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1 probably getting a little further west--more western parts
2 of St. Charles County, there you would try to carve out
3 exclusive areas?

4 A. I've indicated that that territory is more
5 amenable to that type of a solution, to carve out exclusive
6 areas of responsibility.

7 Q. And, for it to work then in those areas, if
8 you carved out an area and gave it to Union Electric, we
9 would have to come up with some way of dealing with the fact
10 that there's existing cooperative lines there and that,
11 because UE had a certificate, CRESCO couldn't accept those
12 lines from the co-op and the co-op would be free to go on
13 doing business as usual; is that--

14 A. I think that's a problem with having part of
15 the service territory under CRESCO and part of it under the
16 cooperative because the duplication will continue.

17 Q. Would another possibility be to go ahead
18 and--since we've already shown the willingness or the
19 necessity perhaps of making an excursion into the UE
20 certificated area, why not go the next step and just
21 certificate the area for both, but with the constraining
22 rules of 200 feet or 1,000 feet extensions or whatever, even
23 in those broader areas?

24 A. The Commission has the broad authority to
25 authorize area certificates. And my testimony was to point

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1 out those areas of conflict with the existing precedent and
2 also the problem that exists with duplication. That's as
3 far as I took the argument.

4 Q. Would overlapping certificates allow then
5 the co-op to transfer all of its system to CRESCO and give
6 the Commission the authority to deal with both, without the
7 complicating factor of an unregulated co-op at work out
8 there?

9 A. It appears that it would because it would
10 give the Commission the full authority over both utilities.

11 Q. For all areas?

12 A. That's correct.

13 MR. WIDGER: I don't believe I have any
14 further questions.

15 EXAMINER FEE: Any redirect?

16 MR. WALTHER: Yes. I just have one
17 question.

18 REDIRECT EXAMINATION BY MR. WALTHER:

19 Q. Mr. Ketter, would you be able to provide an
20 estimate of the present value of a \$1 capital credit in
21 14 years, say, at a 7 percent discount?

22 A. That can be calculated. I think the--what
23 it comes out to is that the dollar in your hand, if you have
24 to wait 14 years to get it, it is very much reduced. Do you
25 want an estimate of that--

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1 Q. No. That's all right.

2 MR. WALTHER: I have no further questions.

3 EXAMINER FEE: Ms. Bjelland.

4 MS. BJELLAND: Yes. Just one.

5 RECROSS-EXAMINATION BY MS. BJELLAND:

6 Q. Back to the question of the capital credit,
7 if a 10 percent capital credit was \$75, then an 8 percent
8 capital credit, subject to check, would be about \$60; is
9 that correct?

10 A. That's about right, yes.

11 Q. So a \$60 capital credit is still less than
12 the rate differential that you stated earlier in your
13 testimony; is that correct?

14 A. In absolute dollars, yes.

15 Q. And that the present value of that capital
16 credit would be substantially less 14 years down the road?

17 A. Yes, it would.

18 MS. BJELLAND: No further questions.

19 RECROSS-EXAMINATION BY MS. SWALLER:

20 Q. Are you aware that bills have been
21 introduced in the legislature over a period of years to try
22 and give territorial protection to rural electric
23 cooperatives?

24 A. I understand that there have been some bills
25 that have been filed, yes.

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1 Q. And none of those bills have passed into law?

2 A. Not to my knowledge, no.

3 Q. So the legislature has looked at this
4 problem and decided not to--or at least has not acted on it?

5 A. That appears to be the outcome, that
6 there's--no action has been taken to date.

7 Q. One other question. And that is, do you
8 envision an end to the REA? Is it ever going to not have a
9 purpose anymore and we won't need to have inexpensive loans
10 from the government to serve customers in rural America?

11 MR. WIDGER: I'd object to the extent that
12 the question misstates facts in law. But go ahead and
13 answer it.

14 THE WITNESS: I have no opinion.

15 MS. SWALLER: Okay. That's all.

16 EXAMINER FEE: Mr. Widger.

17 MR. WIDGER: Nothing further.

18 EXAMINER FEE: The witness may be excused.
19 (Witness excused.)

20
21 EXAMINER FEE: Exhibits 16 and 17 are
22 received in evidence.

23 (EXHIBIT NOS. 16 AND 17 WERE RECEIVED IN
24 EVIDENCE AND MADE A PART OF THIS RECORD.)

25 MR. WALTHER: The Hearing Memorandum

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1 indicates that the next witness is William Cochran.
2 However, William Meyer has to leave at five o'clock; so I'd
3 ask permission to call him at this time.

4 EXAMINER FEE: All right.

5 MR. WALTHER: The Staff calls William Meyer
6 to the stand.

7 (Witness sworn.)

8
9 WILLIAM A. MEYER, JR. testified as follows:

10 DIRECT EXAMINATION BY MR. WALTHER:

11 Q. Mr. Meyer, would you please state your name
12 and business address for the record.

13 A. William A. Meyer, Jr., P.O. Box 360,
14 Jefferson City, Missouri, 65102.

15 Q. Are you the same William Meyer who has filed
16 direct testimony in this case?

17 A. Yes.

18 Q. I'm showing you a copy of what has been
19 marked as Exhibit No. 22. Does Exhibit 22 contain your
20 direct testimony?

21 A. Yes.

22 Q. And do you have any changes to make to your
23 direct testimony at this time?

24 A. No, I do not.

25 Q. If I asked you the same questions today,

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1 would your answers be the same as provided in your direct
2 testimony?

3 A. Yes.

4 Q. And are the answers you provided true and
5 correct, to the best of your knowledge and belief?

6 A. Yes.

7 MR. WALTHER: At this time, I offer Exhibit
8 No. 22 into evidence and tender the witness for cross-
9 examination.

10 EXAMINER FEE: Ms. Bjelland.

11 MS. BJELLAND: I have no questions.

12 EXAMINER FEE: Ms. Swaller.

13 MS. SWALLER: I have no questions.

14 EXAMINER FEE: Mr. Widger.

15 MR. WIDGER: No questions.

16 EXAMINER FEE: The witness may be excused.

17 (Witness excused.)

18

19 EXAMINER FEE: Exhibit 22 is received in
20 evidence.

21 (EXHIBIT NO. 22 WAS RECEIVED IN EVIDENCE AND
22 MADE A PART OF THIS RECORD.)

23 MR. WALTHER: Staff calls Steven Coon to the
24 stand.

25 (Witness sworn.)

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1

2 STEVEN R. COON testified as follows:

3 DIRECT EXAMINATION BY MR. WALTHER:

4 Q. Mr. Coon, would you please state your name
5 and business address for the record.

6 A. Yes. It's Steven R. Coon, P.O. Box 360,
7 Jefferson City.

8 Q. Are you the same Steven Coon who has filed
9 direct testimony in this case?

10 A. Yes.

11 Q. I'm showing you a copy of what has been
12 marked Exhibit 21. Does Exhibit 21 contain your direct
13 testimony?

14 A. Yes, it does.

15 Q. Do you have any changes to make at this time
16 to your direct testimony?

17 A. No, I don't.

18 Q. If I asked you the same questions today,
19 would your answers be the same?

20 A. Yes, they would.

21 Q. Are the answers true and correct, to the
22 best of your knowledge and belief?

23 A. Yes.

24 MR. WALTHER: At this time, I'd like to
25 offer Exhibit 21 into evidence; and I tender the witness for

Missouri Public Service Commission

1 cross-examination.

2 EXAMINER FEE: Ms. Bjelland.

3 MS. BJELLAND: No questions.

4 EXAMINER FEE: Ms. Swaller.

5 MS. SWALLER: I have none.

6 EXAMINER FEE: Mr. Widger.

7 MR. WIDGER: No questions.

8 EXAMINER FEE: The witness may be excused.

9 (Witness excused.)

10
11 EXAMINER FEE: Exhibit 21 is received in
12 evidence.

13 (EXHIBIT NO. 21 WAS RECEIVED IN EVIDENCE AND
14 MADE A PART OF THIS RECORD.)

15 MR. WALTHER: Staff calls William Cochran to
16 the stand.

17 (Witness sworn.)

18
19 WILLIAM J. COCHRAN testified as follows:

20 DIRECT EXAMINATION BY MR. WALTHER:

21 Q. Mr. Cochran, would you please state your
22 name and business address for the record.

23 A. William J. Cochran, Box 360, Jefferson City,
24 Missouri, 65102.

25 Q. Are you the same William J. Cochran who has

Missouri Public Service Commission

1 filed direct testimony, supplemental direct testimony, and
2 rebuttal testimony in this case?

3 A. I am.

4 Q. I'm showing you a copy of what has been
5 marked Exhibit 18. Does Exhibit 18 contain your direct
6 testimony?

7 A. Yes, it does.

8 Q. I'm now showing you a copy of what has been
9 marked Exhibit 19. Does Exhibit 19 contain your
10 supplemental direct testimony?

11 A. Yes, it does.

12 Q. I'm now showing you a copy of what has been
13 marked as Exhibit 20. Does Exhibit 20 contain your rebuttal
14 testimony?

15 A. Yes, it does.

16 Q. Do you have any changes to make to
17 Exhibit 18, 19, or 20 at this time?

18 A. One change to Exhibit 20, Page 3, the last
19 answer, the first paragraph. It should read--the second
20 sentence should read "For these alleged members to receive
21 these 'capital credits', ownership would still be vested in
22 these 'members', not CRESCO." It reads now ". . . ownership
23 would be bested" That's just a misprint.

24 Q. If I asked you the same questions today that
25 you were asked in your direct, supplemental direct, and

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1 rebuttal testimony, would your answers be the same?

2 A. They would.

3 Q. And are the answers you provided true and
4 correct, to the best of your knowledge and belief?

5 A. They are.

6 MR. WALTHER: At this time, I offer
7 Exhibits 18, 19, and 20 into evidence. And I tender the
8 witness for cross-examination.

9 EXAMINER FEE: Ms. Bjelland.

10 MS. BJELLAND: I have no questions.

11 EXAMINER FEE: Ms. Swaller.

12 MS. SWALLER: I have none.

13 EXAMINER FEE: Mr. Widger.

14 MR. WIDGER: Just a couple.

15 CROSS-EXAMINATION BY MR. WIDGER:

16 Q. Referring to your rebuttal testimony,
17 Exhibit 20, in referring to the notion of the cooperative
18 ceasing to exist, what was your basis for saying that the
19 cooperative would cease to exist if its operating facilities
20 are transferred to CRESCO?

21 A. As I state in my answer, the basis of my
22 saying that is on Page 3, 4, and 5 of Mr. Brown's testimony.
23 The best statement Mr. Brown makes whereas "Eventually
24 CRESCO will own and control all of Cooperative's
25 distributions facilities through which it will serve as a

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1 public utility. Cooperative will provide . . ."--and I read
2 that to mean "only."

3 Q. I'm sorry. Where are you reading from?

4 A. Page 5.

5 Q. Of Brown's testimony?

6 A. Yeah, Exhibit No.--I don't have his exhibit
7 number.

8 Going on, "Cooperative will provide"--and I
9 input the word "only"--"headquarters, personnel, vehicles,
10 and services required for CRESCO to function." If you tie
11 that in with Page 3 where he says--I quote him--CRESCO will,
12 in effect, assume the entire operational area, serve all the
13 members, I see no existence of the cooperative as an
14 electric--as a cooperative serving its members. There are
15 no members.

16 Q. With the possibility of CRESCO itself being
17 a member of the co-op?

18 A. I don't see that could be happening, no. I
19 think CRESCO is going to be regulated by this Commission.

20 Q. Well, is there any problem with a--is there
21 any problem that you know of impeding a corporation from
22 being a member of a cooperative?

23 MR. WALTHER: I object to this. The witness
24 is not an attorney, and I think it calls for a legal
25 conclusion.

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1 MR. WIDGER: The witness has made a number
2 of legal conclusions within his testimony, so I assume he
3 has some basis for them.

4 EXAMINER FEE: Overruled.

5 THE WITNESS: Would you restate the
6 question?

7 BY MR. WIDGER:

8 Q. My question was whether you knew of any
9 specific impediment to a corporation in general for being
10 a member of a cooperative?

11 A. Not a corporation in general. A corporation
12 which is a public utility regulated by this Commission, I
13 think, is an impediment.

14 Q. So you have a problem with CRESCO as the
15 sole customer of the co-op?

16 A. As the sole member, yes. I don't see how--
17 as I've stated, I don't see how a public utility being
18 regulated by this Commission can be a member of a
19 cooperative not regulated by this Commission. I find that
20 a dysfunction of business.

21 Q. What does that do to the Commission? I
22 mean, why is that a concern of the Commission? I mean, what
23 would be the difference between that and Union Electric
24 being a member of United Way or something, if it doesn't
25 increase the rates to the ratepayer?

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1 A. United Way is a charitable organization.
2 I'm not sure--

3 Q. Maybe that's an off-the-wall example. But
4 what's wrong with corporations being members of other
5 entities?

6 A. There's nothing wrong with them being
7 members of other entities. There's something significantly
8 wrong with them being a member of a cooperative which
9 alleges to own the assets that I'm going to put into rate
10 base and we're going to give this corporation a rate of
11 return on. I can't do that. I cannot figure it out. I've
12 looked and I can't. It's not possible.

13 Q. I'll leave that, because I'm not sure I
14 follow it and I'm sure I don't agree with it.

15 Going to your supplemental testimony and, on
16 Page 2, your first answer on Page 2, "Mr. Deal's disclaimer
17 indicates that he has not investigated the financial
18 soundness of CRESCO" And let's just take that, in
19 the first instance, that part of it.

20 How was Mr. Deal's disclaimer any different
21 from that of Price Waterhouse on the schedule to Mr. Waters'
22 testimony? Isn't it acceptable in the accounting field to
23 make that kind of disclaimer?

24 A. Well, I think your question is in two parts;
25 and I'll try to answer the first part. First of all, I'd

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1 like to compare Mr. Deal's disclaimer, as I've listed it in
2 my testimony, with Mr. Deal's similar format in the--
3 preparing consolidated financial statements. And that's on
4 Schedule 1, Page 3, of that Schedule 1 where he does offer
5 an opinion to the consolidated financial statements.

6 Now, if you compare that to his--what I
7 categorize as a disclaimer, he offers no opinion. And, in
8 my opinion, he just took your numbers, projected numbers,
9 and, as a consultant, not as an auditor, and presented them
10 to the Commission as part of what he calls a feasibility
11 study.

12 To your second part of your question then,
13 in comparison to Price Waterhouse, in my experience, limited
14 to CPAs and their letters of engagement and their
15 commitments and their qualified opinions, quote, Price
16 Waterhouse would offer something more of an opinion if they
17 were not limited to a letter of engagement that the
18 disclaimer of Mr. Deal evidences that he was only asked to
19 do very limited things and he was not asked to audit. He
20 was not asked to offer an opinion about the financial
21 soundness. That's what I got from my data request from him.

22 Q. Were you here when he testified that he has
23 been the auditor for these companies for some years?

24 A. Yes. But he's not in that capacity in this
25 case.

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1 Q. Going to the second part of your answer on
2 Page 2 of your supplemental testimony, ". . . nor has he
3 evaluated its prospects"--". . . nor has he evaluated its
4 prospects of surviving as a public utility." That's not
5 where I wanted to be here.

6 Okay. Further along--disregard that. Down
7 in the last paragraph of your last answer on the same page,
8 starting with after "Mr. Edwards." ". . . so he could not
9 form an opinion about the reasonableness of CRESCO borrowing
10 up to \$36 million to pay off the members or refinance the
11 Cooperative's outstanding debt to REA and CFC."

12 From what material did you glean the
13 suggestion that that's what they were going to do, that they
14 were going to borrow \$36 million to buy this?

15 A. From what material?

16 Q. Yes.

17 A. Schedule 1 shows that the books are set up
18 that there's \$36 million in net plant owned by the
19 cooperative. \$15 million of that is assets owned by
20 members, and I assume the rest is outstanding debt to the
21 REA and CFC.

22 Q. Well, have we done anything to suggest to
23 you that there's going to be anything other than a note
24 passed from CRESCO to the co-op for the amount of money
25 represented by whatever facilities eventually are

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1 transferred?

2 A. You have done other things, yes.

3 Q. For example.

4 A. Your partial response to BC-9. And I called
5 it a partial response because it was not really inclusive to
6 what I really looked for. I wanted to see all these
7 financial documents on this transfer, whether it was over
8 one year or three years. We're not going to just give you a
9 blank check for the future. You have provided me your
10 response to BC-9, if you want me to read it all. First of
11 all, I asked, "Furnish a copy of the note"--this is on
12 Schedule 2, Page 4 of 30. "Furnish a copy of note for
13 facilities to be transferred." At the time, I had no
14 documents from Mr. Deal. I did not know they were
15 \$36 million. I thought it was 23. I didn't know. So I put
16 Twenty-three three zero eight million on Mr. Deal's
17 Schedule 1 and 2.

18 And I further qualified, "if a copy of the
19 note or mortgage does not exist supporting Mr. Deal's
20 Schedule 1-2, state the rationale for its absence and
21 furnish copy of draft of this note or mortgage." I assumed
22 that, if you'd come this far, we would at least have some
23 working documents about how you're going to borrow the
24 money, the cost of this capital, if you'd pursued
25 alternatives to going to possibly other financial sources.

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1 Your response was: "Documents will be prepared consistent
2 with authority granted by the Public Service Commission.
3 It is conceivable that there will be a series of notes."
4 Well, that doesn't tell me anything.

5 Q. How did you envision that CRESCO could
6 prepare the note before knowing exactly what facilities
7 would be transferred and understanding that those transfers
8 would be consistent with authority granted by the Commission?

9 A. It gets back to Mr. Brown's statements on
10 Pages 3, 4, and 5 of his testimony. All the facilities are
11 going to be transferred. CRESCO is going to own everything.
12 The cooperative is only going to own, according to his
13 Page 5, some headquarters, personnel, and vehicles--

14 Q. And that's if--

15 A. I'd like to finish the answer.

16 Q. Sorry.

17 A. --and services required for CRESCO to
18 function. Based on my years of looking at corporate books,
19 this appears to me just to be intangible plant that they're
20 going to own. They're going to apparently become an
21 independent contractor putting their services out to a
22 public utility. That's the only thing I can see is left of
23 this cooperative, and that's all it's going to be is a
24 cooperative in name only. It's not going to be serving any
25 members.

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1 Q. And that's if its application were granted
2 in total?

3 A. If its application is granted as Mr. Brown
4 is asking for and Mr. Deal's schedules represent, yes.

5 Q. Have you seen anything--strike that.
6 Are you familiar with Mr. Ketter's
7 testimony?

8 A. I looked at it. I didn't memorize it.

9 Q. I understand. And do you understand or
10 recall that perhaps he has suggested that there may be some
11 middle ground between the all-or-nothing positions?

12 A. Do I recall that?

13 Q. Yes.

14 A. No, I don't.

15 Q. Were you present as he was cross-examined
16 here today?

17 A. Yes, I was.

18 MR. WIDGER: I have no further questions.

19 EXAMINER FEE: Any redirect?

20 MR. WALTHER: None.

21 EXAMINER FEE: Anything further?

22 MS. SWALLER: No.

23 EXAMINER FEE: The witness is excused.

24 (Witness excused.)

25

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1 EXAMINER FEE: Exhibits 18, 19, and 20 are
2 received in evidence.

3 (EXHIBIT NOS. 18 TO 20 WERE RECEIVED IN
4 EVIDENCE AND MADE A PART OF THIS RECORD.)

5 EXAMINER FEE: Is there anything further to
6 be offered?

7 MS. SWALLER: No.

8 EXAMINER FEE: The briefing schedule will be
9 established by letter, and the hearing is adjourned.

10 WHEREUPON, the hearing of this case was
11 concluded.

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