

1 STATE OF MISSOURI
2 PUBLIC SERVICE COMMISSION

3
4 HEARING

5 June 6, 2000
6 Jefferson City, Missouri
7 Volume 10

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

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

24
25 REPORTED BY:

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

ASSOCIATED COURT REPORTERS, INC.
Jefferson City * Columbia * Rolla
Toll Free 1-888-636-7551
294

1 APPEARANCES:

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

6 FOR: Missouri-American Water Company.

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

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

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

17 FOR: Intervenor City of St. Joseph.

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

21 FOR: City of Joplin.

22

23

24

25

1 APPEARANCES Continued:

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

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

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

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

9 FOR: St. Joseph Industrial Intervenors.

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

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

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

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

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

24 FOR: Office of Public Counsel and the Public.

25

1 APPEARANCES Continued:

2 KEITH R. KRUEGER, Deputy General Counsel
3 CLIFF E. SNODGRASS, Senior General Counsel
4 ROBERT FRANSON, Assistant General Counsel
P. O. Box 360
Jefferson City, Missouri 65102

5 FOR: Staff of the Missouri Public Service
6 Commission.

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P R O C E E D I N G S

JUDGE THOMPSON: Let's go ahead and go on the
record.

Questions from the Bench?
Chair Lumpe?

QUESTIONS BY CHAIR LUMPE:

Q. Mr. Stout, this is sort of clarifying for
me because I understood it the -- there is not at the
current time a residential classification, a commercial
classification or an industrial classification. There is
a same rate for all classes. Is that correct?

A. Yes. There is a declining block rate schedule
that is applicable to all classes.

Q. All right. And the only way that there might
be different classifications is the size of the meter; in
other words, one might say because of this size of the
meter that it's probably a residential, that size would
possibly be industrial.

Is that how -- how would one determine these
classes that we're talking about?

A. The customers -- I'm sorry. The customers are
classified into the traditional classes of residential,
commercial or industrial use. We do know whether a
customer is a residential customer or a commercial
customer even if they both have three-quarter-inch meters.

1 Q. All right.

2 A. It's simply that with the use of the declining
3 block rate schedule, we distinguish the charge to
4 different customers based on the amount that they use
5 rather than the class that they are in.

6 Q. All right.

7 A. It's -- recent trends have been toward the
8 separation of the rate schedule into rate schedules
9 applicable to each classification, and that is relatively
10 easily done. It's possible to do here, but to date the
11 declining block rate schedule has served its purpose of a
12 different unit charge to customers at different usage
13 levels.

14 Q. All right. There was some discussion yesterday
15 about the accuracy of the allocation of costs to classes.
16 And did I hear you correctly that there is some art in
17 that science; in other words, there is not -- it is not a
18 precise calculation that one can do.

19 What would be the percentage leeway that might
20 be the art?

21 A. That's a very difficult question to respond to.
22 I was waxing philosophic at the time and I'll probably
23 continue to do so.

24 My point is that when we determine an average
25 cost to serve a residential customer, the leeway within

1 that is probably, I'll say, a few percent, but there is no
2 such thing, really, as an average customer. People use
3 more, people use less. People have different demand
4 characteristics. Some people live close to the treatment
5 plants, some people live far away. Some people live up on
6 a hill, some people live down in a valley. The cost to
7 serve each of those different residential customers is
8 significantly different.

9 Q. So to suggest that the cost of this class is X
10 and the cost of this class is Y, there is a lot of fudge
11 in there, isn't there?

12 A. I wouldn't go that far. My point was that
13 the -- the allocation of costs does not result in a
14 precise indication. I don't think that there is a lot of
15 fudge in the number, but I think that there is a need to
16 understand that that average indicated cost to serve the
17 class has a great deal of variability within the class.

18 Q. Within the class. And potentially between the
19 class? If you were to come within, say, 3, 4 -- you said
20 a couple percent, 3, 4 percent, would you say that class
21 then is meeting its obligations, its costs that -- the
22 costs it's causing?

23 A. I would want to consider a lot of other factors
24 as to why -- I wouldn't want to bring it closer in line if
25 it was several percent off because that could be -- could

1 be a significant number of dollars.

2 I think the indications of cost by class are
3 reasonable guides to use in rate design, absent other
4 considerations.

5 Q. But they're not precise and one could argue the
6 percent when you get down to the small percentages?

7 A. I'm sure that if -- that if each of us that
8 does those types of studies did a study for the same
9 company, there would be some variability in the
10 indications by class, and yet all might be based on
11 reasonable assumptions.

12 Q. I'd like to talk to you a little more about the
13 surcharge. You are the one that has that in your
14 testimony; is that correct?

15 A. Yes, it is.

16 Q. All right.

17 CHAIR LUMPE: First, Judge, I would like the
18 parties, if they would, to discuss whether we legally can
19 impose a surcharge. I've heard varied opinions on that,
20 and if they could do that in their briefs.

21 JUDGE THOMPSON: In their briefs?

22 CHAIR LUMPE: Yes. What authority would we
23 have to impose the surcharge? I'm not sure.

24 BY CHAIR LUMPE:

25 Q. But did I hear you say that you're not aware of

1 any of the states that has American Water that has a
2 surcharge?

3 Does Pennsylvania not have an American Water
4 subsidiary?

5 A. Pennsylvania does and has adopted single-tariff
6 pricing.

7 Q. And they have a surcharge also?

8 A. No, there is no surcharge. Everybody in the
9 state that is a Pennsylvania American Water customer pays
10 on the same basis -- the same set of charges.

11 Q. And they have a tape that they have put out
12 talking about their surcharge. Have they eliminated it
13 lately?

14 A. No, ma'am. The tape is related to a
15 distribution system improvement charge, which is --

16 Q. Well, I call that a surcharge.

17 A. It is. It is not related to the same issue
18 that I've proposed a surcharge here. The distribution
19 system improvement charge in Pennsylvania is for the
20 purpose of rate relief related to certain infrastructure
21 improvements between major rate cases.

22 Q. Okay. Illinois?

23 A. Illinois has a proposal before it for a
24 surcharge related to this very same issue.

25 Q. Okay. I think your testimony or your statement

1 yesterday was that there would be no surcharge in the
2 other areas other than St. Joe. Is that because of the
3 15 percent threshold?

4 A. There would be no need for a surcharge because
5 all customers other than those in St. Joe, and those in
6 St. Joe as well, would pay a base charge, if you will,
7 from the same rate schedule that would be applicable
8 throughout the state, a single tariff. We would simply
9 then surcharge the bill in St. Joseph that resulted from
10 that single tariff in order to produce the total revenue
11 requirement of the company.

12 Q. But you talked about a 15 percent threshold?

13 A. Yes.

14 Q. Does that mean that none of the infrastructure
15 or capital projects in the other areas would meet that
16 15 percent threshold?

17 A. That -- at the moment that is correct.

18 Q. Was that one of the reasons behind the
19 15 percent?

20 A. I designed the threshold in this manner so as
21 to avoid tests that would result in surcharges on the
22 smaller districts related to the capital improvement in
23 those districts.

24 For example, just to continue to use the very
25 smallest district as an example, in Brunswick, if there

1 was even a half a million dollars of improvements, under
2 certain tests on a, say, capital investment per customer
3 in the district threshold, that might produce a surcharge.
4 And yet for the entire hundred thousand customer base to
5 bear a half-a-million-dollar capital investment is very
6 di minimus.

7 So I designed the tests so as to look at the
8 impact that the addition had on the entire body of
9 customers by looking at what it did to their total revenue
10 requirements.

11 Q. All right. One of the questions frequently
12 asked at the public hearings -- and I'm reading some of
13 the transcripts of the ones I wasn't at and I noticed that
14 it was asked there also is, well, will we get a decrease
15 when -- decrease when the plant is paid for or will that
16 continue forever in our base rate?

17 And in our -- would a surcharge not address
18 some of that; in other words, there would be -- you would
19 know that this surcharge was definitely going to pay that
20 plant and when the plant was paid for the surcharge would
21 go away and the people would sort of see there was an end
22 to that charge?

23 A. The surcharge could go away and as plants
24 depreciate, their impact on revenue requirements lessens.
25 However, the surcharge is not designed to pay for the

1 plant in its entirety, only the extent to which the
2 capital revenue requirements of the plant have more than a
3 15 or 20 percent impact on the revenues across the state.
4 That's what the surcharge is designed to recover.

5 The surcharge would need to be revisited
6 periodically and adjusted in future rate proceedings. My
7 expectation would be that it would decrease over time.
8 And as with all capital investments, although the impact
9 on revenue requirements lessens with time, there are other
10 capital investments that come along to take its place.

11 The capital budgets tend to exceed the total
12 depreciation expense, and so rate base is continually
13 increasing and not decreasing.

14 Q. So if we use the surcharge method, then if that
15 capital improvement was substantial in some other area,
16 that particular area would be paying its surcharge. Is
17 that correct?

18 A. If it -- it met the threshold test, yes.

19 Q. The threshold. Okay.

20 The discussion on economy of scale and the
21 discussion yesterday -- and I'm looking at -- I don't
22 remember what parties' issue on rate design -- but there
23 is a set of items that can be defined as common costs.
24 Would people disagree on what that set might be?

25 A. I don't believe so.

1 Q. All right. So that if you were able to get the
2 economies of scale in those -- in that set of common
3 costs, are there then other items that one could define as
4 district specific?

5 A. Yes.

6 Q. All right. And they could be defined?

7 A. Yes.

8 Q. All right. Other than capital or
9 infrastructure?

10 A. Yes.

11 Q. All right. So that one could look at the
12 common elements and allocate those, and then one could
13 look at the district-specific items and then one could
14 look at the infrastructure items. Is that correct?

15 A. Yes. And it's with -- with respect to the
16 infrastructure items that the clarity somewhat declines in
17 that there are certain items of the plant that are common.
18 There are other items of plant that are district specific.
19 The issue comes with respect to the extent to which the
20 rate of return and depreciation rate also are common to
21 all districts or whether or not they should be unique.

22 Q. But those sets could be fairly well defined?

23 A. Yes.

24 Q. All right. There was some discussion yesterday
25 about the STP encouraging purchase of troubled companies.

1 Did I hear that correctly? And if I did, what troubled
2 plants has Missouri American purchased?

3 You wouldn't call Jefferson City or St. Louis
4 County troubled companies, would you?

5 A. I don't know the Jefferson City facility well
6 enough to give an opinion. I would certainly not describe
7 St. Louis County as troubled.

8 The discussion that occurred yesterday in the
9 testimony of several of the witnesses is that although
10 single-tariff pricing provides a means whereby a larger
11 system can acquire smaller systems to the benefit of those
12 smaller systems without -- and providing a rate benefit to
13 the customers in those smaller systems, others have said
14 this is -- this is an inducement or an encouragement to
15 the utilities to go out and acquire these troubled
16 dilapidated water utilities.

17 I don't know that it's an encouragement but it
18 certainly provides a mechanism whereby the company would
19 not be resistant to doing so in the light of public policy
20 concerns about the quality of water service to customers
21 in those small systems.

22 Q. Do you think the Commission has the authority
23 to use that kind of leverage; in other words, when
24 American Water -- or Missouri American was purchasing
25 Jefferson City, that we would have said, yes, if you

1 purchase these five troubled entities we have?

2 A. I don't -- I really don't know if I could speak
3 to the authority of the Commission. I do know that I am
4 aware of instances in which commissions that shall remain
5 nameless have encouraged investor-owned utilities to
6 acquire small troubled systems and some large troubled
7 systems as well.

8 Q. So perhaps we just didn't use our leverage but
9 could have?

10 A. I expect you have more than you think you do.

11 Q. One of the comments that I've been noticing is
12 that -- one of the arguments for STP is that it's sort of
13 everybody helping everybody and it helps the smaller
14 districts. The arguments that I've heard in the public
15 hearings have been, but this is a case of the smaller
16 districts assisting the large district, sort of a reverse,
17 standing on its head as opposed to the big helping the
18 small. Here the small are assisting.

19 How do you respond to that?

20 A. Well, in this case we have both. We have both
21 small and large districts that are being helped. Yes, the
22 St. Joseph district is by far being helped the most, but
23 the Brunswick and Mexico districts, which are two of the
24 smallest districts, are also being helped by single-tariff
25 pricing in the proposal of the company that is before the

1 Commission. And that's been a little bit lost in the
2 shuffle.

3 And, furthermore, I think as we go down the
4 road, the small districts will continue to see the primary
5 benefit from single-tariff pricing.

6 CHAIR LUMPE: Those are all of the questions I
7 have, Mr. Strout.

8 Thank you.

9 JUDGE THOMPSON: Thank you, Chair Lumpe.

10 Vice-Chair Drainer?

11 QUESTIONS BY VICE-CHAIR DRAINER:

12 Q. Good morning.

13 A. Good morning.

14 Q. How are you this morning?

15 A. I'm a little dry in the mouth, if we could find
16 some water.

17 (OFF THE RECORD.)

18 BY VICE-CHAIR DRAINER:

19 Q. I just have a few clarifications. I want to
20 talk to you about your Table 3B.

21 A. You warned me.

22 Q. But while you're going to that table, I also
23 wanted clarification. Yesterday Mr. Conrad asked you
24 about, can there be load usage differences by a class of
25 service customers? Like, are the industrials in your

1 analysis, did they all use the same load? And I think
2 you believe they did for the purpose of your class
3 cost-of-service analysis.

4 A. I said that I felt it was reasonable to
5 assume my estimated average demand characteristics for the
6 industrial class for that entire class regardless of which
7 district the customer might be in.

8 Q. All right. Now, with respect to residential,
9 would that be your same conclusion?

10 A. Yes.

11 Q. And then my first question is, with respect to
12 3B, if that is a reasonable assumption to use the same
13 load usage for a certain class, why did you use different
14 average monthly usage by district here?

15 A. I'm not suggesting that the average use of each
16 customer is not different. What I'm using is an average
17 relationship between average use and peak use.

18 Q. Okay.

19 A. And I'm saying that I believe it's reasonable
20 to assume that same relationship for the entire class in
21 the allocations that I've done.

22 Q. Okay.

23 A. So for purposes of Schedule 3B, the reasons
24 that I use different average monthly usage was that the
25 average monthly usage for the residential class in each

1 district is different, and if I wanted to portray the
2 impact of my proposals on the average residential customer
3 in each district, I wanted to use the specific average
4 usage for that district.

5 Q. Then can you, first of all, explain to me how
6 you would explain the differences between a Brunswick --
7 and are these all in gallons, by the way? Are these
8 thousand gallons? You don't state what they are.

9 A. Yes, they are in thousand gallons.

10 Q. So for each district, even though some are
11 billed by CCF, you converted it all to gallons?

12 A. Yes, I did.

13 Q. Okay. Why does Brunswick on average use
14 3,800 gallons per customer versus St. Charles that uses
15 8,300?

16 A. I could only speculate that things like family
17 size and lawn size and other factors like that that would
18 affect average usage would be different between the two
19 districts.

20 Q. Okay. Now, with respect to the monthly bill,
21 the present rates, did you put in the customer charge?

22 A. Yes. That includes the customer charge, as
23 well as the consumption charges for the average
24 consumption shown.

25 Q. Would you help me go through one of these

1 calculations? And let's use Joplin.

2 MR. CONRAD: Commissioner, I apologize. We're
3 having trouble figuring out where you are.

4 VICE-CHAIR DRAINER: I'm on Table 3B.

5 THE WITNESS: Exhibit 10.

6 JUDGE THOMPSON: Mr. Stout's rebuttal.

7 BY VICE-CHAIR DRAINER:

8 Q. And while you're looking that up, I also --
9 so that will be -- I also want to go to Randy Hubbs,
10 Mr. Hubbs, Staff's, his schedule to his rebuttal
11 testimony, and I would like to ask you to go to Joplin
12 district to his Schedule H3.

13 JUDGE THOMPSON: Schedule WRH3?

14 VICE-CHAIR DRAINER: WRH3.

15 THE WITNESS: It's the units.

16 BY VICE-CHAIR DRAINER:

17 Q. I guess I'm going to be able to see that the
18 difference between your rate and his 6,000 rate is he's
19 using CCFs and you're using gallons. So if I converted
20 it, his would end up to be the \$17.67 also?

21 A. If you used a sufficient number of CCF to
22 constitute 6,000 gallons, you would get the same result.

23 Q. Okay. Things are always much clearer in the
24 morning. I couldn't figure this out for nothing last
25 night.

1 So basically if I go through his Schedule 3 on
2 each district, I would be able to get the same rates but I
3 would have to do a conversion if they were CCFs to gallons
4 and I would have to look at the average usage that you
5 had?

6 A. And so I'm preparing schedules just like
7 Mr. Hubbs so you won't have to do that.

8 Q. Now, I also wanted to ask you, do you have any
9 questions about that? I hit you with that at the end of
10 the day and you asked some questions.

11 Do you have any other clarifying questions that
12 you would need to ask me to do that?

13 A. I don't believe so. I will -- let me briefly
14 go over with respect to the columns on that schedule that
15 will relate to Staff's revenue requirement proposal. I
16 have -- under single-tariff pricing, that's relatively
17 straightforward.

18 When I go to the surcharges at that revenue
19 requirement level, I've used the same threshold tests that
20 I used in my proposal that --

21 Q. You used your 15 percent and your 20 percent?

22 A. Right. Which will produce different surcharge
23 percentages at Staff's revenue requirement level.

24 Q. It will produce -- what it will change for,
25 like, your 20 percent limitation, it will then change that

1 34.882 percent to a different percent. Probably will
2 lower that?

3 A. Right. It will increase it.

4 Q. It will increase it?

5 A. Yes.

6 Q. Okay. Tell me now why it will increase it.

7 A. It will increase it because with the overall
8 revenue requirement level being less, the amount that I'm
9 surcharging is the same. And I have a smaller base to
10 recover it from, so I need a higher surcharge percentage.

11 Q. Okay. Good. And then I just have a couple
12 of questions that I'm not sure you can answer. And if
13 not, maybe another witness for the company can, but do you
14 know whether there was a change in the flow of the river
15 because of any changes from the Corps of Engineers made to
16 that river after the initial St. Joe plant was built?

17 A. I don't know.

18 Q. Okay. No. 2, do you know if the new plant when
19 it was up -- now that it's up and in operation, whether it
20 produces water that is softer than the old plant?

21 A. I really couldn't say.

22 Q. Well, we'll just have to ask somebody else.

23 A. I'm sure they'll be prepared to respond.

24 Q. And then with respect to the surcharge, did you
25 have any analysis or perceive any additional costs for the

1 billing for the customers' changes in the program that
2 would have to be made to add a surcharge to the St. Joe
3 customers' bill?

4 A. I don't -- I don't know if it would require
5 reprogramming or whether the software that is being used
6 can accommodate a surcharge or not. I would not expect
7 that it would be a very significant cost.

8 Q. Did you have any discussions with respect to
9 that?

10 A. Not specific. Only that -- only that the
11 concept was something that the company thought it would be
12 worth offering to the Commission as an alternative.

13 VICE-CHAIR DRAINER: All right. Thank you.

14 I have no other questions.

15 JUDGE THOMPSON: Thank you, Vice-Chair Drainer.
16 Commissioner Murray?

17 QUESTIONS BY COMMISSIONER MURRAY:

18 Q. Good morning, Mr. Stout.

19 A. Good morning.

20 Q. First of all, would you feel comfortable --
21 although it was your alternative proposal, would you feel
22 comfortable in recommending that we adopt the surcharge
23 proposal on a going-forward basis, standard tariff pricing
24 on the surcharge for capital improvements?

25 A. I would feel less comfortable than I would with

1 single-tariff pricing but more comfortable than I would
2 with district-specific pricing.

3 Q. Okay. So if we don't adopt just flat
4 single-tariff pricing, you would feel comfortable on a
5 going-forward basis with single-tariff pricing and a
6 surcharge?

7 A. The same thing I said before.

8 Q. And I want to make sure I understand. The
9 surcharge that you have proposed, it does include or
10 incorporate the investments and the other districts within
11 the surcharge; is that correct?

12 A. No.

13 Q. It does not?

14 A. No.

15 Q. So the St. Joseph area would only be surcharged
16 for those amounts that went into the St. Joe improvements?

17 A. Yes.

18 Q. Beyond the threshold?

19 A. Beyond the threshold, that's correct.

20 Q. How would your proposal affect customers in
21 small districts as opposed to customers in large
22 districts, or can you make such a generalization?

23 A. Are you referring to the surcharge proposal?

24 Q. Yes.

25 A. The effect would be that generally major

1 improvements to the smaller district, while appearing
2 large to the small district, would not likely pass the
3 threshold test in terms of its impact on the total
4 customer base.

5 So that if -- if significant improvements were
6 required in smaller districts, the level of investment
7 would have to be quite large before it would even approach
8 the threshold.

9 Q. And that is why a comment was made at some
10 point that this alternative proposal is good for small
11 districts. Is that correct?

12 A. I believe it still retains the benefits of
13 single-tariff pricing for the small districts.

14 Q. And is the increase that would be seen by the
15 public water supply districts around St. Joseph, is that
16 the same increase -- for example, under the 15 percent
17 proposal, would that result in an 89.6 percent increase
18 for -- an overall increase for the public water supply
19 districts around St. Joseph?

20 A. Actually the increase would be somewhat greater
21 than that.

22 Q. How much greater?

23 A. Which surcharge proposal?

24 Q. I'm speaking about the 15 percent.

25 A. The increase to the other -- to the water

1 districts in the St. Joseph area with the 15 percent
2 threshold would be 94.93 percent.

3 Q. Okay. And can you explain to me why a sale for
4 resale customers in whatever proposal we're talking about
5 experience a greater increase than anyone else?

6 A. Yes. The greater increase to those customers
7 and other large customers is because the increase in the
8 customer charge was limited to approximately 20 percent
9 and the volumetric charges were increased by amounts
10 greater than that in order to make up the overall
11 50 percent increase.

12 And likewise, in some of the district-specific
13 pricing proposals, the customer charge was adopted the
14 same as proposed by the company at 20 percent increase but
15 then the volumetric charges were increased in some cases
16 substantially more than that. Inasmuch as the customer
17 charge makes up a smaller part of the total bill for a
18 large water user such as a public water district, the
19 average percent increase is more heavily influenced by the
20 increase in the volumetric charges.

21 Q. From a public policy standpoint, why should we
22 do that?

23 A. From a public policy standpoint, it would be to
24 keep the charge for a very small usage residential
25 customer, perhaps on a fixed income, at a lower level than

1 what the average increase would produce.

2 Q. But don't the customers -- don't the customers
3 of the public water supply districts, for example,
4 eventually pay the increases?

5 A. They're paying the increases based on their
6 water usage. The facilities that are driving this
7 increase are facilities that produce water. And so from
8 a cost standpoint on a functional basis, that does not
9 increase the customer costs, which are the costs that we
10 endeavor to recover through the customer charge.

11 Q. But the reality is that it does increase the
12 cost eventually to those customers?

13 A. Oh, it increases the costs both to the retail
14 customer and the wholesale customer.

15 Q. And aren't some of those customers also on a
16 fixed income?

17 A. Yes. Yes, they are. And in designing the
18 recovery of that purchase water charge, I'm sure that that
19 will be considered when the public service districts also
20 establish rates to recover that increased cost.

21 Q. Where else can they go but to their customers?

22 A. Well, they can only go to their customers. The
23 question is the manner in which they recover it through
24 its customers, whether it's from an increase in the
25 volumetric rates that they charge their customers or

1 through the customer charge that they recover from them.

2 Q. So their choice is to put it off on the
3 industrial customers or to the residential customers
4 basically?

5 A. Not entirely. Their choice is also the extent
6 to which they charge large-use residential customers
7 versus small-use residential customers.

8 Q. If we adopted a surcharge proposal such as the
9 one you have suggested as an alternative, would that
10 provide protection from rate shock even if it were applied
11 to the capital costs of something like improvement of
12 St. Louis Water Company, St. Louis County Water?

13 A. I'm not certain how it would be applied in that
14 case.

15 Q. Well, think about -- let's think about it for a
16 minute. If there were -- if Missouri American were to
17 acquire St. Louis County Water and there were significant
18 plant improvements required costing a great deal of money,
19 then with a surcharge and a threshold, would not the
20 St. Louis County customers bear most of that burden for
21 those capital improvements?

22 A. If it became the eighth or ninth district in a
23 multi-district single-tariff pricing company and those
24 were identified as a specific project, a specific capital
25 improvement, it would be feasible to do what you suggest.

1 Q. And if we adopted single-tariff pricing with a
2 surcharge beyond a certain threshold as our going-forward
3 policy, would we not apply it that way?

4 A. It would depend a little bit on the manner in
5 which the additions are defined that are to be considered
6 in testing against the threshold. If it was to be all of
7 the additions that occurred within a district within a
8 one-year period, then the answer would be yes, that it
9 would capture any excesses above the threshold that we've
10 described, but if the test was a single project that met
11 the threshold, then it likely would not.

12 Q. Okay. So there could be all manner of
13 combinations that we could be looking at?

14 A. Yes.

15 COMMISSIONER MURRAY: I believe that is all of
16 the questions.

17 Thank you.

18 JUDGE THOMPSON: Thank you, Commissioner
19 Murray.

20 Commissioner Schemenauer?

21 COMMISSIONER SCHEMENAUER: Thank you.

22 QUESTIONS BY COMMISSION SCHEMENAUER:

23 Q. Good morning.

24 A. Good morning.

25 Q. I just have a few questions. The line of

1 questioning Chair Lumpe had on the surcharge in
2 Pennsylvania -- and I think you said it was a district
3 improvement charge out there?

4 A. Distribution system.

5 Q. Distribution system.

6 Who is the custodian of those funds out there?

7 Is the company the custodian or a third party?

8 A. The company is.

9 Q. And does the fund balance earn interest or --

10 A. There is no fund. The company quarterly
11 submits to the Commission the calculations that it has
12 done with respect to the qualifying infrastructure
13 improvements that it's made in the preceding quarter and
14 updates its calculation of the return taxes and
15 depreciation related to those improvements, and then based
16 on their base rate revenue computes what the surcharge is
17 to recover those cost elements related to those
18 distribution system improvements.

19 Q. Are there any -- I can foresee disputes between
20 the Commission and the company about what is a capital
21 improvement and what is maintenance and what is normal
22 maintenance.

23 Are there many disputes that have to be --

24 A. No. The company follows a system of accounts
25 and generally accepted accounting principles in terms of

1 identifying which of its expenditures qualifies as
2 capital. It's a system of accounts that is adopted by the
3 Commission. The Commission periodically does audit the
4 company's books, and I'm not aware of there being any
5 disputes.

6 Q. All right. I mean, a capital improvement is in
7 the eye of the beholder, you know, that you can assign
8 costs to any funds you want to if you say it's a capital
9 fund and someone else may say it's ongoing maintenance.
10 But that is -- I just want to know how they worked it, and
11 then I have a few other questions.

12 Table 3D in your rebuttal, on the average
13 monthly usage, I assume these are the amounts that are
14 metered to the customer's water meter?

15 A. Yes.

16 Q. Okay. Do you or has the company provided to
17 you the amount of product loss that they experience by
18 district, how much water they put in the system versus how
19 much is metered out?

20 A. No. I haven't analyzed that.

21 Q. You have no -- you have no idea what the
22 product loss would be in any of the districts?

23 A. No.

24 Q. Okay. And then the last question. On taxes,
25 franchise, go to sale tax, et cetera. Have any of the

1 taxing jurisdictions offered relief to their citizens and
2 the company's ratepayers by freezing or abolishing any of
3 the local sales tax, franchise taxes or other taxes that
4 are passed on to the ratepayers?

5 A. Not that I'm aware of.

6 COMMISSIONER SCHEMENAUER: Okay. I think
7 that's all I have.

8 Thank you.

9 JUDGE THOMPSON: Thank you,
10 Commissioner Schemenauer.

11 Chair Lumpe?

12 FURTHER QUESTIONS BY CHAIR LUMPE:

13 Q. Mr. Stout, in your surrebuttal, page 7 -- and I
14 think this was mentioned yesterday also -- that water
15 usage is relatively inelastic, and I suppose "relatively"
16 is the operative word there.

17 Would not people cut down on their usage if
18 they thought the price was going too high, water their
19 lawn less, take shorter -- I mean, don't we in the drought
20 periods have all of these things told to us, and if
21 someone thought their water bill was too high, would they
22 not do some of those things, take shorter showers or
23 something like that?

24 A. Based on the -- the studies that I've read
25 over the years on the subject, the elasticity that you

1 describe is relatively short term in its occurrence. That
2 is, that upon receiving the first water bill after the
3 rate increase, there might be a period of time during
4 which showers are shorter and lawns are watered less but
5 that gradually customers go back to their same habits
6 because the water bill is a relatively small part of the
7 total family budget.

8 Q. So while there might be some period where they
9 would adjust their usage, you're saying that would sort of
10 creep up again?

11 A. They would -- they would get that first
12 \$30 water bill and they would adjust their usage as much
13 as they felt their lifestyle accommodated, and then when
14 they got a \$28 water bill as a result, they would probably
15 revert to their same ways of doing things.

16 Q. The other comment you made on that page is
17 building small increments of capacity is not practical.
18 Is that because of economies of scale or what?

19 A. Yes.

20 Q. All right. And then the last sentence that
21 I wondered about is the magnitude -- and this is on
22 line 21 -- the magnitude increase in this proceeding is
23 the result of using embedded costs for determining the
24 return on and of capital.

25 Would you explain that?

1 A. Certainly. Once upon a time, this country had
2 as its measure of value in rate proceedings a term called
3 "fair value." That has generally gone by the boards and
4 an original cost measure of value is now used both for
5 determining the return on and of that capital.

6 If, for example, the St. Joseph treatment
7 plant of the last century had been valued in rate base at
8 its replacement or reproduction costs, then the change in
9 rate base that would have occurred at the time of its
10 replacement would -- and, of course, all other assets
11 being valued similarly -- the impact that a replacement of
12 that plant would have on the total rate base of the
13 company would have been substantially less.

14 Q. So that the people would have been paying an
15 increase over the hundred years? Is that what you're
16 saying?

17 A. They would have been paying a return, an
18 inflation-free return on an inflated rate base, but the
19 change in rate base that would happen with the replacement
20 of the plant would have less of an impact on the overall
21 rate base of the company than under an original cost.

22 Q. So they would have had a gradual increase
23 instead of a shock increase. Is that what you're saying?

24 A. Yes.

25 CHAIR LUMPE: Thank you. That's all.

1 JUDGE THOMPSON: Vice-Chair Drainer?

2 VICE-CHAIR DRAINER: Yes.

3 FURTHER QUESTIONS BY VICE-CHAIR DRAINER:

4 Q. I just have one follow-up question to -- Chair
5 Lumpe asked her question and now I have two.

6 With respect to price elasticity being
7 relatively inelastic for the residential user, let's talk
8 about the industrial users.

9 When we have a company such as Friskies
10 that has to use water in the production, if there is a
11 price increase, would you find that to be even more
12 inelastic even in the short run than for a residential
13 user?

14 A. In the short run perhaps. In the long run
15 perhaps not depending on the extent on -- you know, the
16 nature of the use of water in the industrial process,
17 whether or not recycling is possible or other means of
18 obtaining water.

19 Q. But the -- but in general when you were talking
20 about the residential user, I heard you say that what you
21 have read is they have to go back to some level of
22 necessity that they're going to use no matter how the
23 price change is. In the short run they respond, but then
24 they go to an average use that they have to have.

25 Would the industrial user -- they would not

1 have that immediate they get the bill and they can cut
2 back the same way a residential user would?

3 A. That's correct.

4 Q. I don't imagine lawns are as important to them
5 as just the production. That's what I was trying to get
6 to.

7 A. Yes. That's why I agreed with you in the short
8 term that they were -- they were even less elastic.
9 However --

10 Q. In the long run everything is variable.
11 So let me also ask you with respect to --
12 because I'm really wanting to understand the difference,
13 and I know you're going to give me a table that shows me
14 and Public Counsel the difference in prices. That's the
15 bottom line to our customers.

16 Can you explain -- you read Mr. Hubbs'
17 schedules and analyzed his district-specific pricing?

18 A. Yes.

19 Q. When I looked at his rebuttal testimony and
20 looked at that Schedule 3 for each district and his
21 general or current rates and then his estimated district
22 rate, St. Joseph doesn't have a very large impact.

23 And it's one of the very last tables, the
24 St. Joseph Schedule WRH, or maybe this is OPC3. And I may
25 need to ask him but I would appreciate it if you could

1 help me understand what this district-specific pricing
2 impact is to the St. Joe customer.

3 A. Sure. Do you have before you Schedule WRH3 for
4 St. Joseph?

5 Q. Yes.

6 A. And --

7 Q. I have it as WRH OPC3. Is there another
8 schedule and I'm not able to find it?

9 A. Perhaps --

10 JUDGE THOMPSON: This is towards the very
11 back of the schedule for Mr. Hubbs' rebuttal testimony,
12 St. Joseph Schedule WRH OPC3.

13 THE WITNESS: Yeah. And perhaps we
14 could contrast that with the earlier Schedule WRH3 for
15 St. Joseph.

16 BY VICE-CHAIR DRAINER:

17 Q. There. Now I found it. I'm sorry.

18 So --

19 A. In WRH OPC3 it's my understanding Mr. Hubbs has
20 reflected OPC's revenue requirement.

21 Q. All right.

22 A. Whereas in WRH3 he's reflected Staff's revenue
23 requirement.

24 JUDGE THOMPSON: So that would be the
25 difference?

1 THE WITNESS: Yes.

2 BY VICE-CHAIR DRAINER:

3 Q. Okay. Now I've got your schedule that you were
4 talking about the Schedule WRH3. And when I look at CCFs,
5 if I look at his current rate at the 7.00 CCFs, it's
6 \$16.20. Do you see that?

7 A. Yes.

8 Q. And he's estimating that under
9 district-specific pricing it would go to \$24.21?

10 A. Yes.

11 Q. If I look at your table in your rebuttal of
12 Table 3B, now you have an average in gallons of 5.6 and a
13 current rate of 16.82. So it's very similar to the 16.20.
14 I'm trying to get at least a fairly comparable -- your
15 single-tariff pricing rate would go to \$24.56.

16 I guess my question then is, it doesn't
17 seem that the impact on St. Joseph, whether you use
18 single-tariff pricing or district-specific pricing, is
19 that different. It's to the other districts that there
20 are larger impacts. Correct?

21 A. No. I think we have to take some care in
22 looking at usage at this level in terms of the overall
23 impact of district-specific pricing.

24 Q. Okay. So I'm looking at just a residential
25 use, average users is what I'm looking at?

1 A. Right.

2 Q. You're telling me to be careful because --

3 A. Because the customer charge which is increasing
4 20 percent is a fairly significant portion of the average
5 bill. And the increase in the volumetric charge has yet
6 to take over, if you will.

7 Q. So it's going to be -- and correct me if I'm
8 wrong, because I know you will, which is good -- if as
9 you go to the larger users, again, the industrial users
10 to folks that are in the much larger blocks, they will be
11 impacted from a cost point of view more under district
12 specific or under single tariff?

13 A. Under district specific, they would have
14 greater increases, relatively greater increases because of
15 some of the larger increases, most of the increases being
16 absorbed by volumetric rates. Again, it depends on where
17 they are on the average cost curve also.

18 So both factors come into play, but it might
19 be -- certainly when you have the schedules that you've
20 asked us to prepare, it will -- it will help somewhat.
21 But, again, even at the 14,000 gallon or 1,400 cubic feet
22 level, there is a waiting in the -- in the increase in the
23 bill between the increase in the customer charge and the
24 increase in the volumetric rates.

25 Q. Well, basically I would have to look at your

1 next table, Table 3C, which when you look at the four
2 blocks, what the current rate is for those four blocks and
3 what the rate would be under single-tariff pricing --

4 A. Right.

5 Q. -- and then district-specific pricing. So I
6 would have to look at Mr. Hubbs. But then there is also
7 the revenue requirement difference between your analysis
8 and his analysis and Mr. Fischer's analysis?

9 A. Isn't district specific wonderful?

10 If --

11 Q. Well, I don't think that's district specific.
12 I think that's a difference in your revenue requirement
13 which is part of the formula.

14 A. If you look at Mr. Hubbs' WRH3 --

15 Q. Yes.

16 A. -- and you look not at the bills on the left
17 portion but at the rates on the right, his volumetric rate
18 for St. Joseph increases by 67 percent from approximately
19 \$1.47 per hundred cubic feet to approximately \$2.45 per
20 hundred cubic feet. Do you see that?

21 Q. Now, you're on Schedule --

22 A. WRH3 for St. Joseph.

23 Q. Okay. I'm on WRH3 St. Joseph.

24 And you want me to look --

25 A. On the right portion of the page.

1 Q. Current rates and estimated district rates?
2 Yes.
3 A. The commodity charge?
4 Q. Yes. Goes from a --
5 A. \$1.47 to \$2.45.
6 Q. Yes.
7 A. That's a 67 percent increase. That compares to
8 in thousand gallons my increase from \$1.95 to \$3.12, which
9 is a 60 percent increase for the residential class. Now,
10 Mr. Hubbs has designed separate commodity charges for the
11 other classes as well.
12 Q. And you do too, don't you?
13 A. No. I have --
14 Q. Why are your blocks, the present rate and under
15 single-tariff pricing, the rates change?
16 A. They change uniformly.
17 Q. By the same percent. Is that what you're
18 telling me?
19 A. Yes.
20 Q. And you're saying that his blocks would have
21 impact?
22 A. He no longer has blocks. He has specific
23 commodity charges for each customer classification.
24 Q. No matter what the usage?
25 A. That's correct.

1 VICE-CHAIR DRAINER: Well, I'll have more
2 questions for him then. Thank you very much.

3 No other questions.

4 JUDGE THOMPSON: Further questions from the
5 Bench?

6 QUESTIONS BY JUDGE THOMPSON:

7 Q. Mr. Stout, what is the conversion factor to
8 convert hundred cubic feet into thousands of gallons?

9 A. You would multiply the hundred cubic feet by
10 1.33.

11 Q. Thank you.

12 And what is the meaning of the phrase "embedded
13 costs" that you have used in your testimony?

14 A. Costs that have been incurred in the past.

15 Q. And what are the costs that the customer charge
16 is intended to recover?

17 A. Generally the customer charge is intended to
18 recover costs such as billing and collecting, reading the
19 meter, the capital costs related to the service line in
20 the meter.

21 Q. And what is the source of the 67 percent --
22 excuse me -- that was in -- that was in the commodity
23 charge but there is also a customer charge increase on
24 Schedule WRH3 for St. Joseph. Isn't that correct?

25 A. Yes.

1 Q. And what is the source of that increase in
2 customer charge, if you know?

3 A. The customer charge historically has not
4 recovered all of the costs that I've just described. And
5 so although it was increased at an amount less than the
6 average -- and I haven't analyzed it, but it's my
7 expectation that at \$7 per month, that it is still less
8 than the fully allocated costs of the items that I
9 described in my previous response. So it is a movement
10 towards the customer costs.

11 Q. It's intended to increase the customer charge,
12 if I understand you correctly --

13 A. Yes.

14 Q. -- to where it actually covers the cost in the
15 direction of recovering the cost?

16 A. In the direction of recovering the cost. I
17 don't believe that fully recovers the cost.

18 Q. But it's not a large enough increase. Is that
19 what you're saying?

20 A. Not to fully recover the cost.

21 Q. Okay. Finally, with respect to your Table 3B,
22 would it be difficult for you to run this back out and to
23 set the average monthly usage figures to 6.0 in every
24 case?

25 A. It would not be difficult and, in fact, that

1 information, although in some cases it will be 6 CCF and
2 in other cases 6,000 gallons, will appear on the schedules
3 that I'm preparing for Commissioner Drainer.

4 Q. Okay. Is there any way we can get it to where
5 they're all either thousand gallons or CCF so that we know
6 what we're looking at?

7 A. That would be my preference; however,
8 Mr. Hubbs' schedules are in CCF and thousand gallons.
9 And let me correct the conversion factor. I
10 went the wrong direction.

11 Q. What is the corrected conversion factor?

12 A. It would be .748.

13 Q. So I multiply CCFs times .748 and that will
14 give me thousands of gallons?

15 A. Yes.

16 Q. Okay. So this information essentially will be
17 on the schedules you are preparing?

18 A. At 6 CCF or 6,000 gallons, depending on the way
19 the rates are defined in that district presently.

20 JUDGE THOMPSON: Okay. Thank you.

21 I have no further questions.

22 COMMISSIONER MURRAY: Judge, could I ask one
23 more question?

24 JUDGE THOMPSON: Yes, Commissioner Murray.

25 FURTHER QUESTIONS BY COMMISSIONER MURRAY:

1 Q. There is a ratio, is there not, between the
2 customer charge increase and the volumetric increase, and
3 it would be impossible to establish some ratio there,
4 would it not?

5 A. Yes.

6 Q. And do you know what the ratio would be from
7 the company's recommendation?

8 A. Under single-tariff pricing, as I just
9 described, the volumetric charges are increased
10 approximately 60 percent and the customer charge is about
11 20 percent.

12 Q. 20 percent?

13 A. And that weights out to the overall 50 percent.

14 Q. And does that change with the surcharge
15 proposal?

16 A. Yes, it would, in the different districts. The
17 six districts it would be something less than 60 percent
18 on the volumetric charge, and in the St. Joseph district,
19 whatever that lesser amount would be -- let's just say
20 hypothetically it's 55 percent now -- both the 20 percent
21 to the customer charge and the 55 percent to the
22 volumetric charge would be increased by the surcharge
23 because the surcharge applies to the total bill.

24 Q. They're both increased but does the ratio
25 between the two change?

1 A. No.

2 COMMISSIONER MURPHY: Okay. Thank you.

3 COMMISSIONER SCHEMENAUER: Just one.

4 JUDGE THOMPSON: Commissioner

5 Schemenauer?

6 FURTHER QUESTIONS BY COMMISSIONER SCHEMENAUER:

7 Q. I just want to make sure. The conversion ratio

8 is .748 times CF or CCF?

9 A. CCF.

10 Q. So 100 CCF would equal 748 gallons?

11 A. Yes.

12 COMMISSIONER SCHEMENAUER: Thank you.

13 JUDGE THOMPSON: Did you say 100 or 1,000?

14 BY COMMISSIONER SCHEMENAUER:

15 Q. Well, 100 CCF would be 100,000 cubic feet.

16 Correct?

17 A. No.

18 Q. Okay. Let's clear this up.

19 A. 100 CCF would be 100 hundred CCFs. So that is

20 10,000 cubic feet.

21 Q. Okay. I have too many zeroes in there. And

22 that would equal how many gallons?

23 A. 7,480.

24 Q. Okay.

25 JUDGE THOMPSON: Further questions from the

1 Bench?

2 Okay. Recross based on questions from the

3 Bench?

4 For those of you who are new to our
5 proceedings, that means the scope of your questions during
6 recross is limited to the questions from the Bench
7 addressed to this witness.

8 Mr. Fischer?

9 MR. FISCHER: Thank you, Your Honor.

10 I was going to follow up with questions from
11 Commissioner Drainer, but let me go ahead and do that.

12 RECROSS-EXAMINATION BY MR. FISCHER:

13 Q. She asked you regarding the difference between
14 single-tariff pricing and district-specific pricing on the
15 impacts on St. Joseph. Do you recall that line of
16 questioning a little bit?

17 A. Yeah. I didn't know that it was specifically
18 to St. Joseph.

19 Q. Okay. Well, maybe it wasn't.

20 Is it your understanding that on a district
21 aggregate basis the single-tariff pricing, if that was
22 used, there would be approximately a 50 percent impact on
23 the St. Joseph district?

24 A. Yes.

25 Q. And if we use district-specific pricing, it

1 would be closer to 122 percent. Is that your
2 understanding?

3 A. Yes.

4 Q. She was asking you about Mr. Hubbs' testimony
5 and why there didn't seem to be a difference between the
6 residential usage levels on single-tariff pricing and
7 district-specific pricing.

8 Could you turn to Mr. Hubbs' schedule,
9 St. Joseph Schedule WRH2-1.

10 Are you there?

11 A. Yes, I am.

12 Q. Under that proposal, under the Staff's
13 proposal, it indicates that the residential total revenue
14 increase would be just under 50 percent; is that right?

15 A. Yes, it is.

16 Q. And that would be what he would be using to
17 develop his usage charges on Schedule WRH3; is that right?

18 A. Yes, it would be.

19 Q. And that 50 percent would be very similar
20 to the 50 percent that you were talking about with
21 single-tariff pricing?

22 A. That is correct.

23 Q. But if we look further down that column on
24 WRH2.1, doesn't it show that other classes have
25 significantly larger increases than 40 or 50 percent?

1 A. Yes, it does.

2 Q. In particular, my class would have a
3 268.61 percent increase?

4 A. That is correct.

5 Q. And that would possibly explain why it would
6 appear that single-tariff pricing from a residential
7 standpoint would not have much difference from it compared
8 to district specific?

9 A. That's right. And that's why I cautioned
10 Commissioner Drainer to be careful with respect to the
11 level of usage and the class.

12 Q. And in that sense, it is that inter-district
13 shift issue that we talked about earlier that is impacting
14 that analysis here. Is that right?

15 A. Yes, if you change inner district to inner
16 class.

17 Q. Inner class. Okay. I'm sorry. That's wrong.
18 I also wanted to follow up with you on the
19 questions from Commissioner Murray regarding whether you
20 were comfortable in recommending that the surcharge be --
21 surcharge approach be approved on a going-forward basis.

22 And if I understood your answer, you said,
23 well, you'd prefer that single-tariff pricing be used but
24 you could use the surcharge on a going-forward basis; is
25 that true?

1 A. Yes.

2 Q. If that approach was adopted, would it be
3 correct that the Commission would be consistent with
4 single-tariff pricing practices in this case but would
5 announce that in the future an approach like your
6 surcharge approach would be used for major capital
7 investments?

8 A. That's what I understood her to mean by saying
9 going forward.

10 Q. Okay. And she also, I believe, asked you about
11 St. Louis County Water. If that approach were used, is it
12 your understanding that you could surcharge the St. Louis
13 County area if there were major capital investments that
14 needed to be included in the rate base?

15 A. Again, it would depend on the manner in which
16 the surcharge trigger was defined. In this case I focused
17 on it being triggered by a specific project having this
18 kind of an impact. So, again, it would have to be clear
19 as to whether or not specific projects would be the
20 trigger or, you know, capital budgets for an entire year.

21 Q. And from St. Joseph's perspective wouldn't the
22 approach that Commissioner Murray is discussing be much
23 more preferable than attempting to put a surcharge on them
24 in this case when they've already been paying
25 single-tariff pricing rates for other district

1 expenditures?

2 A. I would agree with that.

3 Q. That would avoid that double whammy effect?

4 A. Yes.

5 MR. FISCHER: That's all of the questions I
6 have.

7 JUDGE THOMPSON: Thank you, Mr. Fischer.

8 Mr. Zobrist.

9 RECROSS-EXAMINATION BY MR. ZOBRIST:

10 Q. Mr. Stout, you were asked by Chair Lumpe about
11 the effect of imposing a surcharge, and I believe you
12 stated that over time the surcharge would have to be
13 visited in the future and then adjusted; is that correct?

14 A. Yes.

15 Q. Now, do you know if other commissions who have
16 dealt with surcharges had or are continuing in this
17 adjustment process at this time?

18 A. I am not aware of surcharges that are of the
19 same nature as this one. There are many commissions that
20 have dealt with many different types of surcharges, and
21 typically those are revisited either annually or with
22 every succeeding general rate proceeding.

23 Q. Is this process of continuing proceedings and
24 adjustments avoided under single-tariff pricing?

25 A. Yes.

1 Q. And how is it avoided under single-tariff
2 pricing?

3 A. There would be no need to monitor the surcharge
4 because it wouldn't exist.

5 MR. ZOBRIST: Thank you. Nothing further.

6 JUDGE THOMPSON: Thank you, Mr. Zobrist.

7 Mr. Coffman?

8 MR. COFFMAN: Thank you.

9 RE CROSS-EXAMINATION BY MR. COFFMAN:

10 Q. Mr. Stout, you were asked questions by
11 Commissioner Lumpe about surcharges in Pennsylvania. And
12 you identified that that was -- surcharges in Pennsylvania
13 that you were aware of were the distribution system
14 improvement charge surcharges. Correct?

15 A. Yes.

16 Q. Okay. And that is a surcharge entirely
17 different from the type that you're talking about in your
18 prepared testimony in this case. Correct?

19 A. Both relate to the recovery of capital-related
20 costs, so they have that in common. However, the
21 distribution system improvement charges in Pennsylvania
22 consistent with Pennsylvania use of single-tariff pricing
23 are applied to all customers of the company.

24 Q. And I'll refer to the distribution system
25 improvement charges of the DSIC.

1 A. I will understand that term.

2 Q. Great. The DSIC allows automatic rate
3 increases before commission scrutiny. Correct?

4 A. It allows the company to put the surcharge into
5 effect and submit the calculation in support of it.

6 Q. And that surcharge scheme is not
7 uncontroversial. Correct?

8 A. I would say that in Pennsylvania it's generally
9 well accepted.

10 Q. Didn't the consumer advocate in Pennsylvania
11 challenge it and appeal its applicability?

12 A. Yes.

13 Q. And that was based on single-issue rate making
14 concerns among others. Correct?

15 A. I'm not that familiar with the appeal.

16 Q. But it was a controversial concept in
17 Pennsylvania?

18 A. The consumer advocate had legal objections.

19 Q. Okay. And the type of surcharge that you are
20 suggesting as an alternative proposal in this case is
21 unlike any surcharge scheme that you're aware of in any
22 other jurisdiction. Correct?

23 A. As I indicated to Commissioner Drainer, I
24 believe, or perhaps it was Chair Lumpe, that there is a
25 proposal before the Illinois commission for a similar-type

1 surcharge.

2 Q. Okay. And similar in that it has a threshold?

3 A. It has a threshold. The threshold measurement
4 is different than the one that I have proposed, but the --

5 Q. What threshold did you propose in that state?

6 A. The threshold there is the -- taking the
7 amount of the capital addition and looking at it on a
8 per-customer basis as a basis for determining the extent
9 to which it moves the per-customer capital investment in a
10 specific district above the average for the state.

11 Q. And that differs from your alternative proposal
12 which would look at the percentage increase to a district?

13 A. Mine looks at the percentage impact on the
14 entire state as the threshold.

15 Q. And that's your 15 or 20 percent?

16 A. Yes.

17 MR. COFFMAN: That's all of the questions I
18 have.

19 JUDGE THOMPSON: Thank you, Mr. Coffman.

20 Mr. Franson?

21 MR. FRANSON: Briefly, Your Honor.

22 RECROSS-EXAMINATION BY MR. FRANSON:

23 Q. Mr. Stout, could you turn to schedule WRH5-2.
24 That is in the rebuttal -- schedules to the rebuttal
25 testimony of Mr. Hubbs.

1 A. Which WRH5-2?

2 Q. In St. Joseph. I'm sorry.

3 A. Yes.

4 Q. Sir, did Mr. Hubbs use block rates in figuring

5 his commodity charges in that schedule?

6 A. Yes, he did. But --

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

8 JUDGE THOMPSON: Thank you, Mr. Franson.

9 Mr. Conrad.

10 RE CROSS-EXAMINATION BY MR. CONRAD:

11 Q. Mr. Stout, Chairman Lumpe asked you about

12 elasticity of demand. I believe your response was that

13 was a short-term phenomenon; is that correct?

14 A. I indicated that most studies indicate that

15 residential elasticity is short term in nature.

16 Q. Okay. Have you ever heard, Mr. Stout, of

17 people putting bricks in a toilet tank?

18 A. I have.

19 Q. Is your testimony that after they get the lower

20 bill that they would remove the bricks?

21 A. My testimony is, is that after they get the

22 bill, they wouldn't notice any difference from having put

23 the brick in the toilet.

24 Q. Are you aware of people who install devices on

25 their shower heads to reduce the flow of water?

1 A. Yes.

2 Q. Is your testimony that the people would remove
3 those devices after a couple of months?

4 A. No.

5 Q. Are you aware of other devices that can be
6 installed in the toilet tank that will reduce the amount
7 of gallonage per flush?

8 A. Yes.

9 Q. Okay. Now, on the same elasticity point, if a
10 particular homeowner was looking at the installation of a
11 turf watering system and looked at WRH3 for St. Joseph,
12 take your pick, and chose not to install such a system
13 based on that, would that show up as an elasticity figure
14 in the study that you're talking about?

15 A. No, it would not.

16 Q. And let's talk about industrial elasticity just
17 a little bit. In the specific case of St. Joe, would you
18 see as an elasticity the change in demand that would
19 result from Quaker Oats closing its plant?

20 A. If indeed the water bill was cited as the sole
21 reason for such closure, I wouldn't consider that elastic.

22 Q. So in other words, whether something shows up
23 on your radar as a response to a price change simply
24 depends on whether that was the identified reason. Is
25 that your testimony?

1 A. That's the definition of elasticity.

2 Q. When you look at the elasticity, the change in
3 demand resulting from that change, you would see a
4 diminution in the demand for the district, though, would
5 you not?

6 A. As a result of that plant closure?

7 Q. Yes.

8 A. Yes.

9 Q. Now, in that specific case, do you have any
10 notice of an intent on the part of Quaker Oats to return
11 and reactivate that plant?

12 A. I do not.

13 Q. And in point of fact, Mr. Stout, isn't it more
14 likely to be true with respect to an industrial user that
15 resource allocations within that company would over time
16 shift to other locations where operating costs were less
17 expensive?

18 A. Yes. But that would include all operating
19 costs, many of which, such as labor and energy costs,
20 would far outweigh water costs.

21 Q. Are you suggesting that St. Joseph Light and
22 Power Company's rates are higher than anywhere else in the
23 State of Missouri?

24 A. No.

25 Q. Are you suggesting that the labor rates in St.

1 Joseph, Missouri are higher than in any other place in the
2 State of Missouri?

3 A. No.

4 MR. CONRAD: Thank you, Your Honor.

5 JUDGE THOMPSON: Thank you, Mr. Conrad.

6 Mr. Curtis?

7 RECROSS-EXAMINATION BY MR. CURTIS:

8 Q. Mr. Stout, Chair Lumpe asked you questions
9 regarding common costs and costs that could be directly
10 allocated to the districts. Do you recall that?

11 A. I do.

12 Q. Okay. And you indicated -- I wrote this down.
13 And let me ask you whether you actually -- you said that
14 there are some items of plants that are common to all of
15 the districts?

16 A. Yes.

17 Q. What do you have in mind there?

18 A. The furniture and building used for a corporate
19 headquarters.

20 Q. Oh, for headquarters. So when you use plants,
21 you use it not in a sense that it is water-delivery
22 related?

23 A. I use it in the context of the term utility
24 plant account 100 that includes capital

25 MR. CURTIS: Thank you.

1 I have nothing further.

2 JUDGE THOMPSON: Thank you, Mr. Curtis.

3 Mr. Deutsch?

4 RECROSS-EXAMINATION BY MR. DEUTSCH:

5 Q. Just one thing on the surcharge. I didn't see
6 any particular reference. I don't think it is broken down
7 in that way. But could you tell me if, in fact, your
8 surcharge proposal were adopted along with your preference
9 for STP, what would be the percent increase/decrease for
10 the City of Joplin?

11 A. If the 34.882 percent surcharge is applied to
12 the St. Joseph bills, the increase to the Joplin district
13 would be 33.28 percent. If the 48.356 percent surcharge
14 is applied to St. Joseph bills, the Joplin district
15 increase would be 28.31 percent.

16 MR. DEUTSCH: Thank you.

17 I have no further questions.

18 JUDGE THOMPSON: Thank you, Mr. Deutsch.

19 Before we begin with redirect, we'll take a
20 ten-minute recess.

21 (A RECESS WAS TAKEN.)

22 JUDGE THOMPSON: Mr. England, are you ready?

23 For those who are unfamiliar with our practices
24 here, the scope of redirect includes cross-examination,
25 questions from the Bench and recross based on questions

1 from the Bench.

2 Mr. England, please proceed.

3 MR. ENGLAND: Thank you, Your Honor, and I'll
4 try to keep it brief.

5 REDIRECT EXAMINATION BY MR. ENGLAND:

6 Q. Mr. Stout, with respect to some questions from
7 several parties, but I think most recently by Mr. Coffman
8 regarding the DSIC charge in Pennsylvania, contrasting
9 that with the surcharge that you're proposing in this
10 case, is your surcharge as proposed in this case one that
11 would be developed in the context of a general rate case?

12 A. Yes, it is.

13 Q. And is it one that would be reviewed
14 periodically in the context of a general rate proceeding?

15 A. Yes, it would be.

16 Q. Okay. Then with respect to a question I think
17 you received from Mr. Franson for the Staff regarding
18 Staff Schedule WRH5-2, I believe you answered the question
19 but it appeared that there was something else you might
20 have wanted to say but were unable to do so.

21 Is there a further clarification that you had
22 with respect to that answer?

23 A. Yes. I just wanted the record to be clear that
24 in my earlier response to questions from the Bench, I did
25 incorrectly indicate that Mr. Hubbs had developed a single

1 rate for each customer classification within each
2 district. And I just want the record to be clear that
3 although the rates that Mr. Hubbs developed for each
4 classification are in the form of a declining block, the
5 declining block rates are still different for each
6 classification within each district.

7 MR. ENGLAND: Thank you.

8 I have no other questions.

9 JUDGE THOMPSON: May this witness be excused?

10 MR. ENGLAND: We would like for that. He needs
11 to catch a plane.

12 JUDGE THOMPSON: You are excused, sir. You may
13 step down.

14 Thank you.

15 Before we go on to the next witness, there was
16 some talk yesterday about a scheduling difficulty
17 involving witness Beecher; isn't that correct?

18 And has counsel had an opportunity to discuss
19 among themselves what they would like to do with respect
20 to getting Ms. Beecher on and off?

21 MR. FISCHER: Your Honor, we haven't really
22 discussed it any further since five o'clock last night.
23 She's available any time that we'd like to put her on. If
24 you'd like to try to run some of the --

25 JUDGE THOMPSON: But she's only available

1 today?

2 MR. FISCHER: That's correct. That's correct.

3 If you'd like to try to get a couple more of
4 the company witnesses on and off, we can do that as well.
5 Our only constraint is we need to get her done by five
6 o'clock tonight.

7 JUDGE THOMPSON: Okay. Comments?

8 MR. CURTIS: Why don't we plan to start with
9 Ms. Beecher after lunch.

10 MR. FISCHER: That would be acceptable to us.

11 MR. ENGLAND: I mean, that's fine, but what if
12 we finish with Hamilton, Jenkins and Salser before then?

13 MR. CURTIS: Then we'll go right on.

14 Wishful thinking.

15 MR. ENGLAND: One can only hope.

16 JUDGE THOMPSON: I would be happy, Mr. England,
17 to see the case picked up in that way.

18 Before we start with Mr. Hamilton, one of
19 the Commissioners has some particular questions for
20 Mr. Hamilton and I will just advise that Commissioner
21 we're about to start with that witness in case he wants to
22 be here for all of that. All right?

23 (A RECESS WAS TAKEN.)

24 JUDGE THOMPSON: Mr. England, call your
25 witness, please.

1 MR. ENGLAND: I call Michael Hamilton to the
2 stand.

3 (Witness sworn/affirmed.)

4 JUDGE THOMPSON: Please take your seat and
5 spell your name for the reporter, if you would, please?

6 THE WITNESS: My name is Michael J. Hamilton,
7 H-a-m-i-l-t-o-n.

8 JUDGE THOMPSON: Please proceed, Mr. England.

9 MICHAEL J. HAMILTON testified as follows:

10 DIRECT EXAMINATION BY MR. ENGLAND:

11 Q. Mr. Hamilton, would you also state your
12 business address for the record, please?

13 A. Yes. My business address is Price Waterhouse
14 Coopers, LLP, 1301 Avenue of the Americas, New York,
15 10019.

16 Q. By whom are you employed and in what capacity,
17 Mr. Hamilton?

18 A. I'm a partner in the international accounting
19 firm of Price Waterhouse Coopers, and I am the North
20 American theater leader for utility practice.

21 Q. Mr. Hamilton, have you caused to be prepared a
22 document that has been titled surrebuttal testimony of
23 Michael J. Hamilton?

24 A. I have.

25 Q. And it's my understanding that that has been

1 marked for purposes of identification in this proceeding
2 as Exhibit No. 3. With reference to that document, sir,
3 do you have any changes or corrections that need to be
4 made to it at this time?

5 A. I do not.

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

9 A. They would.

10 Q. And are those answers true and correct to the
11 best of your knowledge, information and belief?

12 A. They are.

13 MR. ENGLAND: Thank you, sir.

14 I have no other questions of Mr. Hamilton, and
15 would offer Exhibit No. 3 at this time and tender the
16 witness for cross-examination.

17 JUDGE THOMPSON: Any objections to the receipt
18 of Exhibit No. 3?

19 MR. COFFMAN: Yes, Your Honor.

20 I would object to the surrebuttal testimony
21 of Mr. Hamilton as violating the Commission's rule on
22 evidence referring to surrebuttal testimony.

23 I believe that it is improper rebuttal
24 testimony in violation of 4 CSR 24-2.130(7)(D). It states
25 that surrebuttal testimony shall be limited to material

1 that which is responsive to matters raised in other
2 parties' rebuttal testimony. Mr. Hamilton's prepared
3 testimony refers to four other witnesses: Mr. Trippensee,
4 the Public Counsel witness, who filed no rebuttal
5 testimony; Mr. Bush, also another Public Counsel witness,
6 who filed rebuttal testimony but in it only commented on
7 the phase-in proposal in Staff's direct testimonies, an
8 issue that had already been raised.

9 Mr. Rackers is the third witness he refers to.
10 That rebuttal testimony relates only to phase-ins relating
11 to districts other than the St. Joseph district, and
12 Mr. Hamilton's testimony refers to phase-ins in the
13 St. Joseph district.

14 And fourthly, Mr. Hamilton's testimony does
15 refer to Mr. Merciel's testimony -- rebuttal testimony in
16 the regard that he -- that Mr. Merciel proposes that
17 excess capacity adjustment. However, none of the
18 questions and answers contained within Mr. Hamilton's
19 surrebuttal refer exclusively to that. They are
20 predominantly referring to phase-ins and not Mr. Merciel's
21 adjustment.

22 JUDGE THOMPSON: Mr. England, would you like to
23 respond -- or Mr. Franson?

24 MR. FRANSON: Your Honor, the Staff would join
25 in that objection for the reasons stated.

1 MR. ENGLAND: Yes, sir, I would like to
2 respond.
3 JUDGE THOMPSON: Anyone else want to get on
4 that train?
5 MR. CONRAD: St. Joseph Industrial will join in
6 that also.
7 MR. DEUTSCH: The City of Joplin will also join
8 in that objection.
9 MR. COFFMAN: Your Honor, I do need to, I
10 guess, correct my earlier statement. Mr. Trippensee did
11 file rebuttal on behalf of the Office of Public Counsel
12 but that rebuttal did not contain any phase-in or previous
13 disallowance testimony.
14 JUDGE THOMPSON: Did the rest of you want to
15 join in his correction?
16 MR. DEUTSCH: I join in that correction.
17 MR. FRANSON: Staff joins in the correction
18 too.
19 MR. CURTIS: We will join in the motions and
20 the correction.
21 JUDGE THOMPSON: Well, you know, my little box
22 isn't big enough to get all of you in there, so we'll just
23 have to remember that.
24 Mr. England?
25 MR. ENGLAND: With respect to that correction,

1 my rebuttal testimony of Russell Trippensee, the only
2 issue it does address is phase-in. Mr. Hamilton's
3 testimony is offered to explain the accounting treatment
4 that the company believes it will have to follow pursuant
5 to generally accepted accounting principles and financial
6 accounting standards for it with regard to certain
7 phase-ins that have been proposed by parties, as well as
8 certain plant disallowances that have been proposed by
9 parties.

10 Admittedly some of the phase-ins, some of the
11 plant's disallowances were addressed in direct testimony
12 and Mr. Jenkins attempted to respond to that in his
13 rebuttal testimony. But in addition, as Mr. Coffman has
14 noted, Staff has continued to discuss the phase-in
15 proposal in its rebuttal testimony, Mr. Trippensee
16 discusses the phase-in proposal of his office in his
17 rebuttal testimony, Mr. Merciel discusses the plant
18 disallowance which for the first time appears in his
19 rebuttal testimony. I believe, therefore, that
20 Mr. Hamilton's testimony is proper surrebuttal to those
21 rebuttal testimonies.

22 I also would point out that Mr. Trippensee
23 in his surrebuttal testimony, without the benefit of
24 Mr. Hamilton's testimony, attempts to offer the same
25 opinion with respect to the Financial Accounting Standard

1 Board's standards that have been cited in this case and
2 what he believes are appropriate conclusions or opinions
3 to be drawn from that.

4 So if nothing else, I think that in light of
5 Mr. Trippensee's testimony, this testimony is certainly
6 relevant.

7 JUDGE THOMPSON: A rejoinder, Mr. Coffman?

8 MR. COFFMAN: Yes. I believe that the rule
9 states that it addresses matters that were raised, that
10 is, brought up for the first time in rebuttal testimony.
11 And these references to phase-ins the rebuttal witnesses
12 purported to be responding to were merely addressing
13 issues that had actually been raised in direct.

14 The company did actually address the phase-in
15 proposal through its witness, James Jenkins, so they did
16 have an opportunity. Mr. Hamilton is a witness who came
17 in only in surrebuttal and we've not had an opportunity to
18 then prepare testimony in response to his testimony.

19 So it has the element of unfairness and that is
20 he's come in only as a surrebuttal. The company already
21 had an opportunity and did so file testimony on phase-ins
22 through another witness.

23 JUDGE THOMPSON: Have you filed a motion
24 seeking leave to supplement your surrebuttal or in some
25 other way to respond to Mr. Hamilton's testimony?

1 MR. COFFMAN: No, Your Honor.

2 JUDGE THOMPSON: Well, despite the great weight

3 of learned counsel joining in the objection, the objection

4 is overruled.

5 Please proceed.

6 MR. FINNEGAN: Your Honor, I have another

7 objection.

8 JUDGE THOMPSON: Yes, sir.

9 Mr. Finnegan?

10 MR. FINNEGAN: I move to strike the testimony

11 on page 7, starting at line 10 through 30, or 29 actually.

12 JUDGE THOMPSON: Page 7, 29 through 30?

13 MR. FINNEGAN: No. Lines -- yeah, page 7,

14 lines 10 through 29.

15 JUDGE THOMPSON: Oh, okay.

16 MR. FINNEGAN: And basically the question is

17 regarding -- or the answer given by Mr. Hamilton is --

18 appears to speak for the Securities Exchange Commission

19 and the FASB Board, which is pure hearsay and why the

20 Securities Exchange Commission did something and is

21 completely hearsay, irrelevant.

22 MR. CURTIS: We'll join in that objection, Your

23 Honor.

24 JUDGE THOMPSON: Mr. England?

25 MR. ENGLAND: Again, Mr. Hamilton is being

1 offered as an expert witness in the field of accounting,
2 and I believe statements by not just the Financial
3 Accounting Standards Board but the Securities and Exchange
4 Commission are integral to his opinion. And to the extent
5 he relies on statements that they issue, opinions that
6 they issue, proceedings that they have, that all goes to
7 the weight of his expert opinion. It's not hearsay.

8 MR. FINNEGAN: He purports to speak for the SEC
9 as to why they did something. In fact, one says, the
10 concept of the SEC was, parenthesis, and remains today a
11 concern. He's not a member of the SEC. I don't think he
12 can speak for that board.

13 MR. ENGLAND: His whole profession and his work
14 is involved in dealing with the SEC on a day-to-day basis.
15 Clients rely on that opinion, his interface with these
16 agencies, with these boards. It's all integral to his
17 opinion and the opinion that he gives to his clients, and
18 any expert opinion that he's being offered for here today.

19 MR. FINNEGAN: It's also irrelevant, Your
20 Honor. Why the SEC did something or why they did not do
21 something is irrelevant to this proceeding.

22 JUDGE THOMPSON: Okay. Would you like to
23 respond to the relevancy objection?

24 MR. ENGLAND: Well, I think the relevancy is to
25 his overall opinion as to why -- we do have testimony or

1 will have testimony in the case that -- at least that
2 these standards are not applicable, that the company is
3 not required to do what it thinks it will have to do if
4 certain disallowances are approved.

5 I think the Commission needs to understand the
6 consequences of some of the actions that are being
7 recommended here. And I think this just -- it bolsters or
8 further identifies the reasons for the rule, the
9 accounting rule that is, and why it was adopted and why
10 we've interpreted it the way we've interpreted it.

11 JUDGE THOMPSON: First of all, with respect to
12 your hearsay objection, it is my sense after reading the
13 testimony in question that it represents the expert
14 opinion of an accountant as to why certain standards were
15 developed, what the effect was intended to be and what the
16 effect is. Consequently, I do not see that as hearsay in
17 that I do not believe the witness is purporting to quote
18 the SEC. Consequently, the hearsay objection is
19 overruled.

20 As to the relevancy objection, I'm going to
21 permit this testimony to come in and I hope, Mr. England,
22 you'll point me to where it is directly relevant.

23 MR. ENGLAND: Now or in my brief?

24 JUDGE THOMPSON: I will let do you it in your
25 brief

1 MR. ENGLAND: Okay. Thank you.

2 JUDGE THOMPSON: Thank you.

3 So please proceed.

4 MR. ENGLAND: The exhibit has been received; is

5 that correct?

6 JUDGE THOMPSON: I was just coming to that.

7 The objections being overruled, Exhibit No. 3 is received

8 and made a part of the record in this, and you have now

9 tendered the witness?

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

11 MR. ENGLAND: If I have not done so already, I

12 tender the witness for cross-examination.

13 JUDGE THOMPSON: Okay.

14 Let's see. I believe Mr. Fischer.

15 MR. FISCHER: No questions, Your Honor.

16 JUDGE THOMPSON: Mr. Zobrist?

17 MR. ZOBRIST: No questions.

18 JUDGE THOMPSON: Mr. Coffman?

19 MR. COFFMAN: Yes. I think I have a couple.

20 CROSS-EXAMINATION BY MR. COFFMAN:

21 Q. Mr. Hamilton?

22 A. Yes, Mr. Coffman.

23 Q. You have a copy of the prepared testimony of

24 the rebuttal of Mr. Trippensee?

25 A. The surrebuttal or the rebuttal?

1 Q. The rebuttal.

2 A. I don't seem to have that with me, no.

3 Q. Have you read the prepared rebuttal of

4 Mr. Trippensee?

5 A. Yes.

6 Q. Okay. Did Mr. Trippensee address in his

7 testimony any of the -- any issue regarding prudently

8 incurred expenses?

9 A. I re-reviewed all of the testimony yesterday.

10 I reviewed Mr. Trippensee's testimony several weeks ago.

11 I can't recall whether did he or not.

12 Q. Okay. Have you reviewed Staff Witness

13 Mr. Rackers' rebuttal testimony?

14 A. I have, yes.

15 Q. Okay. And that rebuttal testimony does not

16 refer to a phase-in with regard to the St. Joseph

17 district, does it?

18 A. He doesn't specifically address the phase-in,

19 the phase-in of the St. Joseph plant.

20 MR. ENGLAND: Excuse me. And I'm sorry to

21 interrupt, John.

22 But Russ Trippensee's rebuttal testimony was

23 mismarked as direct testimony. And this witness may, in

24 fact, have that and may not be aware of the correction to

25 the title.

1 JUDGE THOMPSON: Good point.

2 MR. COFFMAN: That may have been what confused
3 me earlier. Yeah, I believe we did send out corrected
4 cover sheets on the original. A few parties received
5 copies that had direct on it. It would be a yellow --
6 there would be a yellow sheet.

7 THE WITNESS: All I got was copies. I didn't
8 get anything with colors.

9 MR. ENGLAND: The top right-hand corner
10 will let you know, after. Witness/type, it will say
11 Trip/rebuttal.

12 MR. COFFMAN: No. I think I can move on and
13 avoid this confusion in another question. If I have to go
14 back to that, I'll let you see a copy.

15 BY MR. COFFMAN:

16 Q. Let me direct you to your prepared surrebuttal
17 testimony marked as Exhibit 3, page 5, line 6.

18 A. I'm there.

19 Q. Could you read for me the sentence beginning a
20 phase-in would?

21 A. A phase-in would require the company to
22 recognize a loss in any period full recovery is not
23 provided for.

24 Q. Are there any instances in which a deferral
25 can be authorized by the Public Service Commission and,

1 therefore, recorded by the company in a way that would be
2 recognized by generally accepted accounting principles?

3 A. Yes. But not in this particular case
4 unfortunately.

5 Q. And why do you believe it would not be
6 appropriate in this particular instance?

7 A. As in the testimony that I looked at, it's
8 clear that what is driving the revenue requirement in this
9 case is the in-service of the St. Joseph water treatment
10 plant. And in sum and substance, that fits very neatly
11 into the Financial Accounting Standards No. 92 phase-in
12 plans, accounting for phase-in plans, and would not permit
13 deferrals related to that to be recorded.

14 MR. COFFMAN: Okay. And excuse me just a
15 minute.

16 JUDGE THOMPSON: Do you need a few moments,
17 Mr. Coffman?

18 MR. COFFMAN: No. I think I'm ready to
19 proceed.

20 JUDGE THOMPSON: Okay.

21 BY MR. COFFMAN:

22 Q. And by your testimony that this instance is
23 somehow not a situation where a deferral could be recorded
24 by this company, are you referring to public counsel's
25 phase-in proposal or the phase-in proposal of another

1 party?

2 A. Either. I mean, as I understand the phase-in
3 proposals, they seem to have changed slightly in
4 character. I believe the Staff has got a phase-in
5 proposal for the St. Joseph's plant. That was pretty
6 clear in the testimony.

7 I believe from reading other things, including
8 Mr. Trippensee's surrebuttal testimony, that they're --
9 they're saying it's not a phase-in of the plant; it's
10 really a phase-in of the revenue requirement.

11 And what I'm saying is that I have looked at
12 the facts. Ultimately it is my decision as the audit
13 partner on American Waterworks as to what can be recorded
14 in their financial statements. And I looked at the facts
15 and my conclusion is, is that whether we defer the revenue
16 requirement or we call it a deferral of the revenue
17 requirement or we call it a deferral of cost related to
18 phase-in of the St. Joseph plant, in sum and substance
19 it's the same thing.

20 Q. But you do recognize the Public Counsel's
21 phase-in is not a phase-in of the St. Joseph plant?

22 A. I disagree with that.

23 Q. Okay. Public Counsel has phase-ins recommended
24 for four separate districts. Correct?

25 A. I believe so, yes.

1 Q. Okay. Apart from the St. Joseph district, what
2 do those phase-ins have to do with the St. Joseph plant?

3 A. Well, it appears that you look at the total
4 revenue requirement and then how you choose to establish
5 your rates to be charged at seven different districts is
6 separate and apart from how you determine the revenue
7 requirement. And, again, you look at cost of the
8 St. Joseph's plant; you look at the size of the deferrals.
9 It's clear that the deferrals relate substantially to the
10 in-service of the St. Joseph's plant.

11 Q. You understand Public Counsel's rate design is
12 essentially a district-specific recommendation?

13 A. Frankly in my judgment -- in making my
14 judgments with respect to the proper accounting, the rate
15 design is somewhat irrelevant to me.

16 Q. You do recognize, don't you, that Public
17 Counsel's revenue requirement is district specific?

18 A. I do.

19 Q. And the St. Joseph plant is specific only to
20 the St. Joseph district. Correct?

21 A. As I understand the proposal, that's correct.

22 MR. COFFMAN: No further questions.

23 JUDGE THOMPSON: Thank you, Mr. Coffman.

24 Mr. Franson?

25 MR. FRANSON: Thank you, Your Honor.

1 CROSS-EXAMINATION BY MR. FRANSON:

2 Q. Mr. Hamilton, isn't it true as part of your --
3 any audits you do and as part of your consideration of
4 this proposal that you only considered the impact that
5 these phase-in proposals would have on the company's
6 books. Isn't that true, sir?

7 A. Yes.

8 Q. And you didn't consider any social concerns or
9 other policy matters such as rate shock, which would be a
10 concern in rate design?

11 A. Unfortunately, that's not within the scope of
12 my responsibilities. No, I did not do that.

13 Q. Sir, could you turn to page 4 and 5 -- actually
14 page 5 of your testimony?

15 A. I am there.

16 Q. Okay. Mr. Coffman had you read a sentence
17 earlier, I believe, that was at line 6 through 7. It
18 said, a phase-in would require the company to recognize a
19 loss in any period for recovery that is not provided for.
20 I'm talking about specifically now the phase-in of the
21 revenue, not anything to do with any disallowance on the
22 St. Joe plant.

23 And then could you turn to page 9, at lines 2
24 through 4, where it reads, in other words, Missouri
25 American would not be permitted to recognize for

1 accounting and reporting purposes the deferrals of cost
2 ordered by the regulator for recovery in future periods.

3 Sir, what I'm reading at one point is, if there
4 is a phase-in, there would be an immediate write-off. Is
5 that what you're saying on page 5? And then on page 9
6 you're saying that they wouldn't be recognized?

7 A. Well, the way the accounting for a phase-in
8 works is that -- as I understand it, and these numbers may
9 not being exactly right -- but there would be a deferral
10 in the first year of approximately \$8 million. That
11 deferral would not be permitted to be recorded in the
12 Missouri American in that particular year and, therefore,
13 there would be an after-tax loss of whatever the after-tax
14 effect of the \$8 million was in the books that year.

15 Q. But, sir, there would not, in fact, be a
16 write-off. That would, in fact, be unrecognized income?

17 A. You can look at it that way, yes. Well, you
18 say it's not income. What it would be is recognized
19 expenses. You wouldn't be allowed to defer the expenses
20 that would presumably be attendant to the phase-in plan.

21 Q. Well, what I'm asking is, there is \$8 million
22 under -- that you would recover in future years. You
23 cannot recognize that on your financial statements as
24 income. Correct?

25 A. Correct. Until it was recovered, you cannot

1 recognize it.

2 Q. Okay. Then accordingly, you cannot recognize
3 expenses that go with that. Isn't that also correct?

4 A. No. You would recognize the expense in the
5 income statement in the year the expenses were incurred.

6 Q. But that expense would not be the \$8 million?

7 A. Yes, it would. It would be the after-tax
8 effect of the \$8 million.

9 Q. Okay. Sir, how much influence do you have over
10 the audit of the Missouri American Water company?

11 A. As the overall audit partner on American
12 Waterworks, the audit partners that sign some of the
13 individual accounts are required to clear all the
14 significant accounting issues with me and get my
15 concurrence with respect to the accounting for those
16 issues.

17 Q. Fair to say that you have substantial influence
18 and are the overall supervisor of the final audit?

19 A. Yes.

20 Q. And the mechanisms that go with it?

21 A. Yes.

22 Q. Sir, I believe you indicated earlier that your
23 testimony and how the company would deal under the
24 generally accepted accounting procedures with the phase-in
25 would not really be affected by whether there is a single

1 tariff or whether there is a district specific or other
2 type of rate design?

3 A. Yeah. The rate design wouldn't affect my
4 conclusion. The ultimate revenue requirement is really
5 what we look to.

6 Q. Now, whether the deferrals in the -- are
7 permitted to be recorded, if the company -- on the
8 company's financial statements, isn't it true that a
9 Commission-ordered phase-in could be put in footnotes or
10 otherwise discussed in the financial statements?

11 A. Yes.

12 Q. And would that discussion include any comments
13 that it was, in fact, ordered by the Missouri Public
14 Service Commission and some explanation thereof?

15 A. Yes.

16 Q. Sir, when you do the financial statements do
17 you, in fact, prepare the financial statements for
18 Missouri American?

19 A. They're prepared by Missouri American. We
20 audit the prepared financial statements.

21 Q. And, sir, as part of that process, is there any
22 distinction made for the various properties -- we'll call
23 them the water districts -- of Missouri American as to
24 their specific revenue and specific expenses of each
25 district?

1 A. For financial statement purposes generally not,
2 no.

3 Q. Sir, is there any mechanism or procedure you
4 can envision which you could utilize that would allow the
5 company to recognize deferrals on its financial statements
6 for the delay in the immediate recognition of the revenue
7 requirement?

8 We'll start with the St. Joe treatment plant.

9 A. No.

10 Q. And would that be equally true for any other
11 capital improvements made in any of the other districts?

12 A. To the extent that capital improvements were
13 being phased-in, we would look at the -- we would look at
14 the revenue requirement that was being deferred and we
15 would not be -- not be able to defer those, no.

16 Q. Is the revenue requirement any kind of driving
17 factor in that decision?

18 A. Well, it's a driving factor to this extent,
19 that to the extent that the company goes into a rate
20 case and, you know, they have a proposal on the table and
21 that -- and generally the proposal that a company has in a
22 rate case is not necessarily the amount that ultimately is
23 approved in a given case. We have to look at the reasons
24 for the decrease in the revenue requirement to understand
25 the accounting effects.

1 In this particular case, because there is a
2 phase-in of rates, my sole point is that to the extent
3 there is a phase-in of rates, we don't have the basis to
4 defer that under any of the applicable generally accepted
5 accounting principles and, therefore, we wouldn't be able
6 to record that in the financial statements of Missouri
7 American.

8 To the extent that they chose to disclose the
9 fact that there is a phase-in plan in place that they
10 weren't able to account for under generally accepted
11 accounting principles is their decision in terms of what
12 would be disclosed in the financial statements. They
13 could do that if they chose to do that.

14 Q. Sir, isn't it true that the purpose of
15 financial statements, especially in the situation of
16 Missouri American where they are owned by a holding
17 company, is to reflect the financial condition to the --
18 of the company to shareholders?

19 A. No. Because Missouri American has outstanding
20 public debt and so the debt holders and -- are interested
21 as well as measuring -- all of the debt has covenants that
22 have to be met. And so the company is as interested in
23 reporting to the debt holders and the banks as they are to
24 reporting to American Waterworks.

25 Q. As well as bond holders?

1 A. Well, I'm looking at bond holders and debt
2 holders as the same.

3 Q. Sir, would it change your view in any way if
4 the company, Missouri American, had to -- was looking at a
5 district-specific pricing system and that was ordered by
6 the Missouri Commission and there was a phase-in in each
7 of the districts due to capital improvements and other
8 reasons that they need a rate increase? Would that change
9 how you could look at losses and how you would have to
10 deal with a phase-in proposal?

11 A. No.

12 Q. Would it change if it was due exclusively to
13 the shift in revenue from a district -- from a change from
14 single tariff to district specific?

15 A. No.

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

18 JUDGE THOMPSON: Thank you, Mr. Franson.

19 Mr. Conrad?

20 MR. FINNEGAN: I'll be handling this for --

21 JUDGE THOMPSON: Okay.

22 Mr. Finnegan?

23 CROSS-EXAMINATION BY MR. FINNEGAN:

24 Q. Good morning, Mr. Hamilton. I'm Jerry
25 Finnegan.

1 A. Good morning.

2 Q. You're not a member of the Securities Exchange
3 Commission?

4 A. I am not, no.

5 Q. You never have been?

6 A. I never have been.

7 Q. Are you in daily contact with them?

8 A. Not daily, but I'm in contact with them fairly
9 often, yes.

10 Q. Were you in contact with them when you stated
11 on page 7 that the concept of the SEC was, paren, and
12 remains today a concern?

13 A. Well, I was at the time of the -- that that
14 statement was made, I was working for Potomac Electric
15 Power Company and I was a member of -- they were a member
16 of the Edison Electric Institute and I was their designee
17 on the accounting committee so that I actually wrote or
18 participated in writing the Edison Electric Institute
19 response to the proposals that ultimately became FAS 90
20 and 92.

21 I wrote the response to the Edison Electric
22 Institute to the technical bulletin that amends some of
23 the exhibits in FAS 90. I attended the four days of
24 public hearings, and so I felt that I was -- having done
25 all of that and having been enmeshed in that process, that

1 I had -- just giving my experience and my discussions with
2 other people that were involved, as well as listening to
3 the testimonies of the SEC people in that case and
4 listening to speeches they made around that time, I felt
5 comfortable in making that statement that you're alluding
6 to.

7 Q. And when was that?

8 A. That would have been in '86 and '87.

9 Q. And this is the year 2000?

10 A. It is indeed.

11 Q. And have you known commissions to change their
12 minds over various matters?

13 A. I have found the commission will change its
14 mind and generally go from being more liberal to stricter.
15 And, in fact, my statement with respect to their
16 continuing concern about regulatory assets is my personal
17 experience in dealing with them in regard to regulatory
18 assets and speeches they have made that I have listened
19 to.

20 Q. Do FASB -- I'm sorry -- the financial
21 accounting standards board, that's the FASB, it meets
22 occasionally; is that not true?

23 A. Well, it's a full-time board. It meets
24 periodically in open session, yes.

25 Q. Does it ever change its regulations or whatever

1 they're called, standards?

2 A. It does change them on occasion, yes.

3 Q. So it's possible that 90 and 92 could change
4 sometime?

5 A. I would suspect not. Particularly FAS 92,
6 which deals with phase-in plans. It was very clear in all
7 of the discussion that went on before this was -- was put
8 up, that the FASB did not believe that FAS 71, which is
9 the operative literature for accounting for regulation by
10 rate-regulated entities allowed phase-in plans to be
11 accounted for the way they had -- at the time were being
12 accounted for.

13 They put out this standard which basically was
14 an exception to the accounting under FAS 71, but they
15 sunset the standard because, first, they didn't believe
16 that the problem was going to exist beyond the nuclear
17 generating station issue that really was the genesis of
18 the issue.

19 And secondly, they just didn't -- they just
20 fundamentally didn't like the accounting of a phase-in
21 plan. So I would be very surprised -- in my professional
22 opinion I would be very surprised if they were to -- to
23 change the phase-in literature.

24 Q. But assuming that phase-ins continue, what
25 would happen in the second year of a phase-in? You say

1 you write everything off the first year.

2 A. Well, it's not --

3 Q. So what is going to happen the second?

4 A. It's not exactly like you write it off. You
5 just -- you would depreciate the plants. You would do
6 everything. The expenses would be in the income statement
7 and they would be what they were. In the second year the
8 same thing would occur.

9 Q. The expenses would be greater or less?

10 A. Well, they would probably be the same. I mean,
11 you're going to straight line the depreciation on the
12 plant.

13 Q. But the income would be greater?

14 A. The income probably would be -- would certainly
15 be greater because as I understand the phases-in, there
16 would be some rate increases at some point in the phase-in
17 process to collect the amounts previously deferred, so
18 that over time the income would increase, yes.

19 Q. And you're saying that even if a commission
20 issued an order, report and order in which it indicated
21 that the rates will be X in Year 1, X plus one in Year 2,
22 X plus two in Year 3, it cannot be recognized at any time
23 or anything on the financial statement of the company?

24 A. That's what I'm saying, yes.

25 Q. Not even in the second year when the rates are

1 X 1 and the third year when it's at X 2?

2 A. That's correct.

3 Q. They couldn't have a footnote?

4 A. They could certainly disclose that in the
5 financial statement and I'm fairly certain they would do
6 that, yes.

7 Q. Would it be true if the company had an
8 accounting authority order from a commission saying the
9 rates will go up every year?

10 A. In this particular case, because it's so on
11 point with the literature, I would say yes, that is true.

12 Q. With respect to the disallowances of plant?

13 A. Yes.

14 Q. You're saying that if a commission were to
15 disallow a portion of a plant because it were -- they
16 found it to be imprudent, that it wouldn't matter. As far
17 as you're concerned it's going to show as a loss to the
18 company in the books that year; is that correct?

19 A. Correct.

20 Q. Even if it were an imprudent investment?

21 A. Correct.

22 Q. Even if they had built a \$20 million palatial
23 house for one of their employees or their CEO and it was
24 clearly an imprudent investment, that doesn't matter to
25 how you treat it?

1 A. Well, if the Commission says that they're
2 excluding it from consideration in the case, it's written
3 off at the time that the Commission makes that decision,
4 yes.

5 Q. But the Commission could go ahead and make that
6 decision anyway, can't they? They're not bound by this
7 standard.

8 A. I think that you put the cart before the horse,
9 sir.

10 Q. Well --

11 A. The Commission will make the decision as to
12 whether something is prudent or imprudent. Once that
13 decision is made, the accounting will follow the
14 Commission's decision in that regard.

15 MR. FINNEGAN: That's all of the questions.

16 JUDGE THOMPSON: Thank you, Mr. Finnegan.

17 Mr. Curtis?

18 CROSS-EXAMINATION BY MR. CURTIS:

19 Q. Yes, good morning, Mr. Hamilton.

20 A. Good morning.

21 Q. I'm Mr. Curtis. I represent various
22 municipalities and industrial intervenors.

23 Would you say it is generally accepted
24 accounting practice for utilities to write off a plant's
25 investment that is found to be imprudent by regulatory

1 commissions?

2 A. I'm sorry. Could you repeat that, sir?

3 Q. Is it generally accepted accounting practice
4 for utilities to write off plant that has been found
5 imprudent?

6 A. If it's been found imprudent by a commission,
7 yes.

8 Q. Yes.

9 A. Yes.

10 Q. And are you aware that public utility
11 commissions do from time to time disallow plant as
12 imprudent?

13 A. I am.

14 Q. If Missouri American Water wrote off the
15 30 million of plant investment in St. Joe because this
16 Commission were to find it imprudent, is it correct that
17 the write-offs impact on the company's common equity
18 balance would be reduced by an income tax reduction due to
19 that write-off?

20 A. Yes.

21 Q. Okay.

22 A. Although I might say, though, that the answer
23 to your question is yes. However, it would be a deferred
24 income tax because the company would get a deduction for
25 that property over the existing remaining life of the

1 property. It's not a one time.

2 Q. It's not a one time?

3 A. A deduction in the tax return in the year in
4 which the disallowance was incurred.

5 Q. And you also testified, I believe, that any
6 revenue requirement deferral that would be part of a
7 phase-in would also need to be written off by the company?

8 A. Well, to be perfectly clear, what I'm saying is
9 they can't defer the amount. So, therefore, by
10 definition, it is written off in that year because those
11 expenses are incurred and expensed in that particular
12 year. So the effect is the same. It's not like they
13 defer them and then they come back and they write them
14 off. They just never defer them in the first place.

15 So the effect is the same. It's just done a
16 little bit differently.

17 Q. Now, as that deferred income is earned over the
18 phase-in period, it is then booked by the company?

19 A. That is correct.

20 Q. Okay. And that has the effect over the
21 phase-in period of having -- of reversing the entry; is
22 that correct?

23 A. Substantially, yes.

24 MR. CURTIS: I have nothing further.

25 JUDGE THOMPSON: Thank you, Mr. Curtis.

1 Mr. Deutsch?

2 MR. DEUTSCH: No questions.

3 JUDGE THOMPSON: We're going to take a
4 ten-minute recess, and I believe Commissioners will return
5 for questions from the Bench. Thank you.

6 (A RECESS WAS TAKEN.)

7 JUDGE THOMPSON: We're ready now for questions
8 from the Bench.

9 Commissioner Murray?

10 COMMISSIONER MURRAY: I'm going to pass.

11 Thank you.

12 JUDGE THOMPSON: Okay.

13 Commissioner Schemenauer?

14 COMMISSIONER SCHEMENAUER: Thank you, Your
15 Honor.

16 QUESTIONS BY COMMISSIONER SCHEMENAUER:

17 Q. Good morning.

18 A. Good morning, Commissioner.

19 Q. And if I ask some questions on your testimony
20 that you've already been cross-examined on, I apologize --

21 A. That's quite all right.

22 Q. -- for not being in here.

23 On page 3 of your -- at the top it's
24 surrebuttal, you use the words "specifically, I want to
25 explain that generally accepted accounting standards

1 prohibit Missouri American from recording the regulatory
2 assets for the revenue deferrals that would result," et
3 cetera.

4 My question is, does GAAP allow any entity to
5 record an asset based on revenue deferrals?

6 A. Yes, they do.

7 Q. And in what case? Can you give me an example?

8 A. Well, I think that to the extent -- well, you
9 say revenue deferrals. It's sort of -- the flip side of
10 that coin is cost deferrals. So whether it's a revenue
11 deferral or a cost deferral, you tend to get the same
12 impact in the financial statements. But, I mean, there
13 are other costs in the regulatory process that are
14 deferred for future collection.

15 For instance, to the extent that this
16 Commission permitted flow-through taxes to be used in
17 revenue requirement determinations and then went to
18 permitting the deferral method, there would be some
19 uncollected taxes that are deferred, certain things like
20 in some -- I don't know what Missouri is in this case.
21 But storm damage sometimes gets deferred and spread over
22 two to four years. The same thing with rate case expense.

23 Q. But those -- the deferral is being allowed on
24 those things and your language says a regulatory asset for
25 the revenue deferrals.

1 I'm trying to -- I'm trying to imagine how any
2 company can book an asset on a deferred revenue that they
3 may expect to come in in five years.

4 A. well, I think the further away you get from the
5 period of time that that deferral was recorded, the -- the
6 less certain you are of the collection of that. That is
7 certainly true.

8 Q. Okay. On page 5 on lines 1 and 2, you state,
9 if the Missouri Commission were to accept any of these
10 proposals, there would be an immediate write-off required
11 for the deferrals created through the phase-in plan.

12 Now, what would be written off if we had a
13 phase-in on the rate increases? What would the company
14 write off just on that? I'm not talking about the
15 disallowance of any plan.

16 A. Right. As I explained earlier -- I don't think
17 you were here, sir, the -- what the company would do is,
18 they would depreciate their plants; they would record all
19 of the expenses that they would normally, and the --
20 and effectively, they would be -- as I understand it in
21 one of the proposals, I believe, the first year of the
22 phase-in proposal would be an \$8 million deferral.

23 That deferral would not be recorded; in other
24 words, those expenses would go through the income
25 statement. There would be no attendant revenue and the

1 full impact of that would affect net income in that
2 particular year.

3 Q. But the revenue just wouldn't be recorded.
4 There wouldn't be any write-off. There would be no
5 immediate write-off. I mean, they would not record the
6 revenue because it's not coming in.

7 A. But the expenses that are attendant to that
8 revenue would be recorded.

9 Q. And they're always recorded. Right?

10 A. Generally. Unless there is a specific deferral
11 order for something.

12 Q. But I mean -- okay.

13 And then in line 6 through 9, you say a
14 phase-in would require the company to recognize a loss of
15 any period of full recovery not provided for, thus the
16 economic effect of adopting either a phase-in plan -- and
17 I'm not going to talk about plant use at all, because I
18 agree with you there.

19 But if the Commission adopted a phase-in plan
20 for rate increase, I mean, the stock may reflect an
21 economic effect, but certainly the books aren't going to
22 show anything immediately. They just will be recording
23 less revenue because of the phase-in of the rate increase.
24 Isn't that right?

25 A. That's right, except that there are -- in order

1 to get the additional revenues that they otherwise would
2 have recorded, there are expenses in the books that --
3 that are consistent with those revenues. Those expenses
4 would still be recorded.

5 Q. Isn't that always the case? I mean, if we have
6 a rate case come in and we don't give them the full
7 amount, those expenses are still there. They just don't
8 record the revenues because they weren't given the rate
9 increase they asked for. Is that the same thing?

10 A. Well, potentially. It depends what it is and
11 the revenue requirement that led to not getting a full
12 amount of revenues that the company requested.

13 For instance, if a company came in and asked
14 you for a 13 percent return on equity, and after hearing
15 all of the testimony the Commission decided 11 1/2 percent
16 was the correct return on equity for the company, that
17 would substantially reduce the revenue requirement, but
18 that would not produce the loss in the income statement.

19 If the Commission came in and said, we're not
20 going to give you revenues to cover a certain cost, the
21 company would still record that cost. They wouldn't have
22 revenues related to that and, as a result, net income
23 would be reduced by the amount of that cost. And that's
24 effectively what would happen here.

25 Q. We do that all of the time. I mean, we audit

1 the company's books and we disallow a whole lot of their
2 expenses.

3 A. Right.

4 Q. And they still have the expense?

5 A. That's true.

6 Q. But they don't write anything off? I mean,
7 they just have to eat them?

8 A. Well, but that's effectively what they would be
9 doing under the phase-in proposal. They would be eating
10 those expenses because they couldn't --

11 Q. Correct.

12 A. -- record the deferred revenue or the deferred
13 expenses, however you choose to look at it, so that the
14 economic effect on them on that particular year would be
15 diminished net income to the extent of the phased-in
16 revenue.

17 Q. Okay. On page 6, lines 28 and 29, in
18 addition -- and I'm quoting here your testimony.

19 In addition, regulatory decisions should be
20 made based on the economic facts of the entity that is
21 regulated by the Missouri PSC and not some other entity.
22 And could you tell me what you're referring to.

23 Who is the other entity? The ratepayers?

24 A. American Waterworks.

25 Q. That's the regulated entity.

1 A. Well --

2 Q. You say it should be based on economic -- on
3 the economic facts of the entity that is regulated by the
4 Missouri PSC and not some other entity. Who is the other
5 entity that you're referring to?

6 A. Well, in this case I was referring to the fact
7 that there is Missouri American and their parent company,
8 American Waterworks, and that any decisions with respect
9 to Missouri American ought to be made solely on Missouri
10 American as a stand-alone entity without any consideration
11 of --

12 Q. From the parent?

13 A. For the parent. Correct.

14 Q. All right. I didn't know who you were
15 referring to.

16 On page 7, you talk about FAS 90 and 92. What
17 is the difference between those two? I mean --

18 A. Well, they started out -- originally when the
19 Financial Accounting Standards Board started to consider
20 the -- this issue, they had lumped phase-in plans together
21 with abandonments and disallowances. And when they had
22 their public hearing and they had people respond to their
23 proposal, they decided they were in a position to issue a
24 statement of financial accounting standards with respect
25 to the accounting for abandonment and disallowances, but

1 at that time they weren't prepared to issue one with
2 respect to phase-in plans.

3 So they bifurcated their -- effectively
4 their rule-making procedure and issued the abandonments
5 and disallowances, which became FAS 90. And then about
6 eight months later, they issued FAS 92, which dealt
7 specifically with accounting for phase-in plans.

8 Q. And these two financial accounting standards
9 were implemented and originated to protect investors in
10 that company's stock so that they wouldn't be misled
11 whether or not that company -- the value of their assets
12 or their continuation as a profit-producing entity.
13 Right?

14 A. Right. They intended make the financial
15 statements representationally to the economic events that
16 had occurred to that entity.

17 Q. Okay. On page 8 you define a phase-in plan,
18 and I just wanted to ask you, what is the length of the
19 normal recovery period for an asset such as the new plant
20 that was built in St. Joseph?

21 A. It could be anywhere from 20 to 50 years. I'm
22 not -- I would suspect it's closer to 30 to 40 years.

23 Q. So you don't know for sure what the time that
24 the life of that asset is that has been established by
25 that company?

1 A. I don't, other than the fact that other similar
2 assets in the American Waterworks system are generally
3 30 to 50 years in accounting.

4 Q. Okay. The length of the asset is determined by
5 regulatory rules for those assets, I think, which may be a
6 different life than tax life. Right?

7 A. Clearly -- well, presumably that would be -- be
8 determined based on the economic life of that particular
9 asset which hopefully would be the life that the
10 regulatory commission approved. The tax life would be
11 substantially shorter than either of those two if they
12 were not the same.

13 Q. Now, on page 9 of your testimony, on lines f9
14 through 13, you talk about FASB 90 requiring that when it
15 becomes probable that part of the cost of the recently
16 completed plant would be disallowed for rate-making
17 purposes and a reasonable estimated amount of the
18 disallowance can be made, the estimated amount of the
19 probable disallowance shall be deducted from the reported
20 cost of the plant and recognized as a loss.

21 This loss that you're talking about here is
22 required to be reported on the financial statements.
23 Correct?

24 A. Yes, sir.

25 Q. For tax purposes, the write-off will still flow

1 through normally to the depreciation process under the
2 code, under the specific code section that it allows, and
3 recovery of those funds will still be allowed to the
4 company although it has to be from the profits and not
5 from added revenues on the ratepayers?

6 A. That's correct.

7 Q. Okay. And then is Missouri American Water
8 company a publicly traded corporation?

9 A. No, they're not.

10 Q. Is their parent a publicly traded corporation?

11 A. It is.

12 Q. It is a publicly traded corporation?

13 A. Yes, sir.

14 Q. Okay. And if we're looking just at Missouri
15 American Water Company, anything we do is not going to
16 affect the value of their stock but it may reflect in the
17 parent stock; is that correct?

18 A. It potentially could reflect in the parent
19 stock, and you also have the fact that there are debt
20 holders of Missouri American that are not affiliated
21 with American Waterworks, so that they are public debt
22 holders. And generally in the covenants of the debt,
23 there are requirements for things like interest coverage,
24 debt-to-equity ratio coverages and things like that that
25 need to be considered.

1 Q. Okay. And my last question, I believe, is if
2 the Commission would rule that a phase-in for rate
3 increases in order to recover some of their costs of their
4 assets, if the phase-in is phased in, whether it's one
5 year down the line, two years, three years, when that
6 commences, does that Financial Accounting Standard 90
7 allow the reversal of the original accounting entry that
8 disallowed or reduced the book value of that asset?

9 A. I think you're referring to 92.

10 Q. Okay. 92.

11 A. But the answer is no. But what would happen
12 is that to the extent that there are additional revenues
13 in the years subsequent to the early years of the phase-in
14 plan, those revenues would flow through the income
15 statement and presumably net income for the company would
16 be higher than it otherwise would be because they'd
17 already expensed the cost related to that -- the
18 collection of that revenue.

19 Q. Okay. So there is no reversal in future
20 periods?

21 A. That's correct.

22 COMMISSIONER SCHEMENAUER: Okay. That's all I
23 have.

24 Thank you.

25 JUDGE THOMPSON: Vice-Chair Drainer?

1 VICE-CHAIR DRAINER: No questions at this time.

2 JUDGE THOMPSON: Commissioner Murray?

3 QUESTIONS BY COMMISSIONER MURRAY:

4 Q. I just have one question. And that is, if --
5 with the phase-in proposal of Staff, do you have any
6 calculations as to the effect on the debt-to-equity ratio?

7 A. I have not done that. I thought that the
8 company had this in someone's testimony. Mr. Jenkins may
9 be in a better position to provide you with that
10 information.

11 COMMISSIONER MURRAY: Thank you.

12 JUDGE THOMPSON: Commissioner Simmons?

13 COMMISSIONER SIMMONS: Yes, I just have one
14 question.

15 QUESTIONS BY COMMISSIONER SIMMONS:

16 Q. I'm going to your testimony, surrebuttal, on
17 page 8, line 23, where it talks about -- the question is
18 raised, are you aware of any other regulatory commissions
19 that have ordered a phase-in plan after a contested case
20 and after the transition period required by FAS 92 ended?

21 Your answer was, no, I'm not.

22 Are you saying that there is not another
23 precedent out there that you are aware of in anything like
24 that, or are you saying that it could be but you're just
25 not familiar with it?

1 A. I'm not sure that there is a distinction
2 between your first statement and your second one. To the
3 best of my knowledge, there are none out there. That
4 doesn't mean that there couldn't be one out there.

5 COMMISSIONER SIMMONS: Okay.

6 JUDGE THOMPSON: Further questions from the
7 Bench?

8 Chair Lumpe?

9 QUESTIONS BY CHAIR LUMPE:

10 Q. On page 7 -- and I think this was mentioned in
11 the opening statement, that you may have answered this
12 already before. I apologize. That FAS 90 requires the
13 immediate write off of disallowed plant costs and FAS 92
14 restricts the ability to do phase-in plan.

15 Could the company do a phase-in plan if it
16 agreed to do so but if it didn't do -- this is the way it
17 would treat it if it did not wish to agree to do so?

18 A. Regardless of whether the company agreed or
19 not -- which I'm sure they'd like to agree to, they
20 would -- the accounting would be the same.

21 Q. They are not allowed to --

22 A. They are not permitted under generally accepted
23 accounting principles to record deferrals of a company of
24 a phase-in plan.

25 Q. Than we did -- okay. And that relates to

1 plant. Now if you wanted to phase in rates, is that
2 disallowed also?

3 A. Well, unfortunately, I have to look at the
4 form -- the substance over the form. And I think that in
5 this particular case what appears to be driving the
6 majority of the revenue requirement is the St. Joseph's
7 water treatment plant. And so it fits the definitions
8 within FAS 92 to the point where whether you chose to
9 defer revenues or you chose to defer the specific cost
10 related to that plant, you get the same accounting.

11 Q. When we did the phase-in for Jefferson City, a
12 two-year phase-in, we did not do something in violation of
13 the accounting rules?

14 A. Your ability to order a phase-in shouldn't be
15 affected by the accounting rules.

16 Q. Okay.

17 A. How the company accounts for your order is
18 really the what I'm here to address.

19 Q. Okay.

20 A. And I'm saying that to the extent there is a
21 phase-in, then they're not allowed to record the deferrals
22 that accompany a phase-in at the time those deferrals
23 arise. So --

24 Q. So --

25 A. -- your --

1 Q. -- disconnect between doing a phase-in and we
2 could order a phase-in but how you account for it --
3 A. Correct.
4 Q. -- is different?
5 COMMISSIONER SIMMONS: Okay. Thank you.
6 That's all I have.
7 JUDGE THOMPSON: Further questions from the
8 Bench?
9 (No response.)
10 JUDGE THOMPSON: Okay.
11 Recross based on questions from the Bench.
12 Mr. Fischer?
13 MR. FISCHER: Just briefly.
14 RECROSS-EXAMINATION BY MR. FISCHER:
15 Q. That disconnect that you're talking about has a
16 real impact on the company's financial statement, though,
17 is that correct?
18 A. Absolutely.
19 MR. FISCHER: That's all I have.
20 JUDGE THOMPSON: Mr. Zobrist?
21 MR. ZOBRIST: No questions.
22 JUDGE THOMPSON: Mr. Coffman?
23 MR. COFFMAN: Thank you.
24 RECROSS-EXAMINATION BY MR. COFFMAN:
25 Q. Mr. Hamilton, in response to Commissioner

1 Lumpe, you stated again your belief that the revenue
2 requirements are being driven by the St. Joseph plant and
3 you apply your judgment that even though some phase-ins
4 are based on revenue requirement and not the St. Joseph
5 plant, that there is some substance over form that has to
6 be taken into account that you assume is a phase-in of the
7 plant. Correct?

8 A. That's correct.

9 Q. Assuming that the company is allowed the total
10 rate base it's requesting for this plant, the estimated
11 \$70 million or so, do you know what percentage of the
12 total company revenue requirement that plant would
13 represent, the return on that plant?

14 A. I don't think -- I don't know.

15 Q. Could you estimate in ballpark figures based on
16 your audit of these companies' books?

17 A. I mean, they have revenues of about 30 million;
18 they have net income of about 6 million. If we assumed a
19 10 percent return on 75 million worth of rate base, that's
20 75 -- 7 1/2 million in return plus depreciation, plus the
21 operating expenses. Probably be in the number somewhere
22 in the \$10 to \$11 million range.

23 Q. So, roughly, what percentage of total company
24 revenue requirement would that represent?

25 A. Well, before tax it would be more than a third.

1 I'm sorry. Revenue requirements?

2 Q. Yes. Total company revenue.

3 A. Well, the revenues are 30 million there, give
4 or take. So . . .

5 Q. And the total revenue requirement that would be
6 based on recovery of the total requested rate base?

7 A. I think they're asking for 15 or 16 million in
8 this case, so that would make the revenues -- total
9 revenue requirement for the company in the \$45 million
10 range, 45 to 46.

11 Q. And the revenue requirement effect or revenue
12 requirement effect of or return on the St. Joseph plant as
13 requested by the company would be how much?

14 A. I would suspect that it would probably be
15 two-thirds of that request.

16 Q. My question is, you're assuming the worst-case
17 scenario, that the company is allowed total rate base, \$70
18 million and a 10 percent return on that. What revenue
19 requirement effect is that?

20 A. Well, it's \$7 million in return.

21 Q. Okay. Compared with an approximate total
22 company revenue requirement of \$45 million. Correct?

23 A. If you assume they get the full revenue
24 increase, that's correct.

25 Q. Okay. But that's not all the costs attendant

1 that the St. Joseph plant. That's just the return.

2 Q. Is it your -- I'm trying to understand your
3 answers to Commissioner Schemenauer's question about when
4 the books represent economic reality or faithful to
5 reality, do you believe that if this Commission authorizes
6 a phase-in that the revenue requirement that would be the
7 result of this Commission's report and order, would that
8 represent economic reality?

9 A. That is the economic reality because that is
10 the revenue requirement that the Commission found.
11 Unfortunately, I also have to overlay on that the
12 accounting principles that are relevant. And, you know, I
13 would like to find -- I would like it that phase-ins could
14 be available because obviously, you know, there are cases
15 still existing where phase-ins would be helpful.
16 Unfortunately, the accounting literature is dead on on
17 this one and I don't have any flexibility to do that.

18 Q. And if this Commission approved a series of
19 tariffs that indicated annually increases that take effect
20 in each year, that were designed to over time collect the
21 total revenue requirement arrived at, would that represent
22 economic reality for accounting purposes?

23 A. That would represent economic reality, not for
24 accounting purposes. You can't record those revenues.

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

1 JUDGE THOMPSON: Thank you, Mr. Coffman.

2 Mr. Franson?

3 MR. FRANSON: Thank you, Your Honor.

4 RECROSS-EXAMINATION BY MR. FRANSON:

5 Q. Mr. Hamilton, if there was a situation where
6 storm damage was caused and it was deferred, would that
7 create an asset that could be recorded on the company's
8 books?

9 A. Yes.

10 Q. Sir, hypothetically if this was a rate design
11 case, with no revenue increase, and the parties came in
12 and they were proposing changing the rate design from
13 single-tariff pricing to district specific, and as part of
14 that there was a revenue shift within the districts, could
15 the associated revenue deferrals -- and the revenues were
16 deferred -- could those be recorded the company's books?

17 A. I would say no. I mean, given your
18 hypothetical without having all of the facts, my initial
19 reaction is, no, you couldn't record those.

20 Q. Even though there was no change in the
21 company's revenue, it was just shifted around?

22 A. If there is no change in the company's revenues
23 what are you deferring? I don't understand.

24 Q. Because what you're deferring is if you change
25 the revenue from rate -- from single tariff to district

1 specific, that means that certain districts would be
2 paying more revenue, they would have a rate increase even
3 though the overall revenue was the same; is that correct?

4 A. Well, it seems to me if somebody is paying more
5 revenue and somebody is paying less, the initial revenue
6 is going to be the same. I would say to you then that the
7 revenue requirement is the same and there would be no
8 accounting effect for that particular --

9 Q. However --

10 A. -- event.

11 Q. -- if as part of that scenario the Commission
12 looked at a district that had to pay higher rates as part
13 of it, and they phased it in, could that be recorded on
14 the company's books?

15 A. Are we still operating under your
16 hypothetical --

17 Q. Yes.

18 A. -- where the total revenue requirement doesn't
19 change?

20 Q. Yes.

21 A. Then I don't because the total revenue
22 requirement is the same. What you tend to do in tariff
23 design, as long as the total revenues remain the same,
24 then I'm indifferent to what happens in rate design.

25 Q. What if the total revenues went down, would

1 that change your answer?

2 A. That would be a deferral and I would have to
3 consider it then. My initial reaction is that you
4 wouldn't be able to record that but I'd have to look at
5 the specific facts.

6 Q. Why could you not record it?

7 A. Because effectively if you're just taking a
8 slice out of the revenues, just sort of an unidentified
9 slice, I think you fall into sort of the -- even though
10 FAS 92 talks about phase-in plans and tends to be plan
11 specific, clearly one of the things it was concerned about
12 was the situation just that you hypothecated to me.

13 And I think that I would have to look at it but
14 my sense is that it would not -- wouldn't be permitted to
15 record that deferral.

16 Q. Is it impossible that you could though?

17 A. Well, from the limited sense you've given me in
18 this hypothetical, I would say no. But, again, the
19 Commission decisions are generally complex and you have to
20 look at them carefully to determine what the appropriate
21 accounting is.

22 MR. FRANSON: I don't believe I have any
23 further questions.

24 Thank you, Your Honor.

25 JUDGE THOMPSON: Thank you, Mr. Franson.

1 Mr. Finnegan?

2 MR. FINNEGAN: Yes, I have just one question.

3 CROSS-EXAMINATION BY MR. FINNEGAN:

4 Q. Mr. Hamilton, a follow-up on Commissioner
5 Schemenauer, where you -- especially on page 5, where you
6 talk about immediate write off required for a phase-in, I
7 believe you indicated -- I believe you indicated that that
8 is not really a write off but instead it's a -- results in
9 diminished net income?

10 A. To the extent that, say in the first year after
11 phases-in there is an \$8 million deferral effectively,
12 that deferral would not be recorded on the company's
13 books. So that full \$8 million would affect the bottom
14 line with no attendant revenue. The next year if the
15 deferral grew to 12 million, you know, so that that effect
16 would happen. Once it started to reverse and you actually
17 started to collect more revenues, than you'd have
18 increased net income.

19 So that in -- you know, in presumably if the
20 plan stayed in place over however long the plan were to
21 stay in place, ultimately the company would get all of the
22 revenues that the Commission originally chose to give them
23 and they've lost the present value of those revenues;
24 their financial statements have diminished have been
25 diminished in the early years and enhanced in the later

1 years.

2 Q. But there is no write off?

3 A. No. I think we're so -- I think we're
4 semantics. Whether this is \$8 million of cost or
5 \$8 million of revenues that you're not going to charge
6 customers in that first year, those \$8 million in revenues
7 represent costs that otherwise would have been charged to
8 the customers.

9 Those costs will be in the income statement in
10 that particular year; in that first year that \$8 million
11 that you otherwise would have deferred will be in the
12 income statement. That will diminish net income by the
13 tax effect, the after-tax effect of that \$8 million, let's
14 for hypothetical say \$5 1/2 million. That would diminish
15 net income in that particular year by \$5 1/2 million.

16 Q. But there is no write off in that year?

17 A. Well --

18 Q. That's the question. Is there a write off?
19 There is not. It's an impact on --

20 A. It's an impact.

21 Q. -- the net income of the company because
22 they're not earning that \$8 million that first year.

23 A. That's correct. But it's the same effect as if
24 you took the deferral and wrote off the deferral. It's
25 exactly the same effect in the income statement.

1 Q. You don't recognize the deferral?

2 A. That's why you don't have to write it off. You
3 don't recognize it.

4 Q. You don't have to write it off; there is no
5 write off. That's all I'm trying to find out.

6 A. There isn't a write off because you never
7 incurred -- you never established the deferral in the
8 first place. The economic effect in the income statement
9 is the same as if you had written off that deferral.

10 Q. But there will not be an immediate write off
11 required as you state in your testimony?

12 A. Well, I disagree, and I'm obviously not
13 being articulate enough to convince you of that. But the
14 effect of the income statement in Missouri American in the
15 first year will be diminished net income to the extent of
16 that -- what otherwise would have been the deferred
17 revenues.

18 Q. There is nothing physically written off?

19 A. There is not a one-time charge that is taken on
20 December 31, no. Every month effectively 1/12 of that
21 write off is taken in the income statement.

22 Q. What write off?

23 A. The difference between the deferred revenues.
24 The expenses are in the income statement. Since we're not
25 recording a deferral, there is no write off. However, the

1 income statement is diminished by the tax effect, the
2 after-tax effect of what -- the revenues that were
3 deferred.

4 Q. And then the income statement in subsequent
5 years is enhanced?

6 A. Presumably if the plant is in place and some
7 party doesn't come in and accuse the company of
8 overearning at that point, and it's allowed to run its
9 course, presumably it would -- except for the present
10 value of the revenues, would equal out.

11 MR. FINNEGAN: Okay. Thank you.

12 JUDGE THOMPSON: Are you done, Mr. Finnegan?

13 MR. FINNEGAN: I'm done.

14 JUDGE THOMPSON: Thank you, Mr. Finnegan.
15 Mr. Curtis?

16 MR. CURTIS: No questions.

17 JUDGE THOMPSON: Mr. Deutsch?

18 MR. DEUTSCH: No questions.

19 JUDGE THOMPSON: Redirect, Mr. England?

20 MR. ENGLAND: Thank you.

21 REDIRECT EXAMINATION BY MR. ENGLAND:

22 Q. I believe Chair Lumpe asked you a question
23 regarding the phase-in or stepped increase recently
24 implemented for the local water company, formerly United
25 Water of Missouri.

1 Are you familiar with that phase-in at all?

2 A. I am.

3 Q. And do you know how that is being accounted
4 for?

5 A. I do. That my understanding is that there
6 is a revenue increase and then there is approximately a
7 12-month period and then there is another revenue
8 increase. And effectively there is no deferral of
9 anything, that the costs are just expensed in the income
10 statement based on how they're incurred.

11 The first revenue increase goes into effect and
12 then the costs get expensed for a year and then the second
13 revenue increase goes into effect.

14 Q. Do you know if both increases occur within the
15 same calendar and accounting year?

16 A. I believe they do, yes.

17 Q. I believe Staff had asked you a question on
18 cross-examination and -- there may have been a question
19 from the Bench, but I do recall it in cross-examination
20 regarding highlighting any phase-in plan or deferral of
21 revenues on the -- in the footnotes --

22 A. Correct.

23 Q. -- of the company's financial statements.

24 In your opinion does that -- what effect does
25 that have on the bond holders and other investors that

1 rely on those financial statements?

2 A. Well, clearly they would prefer to see the
3 revenues today as opposed to a promise of revenues in the
4 future. I think that the disclosure is such that it
5 depends on their sense of whether all of those revenues
6 will be collected as to what the ultimate effect will be
7 on the income statement.

8 Obviously it would be better to tab revenues
9 today and record it today than it would be to defer them
10 and not record them in the financial statements because we
11 can. So I think they'd look at it as interesting
12 information and they'd have to make an assessment as to
13 the relevance of that information on their holding those
14 bonds.

15 MR. ENGLAND: Thank you, sir. I have no other
16 questions.

17 JUDGE THOMPSON: Thank you.

18 May this witness be excused?

19 MR. ENGLAND: I would certainly hope so.

20 JUDGE THOMPSON: You are excused, sir.

21 THE WITNESS: Thank you, Your Honor.

22 JUDGE THOMPSON: Mr. England, I'm going to
23 interrupt your presentation of your case at this point and
24 we're going to go to Janice Beecher, because it's less
25 than 45 minutes until the lunch period, so I think rather

1 than do 45 minutes of Mr. Jenkins, why don't we just start
2 with Beecher now, and take up Mr. Jenkins when we are done
3 with her.

4 MR. ENGLAND: Fine.

5 JUDGE THOMPSON: Who is going to be the direct?
6 Mr. Fischer?

7 MR. FISCHER: Your Honor, may we go off the
8 record to mark the exhibits?

9 JUDGE THOMPSON: Yes, we may.

10 (OFF THE RECORD.)

11 (EXHIBIT NOS. 58 AND 59 WERE MARKED FOR
12 IDENTIFICATION BY THE COURT REPORTER.)

13 (Witness sworn/affirmed.)

14 JUDGE THOMPSON: Please take your seat and
15 spell your name for the record.

16 THE WITNESS: Janice Beecher, J-a-n-i-c-e,
17 B-e-e-c-h-e-r.

18 JUDGE THOMPSON: Thank you.

19 Please proceed, Mr. Fischer.

20 MR. FISCHER: Thank you, Your Honor.

21 JANICE BEECHER testified as follows:

22 DIRECT EXAMINATION BY MR. FISCHER:

23 Q. Please state your name and addresses for the
24 record.

25 A. Janice Beecher, 6225 Vancouver Court,

1 Indianapolis, Indiana.

2 Q. Are you the same Janice Beecher that caused to
3 be prefiled in this case certain direct testimony
4 including schedules and surrebuttal testimony?

5 A. Yes, I am.

6 Q. Do you have any changes or corrections to
7 either your direct or your surrebuttal testimony that need
8 to be made?

9 A. No, I do not.

10 Q. If I were to ask you the questions contained in
11 your direct and surrebuttal testimony, would your answers
12 be the same today?

13 A. Yes, they would.

14 Q. And are they true and accurate to the best of
15 your knowledge and belief?

16 A. Yes, they are.

17 Q. Dr. Beecher, there is a schedule JB-2 that is
18 attached and entitled, Consolidated Water Rates: Issues
19 and Practices in Single-tariff Pricing attached to your
20 direct testimony. Was that study prepared by you or under
21 your direction?

22 A. Yes, it was.

23 MR. FISCHER: Your Honor, at this time I would
24 move for the admission of the direct testimony which has
25 been marked as No. 58 and the surrebuttal testimony which

1 has been marked as 59, and tender the witness for
2 cross-examination.

3 JUDGE THOMPSON: Thank you.

4 Objections?

5 (No response.)

6 JUDGE THOMPSON: Hearing no objections,
7 Exhibits 58 and 59 are received and made part of the
8 record of this proceeding.

9 (EXHIBIT NOS. 58 AND 59 WERE RECEIVED INTO
10 EVIDENCE.)

11 JUDGE THOMPSON: Cross-examination?

12 Mr. Coffman, I believe you're up first.

13 MR. COFFMAN: Thank you.

14 CROSS-EXAMINATION BY MR. COFFMAN:

15 Q. Good morning, Dr. Beecher.

16 A. Good morning.

17 Q. As I understand it, the purpose of your
18 testimony is to present to this Commission extensive
19 research that you've done on single-tariff pricing and
20 related issues?

21 A. Yes, it is.

22 Q. And are you making any recommendation about
23 when this Commission should adopt single-tariff pricing,
24 district-specific pricing or anything else with regard to
25 this particular water company in this case?

1 A. My testimony does not go to a specific
2 cost-of-service analysis or rate design analysis this
3 case. However, I am prepared to talk about the public
4 policy issues raised by single-tariff pricing as they may
5 apply in this case.

6 Q. And your research and the study, report, that
7 you have authored and attached here discusses some of the
8 advantages as well as the disadvantages of single-tariff
9 pricing. Correct?

10 A. That's correct.

11 Q. Does your report include all of the
12 disadvantages that have been raised that you're aware of
13 with regard to single-tariff pricing?

14 A. To the best of my knowledge it presents a
15 balanced view.

16 Q. One of the disadvantages that has been raised
17 in this jurisdiction as well as others is the incentive
18 that it creates to overinvest in rate base. Correct?

19 A. I think as I've addressed in my report and
20 elsewhere, absent other regulatory safeguards, there could
21 be an incentive. But I do believe that there are other
22 safeguards that can be employed to counteract that
23 potential incentive.

24 Q. Okay. I guess before I get any further, I just
25 have to ask you about your definition of single-tariff

1 pricing, and it's because I believe reading the testimony
2 there are different definitions being used or assumed by
3 different parties.

4 If I could direct you to -- I guess it's
5 Schedule JB-2 to your testimony, which is the consolidated
6 water rates report --

7 A. Yes.

8 Q. -- page 74.

9 You have there, I believe, a glossary of
10 terms which define single-tariff pricing and I think
11 you've defined it elsewhere under these terms. And
12 correct me if I'm wrong, but doesn't this definition say
13 that single-tariff pricing is the use of a unified rate
14 structure for multiple water utility systems.

15 And under that definition are you referring to
16 only a system that has a totally uniform rate across all
17 of its geographic area?

18 A. Ordinarily, I think, when we use the term
19 single-tariff pricing, it refers to a single tariff for or
20 a common tariff for the entire service territory.
21 However, I'm also aware and I also discuss in the report
22 some variations on that, that at least in theory could be
23 adopted.

24 Q. And in that regard, I'd refer to you page 39 of
25 that report, the last paragraph on that page, the second

1 sentence, where you -- or I'll read the first two
2 sentences. You state, at least three other variations of
3 single-tariff pricing can be identified. First, the
4 utility can retain current rate differentials and equalize
5 future rate increases. And that seemed familiar to a
6 pricing system that had been used or adopted in a couple
7 of cases earlier in the '90s.

8 A. Correct. And I believe one here in Missouri.

9 Q. And you have reviewed earlier cases, Missouri
10 Public Service Commission cases involving Missouri
11 American and Missouri Cities water companies?

12 A. That's correct.

13 Q. Okay. In those cases, the -- or in early
14 1990s, Missouri Cities had a rate design that was commonly
15 referred to as the equalization rate system. And I assume
16 you're familiar with that.

17 A. Yes.

18 Q. Okay.

19 A. Generally.

20 Q. Do you define that type of a rate system to be
21 a single-tariff pricing rate design?

22 A. Not in a pure sense.

23 Q. Okay. Do you consider a rate design that
24 shares some district-specific costs among the districts to
25 be a single-tariff pricing system?

1 A. Did you say a rate design that shares --
2 Q. That shares only some --
3 A. -- some?
4 Q. -- of the costs.
5 A. I suppose it's a matter of degree, but I
6 would say that if it's a sharing only of some costs it may
7 be just a conventional method of cost allocation. It
8 might -- and if it produces separate tariffs for the
9 separate service territories, then, I guess it's not.
10 Q. Doesn't the term "single-tariff pricing" imply
11 that there is one single tariff that applies to each
12 district?
13 A. Yes, it does.
14 Q. Okay. So if less than all of the costs are
15 shared amongst all of the districts, each district would
16 have a different tariff. Correct?
17 A. That would be the effect.
18 Q. Okay. But at some point you would still
19 consider you might still define a system of sharing less
20 than all of the costs uniformly to be a single-tariff
21 pricing rate design?
22 A. I think in this study I've used the term
23 "partial adoption" or "partial variation," or you could
24 call it partial rate consolidation, and that might account
25 for some of the examples that I think you're raising.

1 Q. And I just want to be clear in our terms so we
2 all know what we're talking about. Can I assume in your
3 testimony when you say "single-tariff pricing" that you
4 are referring to only totally uniform rate design?

5 A. Yes.

6 Q. Okay. I'd like to refer you now to page 60 of
7 your report, where you list various state commissions in a
8 grid from generally accepted, case-by-case, never
9 considered and so forth. And I believe that the top
10 category there which you've labeled as generally accepted,
11 are those states who you believe have adopted or generally
12 accepted the concept of single-tariff pricing?

13 A. Correct. According to the staff contact who
14 filled the survey out for me.

15 Q. Okay. And you placed Missouri in that
16 category?

17 A. That's correct.

18 Q. Are you aware of the last two report and orders
19 for Missouri American Water Company cases which reserved
20 judgment on adopting single-tariff pricing as a policy?

21 A. Yes. Generally I am.

22 Q. Okay. But you still had no problem placing
23 Missouri in that generally accepted category?

24 A. The results of the survey are summarized here
25 and the protocol for conducting the survey are described.

1 As is typical in survey research, it's always a moving
2 target. And you have to be prepared for the fact that the
3 data -- you complete a survey, there can be variations and
4 changes that occur. But in the interest of performing
5 this kind of research, you do have to have a stopping
6 point at which time you record information.

7 This particular survey was originally
8 conducted, I think, in early '96, and I later gave
9 Commission staff members an opportunity to revise or
10 modify their responses to the survey. And so it's current
11 as of the date -- dates described, you know, in this
12 study.

13 But, again, if you look at the survey
14 instrument, which I believe is in the back --

15 Q. Yes.

16 A. -- it will provide the wording of the
17 question, and there is reason for using the term, you
18 know, generally accepted and case-by-case. There is no
19 absolutes, I believe, in such matters. And so I would
20 still say that certainly as of the time of the survey and
21 to my ability -- to the best of my ability as a
22 researcher, that was an appropriate answer and still is.

23 Q. And to clarify, the survey which I believe
24 begins on page 80 --

25 A. Uh-huh.

1 Q. -- was sent to commission staff personnel in
2 each state and not -- in other words, this grid on page 60
3 was not based on your analysis of commission orders from
4 state to state, but rather responses to surveys that you
5 sent to commission staff personnel?

6 A. Primarily on surveys and then to the extent
7 that I was aware of an order or an issue, I would conduct
8 follow-up with that staff member to help clarify any
9 questions I might have.

10 Q. Is it your belief that the policy decision
11 about how revenue should be shared between disconnected
12 districts should be based on an analysis that is utility
13 by utility or do you believe that single-tariff pricing
14 could be adopted without looking at the particular
15 characteristics of a utility?

16 A. I think in practice we have examples of both.
17 And so I would suggest that both variations of public
18 policy are possible and have been accepted. I think we
19 have a couple of states that have made single-tariff
20 pricing or consolidated rates a matter of policy and they
21 accept that initially and are prepared to entertain
22 filings on behalf of companies that -- that adopt that.

23 I think the majority of the state has indicated
24 here are more inclined to take a case-by-case approach,
25 which is obviously emphasizes the utilities filing in an

1 individual case in support of its adoption of single
2 pricing.

3 Q. Do you have an opinion about whether that is a
4 more sound policy?

5 A. I think there are advantages to both methods.
6 I think a policy that clarifies practice for all utilities
7 can have some advantages because I think it sets the rules
8 straight and provides some adequate information up front
9 about what the Commission's expectations are. And I think
10 that that could be beneficial and may save time in
11 regulatory proceedings.

12 I also think a case-by-case approach can be
13 beneficial as well, and I tend to -- to see the advantages
14 of commissions being able to retain their ability to view
15 evidence before them in any regulatory proceeding, whether
16 it deals with this issue or another, to make a policy
17 determination that they think is appropriate.

18 Q. If a commission has decided that a system
19 of disconnected cities or districts should be under a
20 single-tariff pricing scheme, is it -- do you have an
21 opinion about whether it would be appropriate to say
22 phase-in -- phase towards that approach or to do it flash
23 cut?

24 A. I think a phase-in approach to large rate
25 increases or major changes in rate design often may be

1 appropriate to protect consumers from rate shock and from
2 drastic changes in rates, you know, and other
3 consequences.

4 Q. And I have a copy of testimony that you filed
5 in a previous Missouri American Water Company case
6 WR-97-237, and I believe that you stated in there that
7 because of rising costs and the need for rate consumers to
8 gradually become accustomed to higher rates, it may not be
9 desirable to lower rates at all for any consumer group.
10 Rather it may be advisable to, quote, cap, end quote,
11 higher rates in the higher cost areas and gradually
12 increase rates in the lower cost areas.

13 Does that sound familiar?

14 A. Yes, it does.

15 Q. Okay. And I believe that was your testimony?

16 A. Yes.

17 Q. Do you still believe that?

18 A. As a generalization, yes.

19 Q. Does that same general concept apply if a
20 commission had a single-tariff pricing rate design and
21 wished to move towards a district-specific pricing scheme?

22 A. In other words, would a phased approach be
23 appropriate? Yes, I believe it would.

24 As that testimony describes, there is an
25 general anticipation of rising costs, and I think lowering

1 cost and then later raising them, possibly even fairly
2 quickly raising those rates again, might simply add
3 volatility to rate making and confusion to customers that
4 may not be appropriate.

5 Q. And based on what I expect is an extensive
6 research and review of public utility commission policy,
7 do you believe that phase-ins generally are a good public
8 policy tool?

9 A. I think phase-in policies are very useful tools
10 for regulators to consider.

11 Q. Especially with dramatic rate increases?

12 A. Yes.

13 MR. COFFMAN: That's all of the questions I
14 have.

15 JUDGE THOMPSON: Thank you, Mr. Coffman.

16 Mr. Franson?

17 MR. FRANSON: Thank you, Your Honor.

18 CROSS-EXAMINATION BY MR. FRANSON:

19 Q. Good morning, Dr. Beecher. I'm Robert Franson.
20 I'm an attorney for the Staff of the Commission.

21 A couple of questions. Did your research on
22 single-tariff pricing find any surcharges used in other
23 states, and by that I mean there is either district --
24 well, specifically single-tariff pricing with some kind of
25 capital surcharge for a specific capital investment that

1 may have been made?

2 A. No specific example comes to mind.

3 Q. You're not familiar with the possibility in
4 Pennsylvania that has been mentioned earlier in this
5 hearing?

6 A. I am familiar with the distribution system
7 improvement charge in Pennsylvania. And it is a mechanism
8 that serves a very different purpose than a surcharge of
9 the type described in these proceedings to recover capital
10 plant costs.

11 Q. Are you familiar with the testimony of
12 Mr. Stout who testified earlier in this hearing?

13 A. Generally.

14 Q. Okay. Do you have a copy of his testimony
15 available to you? Specifically, I believe it's his
16 rebuttal testimony.

17 A. I'll get one.

18 Q. I would like to direct your attention to
19 pages 17 through 19, beginning at line 19 on page 17, and
20 then also to his Schedule 3C, if you could take a moment
21 and review those.

22 JUDGE THOMPSON: What page, Mr. Franson?

23 MR. FRANSON: Of Mr. Stout's rebuttal
24 testimony, page 17 through 19, and then Table 3C, Your
25 Honor, specifically on page 17, beginning at line 20.

1 JUDGE THOMPSON: Thank you, sir.

2 BY MR. FRANSON:

3 Q. Dr. Beecher, I won't be asking you for a
4 numbers analysis. I just wanted you to be generally
5 familiar with that.

6 A. Yes.

7 Q. Are have you had an opportunity to review that?

8 A. Yes.

9 Q. Dr. Beecher, isn't it true that as part of
10 single-tariff pricing, there is a single rate?
11 Specifically in this case, there is seven noncontiguous,
12 noninterconnected districts so the idea would be that each
13 district would have a single tariff that would be
14 applicable to it?

15 A. That's correct.

16 Q. And if there was, in fact, a surcharge to the
17 St. Joseph district, wouldn't that really be contrary to
18 the general precepts of single-tariff pricing if that is
19 designed specifically to pay for a large capital
20 improvement in the St. Joseph district?

21 A. Yes. I think it is contrary.

22 MR. FRANSON: I don't believe I have any
23 further questions.

24 JUDGE THOMPSON: Thank you, Mr. Franson.

25 Mr. Finnegan?

1 MR. FINNEGAN: Yes.

2 CROSS-EXAMINATION BY MR. FINNEGAN:

3 Q. Ms. Beecher, I only have a couple of questions
4 before I defer to my colleague, Mr. Curtis, here.

5 No. 1 relates to your schedule JB-2 of
6 Exhibit 58, page 77. Are you there under Missouri?

7 A. Yes.

8 Q. You list case numbers WR-95-205 and SR-95-206
9 twice. I'm wondering why you're doing that.

10 A. Oh, it could just be a typographical error.

11 Q. It's nothing like double the impact?

12 A. No.

13 Q. Okay. Now, if you turn to page 85 and you'll
14 see where Missouri is listed, and in the second column the
15 number is two under number of multi-system utilities. And
16 also the fourth column under number of utilities, the
17 single-tariff pricing, you have two?

18 A. Yes.

19 Q. Can you tell me which utilities those are?

20 A. I am looking at Table E-2, page 94, in that
21 same report, and it lists Missouri American and KMB
22 Utilities as the two that I was counting according to my
23 survey.

24 Q. Do you know anything about KMB Utilities?

25 A. No.

1 Q. In the 6th column, I believe it is, on page 85,
2 and the question is, has single-tariff pricing been
3 prohibited by statute, and you have the answer is no in
4 Missouri?
5 A. That's correct.
6 Q. Okay. You have not done any independent
7 research on the statutes in Missouri?
8 A. On the statutes of Missouri?
9 Q. Yes.
10 A. No.
11 Q. This was information supplied to you by Staff?
12 A. That's correct. Again, in the survey that is
13 included in the report.
14 Q. You don't know if there has been any appellate
15 cases determining whether or not single-tariff pricing was
16 or was not illegal in Missouri?
17 A. In Missouri, I'm not aware.
18 MR. FINNEGAN: That's all of the questions.
19 JUDGE THOMPSON: Thank you, Mr. Finnegan.
20 Mr. Curtis?
21 CROSS-EXAMINATION BY MR. CURTIS:
22 Q. Good morning, Dr. Beecher.
23 A. Good morning.
24 Q. I'm interested in your vitae, and I believe
25 it's page 15 of your direct. I'm not sure what exhibit it

1 is but your testimonial experience as an expert witness.
2 It's page 15 of your attachment. Are you there?
3 A. Page 15 of the testimony or of the report?
4 Q. Of your experience attachment.
5 A. Oh, okay.
6 Q. I'm not sure what --
7 A. Oh, resume, uh-huh.
8 Q. Yeah, your resume.
9 MR. FISCHER: For the record that is JB-1.
10 MR. CURTIS: Thank you.
11 JUDGE THOMPSON: Thank you, Mr. Fischer.
12 BY MR. CURTIS:
13 Q. Okay. Most recently testified in the State of
14 California?
15 A. Yes, I did.
16 Q. For whom did you testify there?
17 A. On behalf of the company, the Southern
18 California Water Company.
19 Q. Is that an affiliate of American Waterworks?
20 A. No, it's not.
21 Q. And you were advocating STP?
22 A. I presented comparable testimony to what I have
23 here, policy analysis and a broad overview of the issues.
24 Q. Were you appearing in support of a
25 single-tariff pricing plan?

1 A. Yes.

2 Q. And then in the New Hampshire case, what was
3 that, Penechuck (phonetic sp)?

4 A. That's correct.

5 Q. And you were testifying there on behalf of --
6 in support of STP or consolidated rates, I believe is the
7 phrase?

8 A. Consideration of consolidated rates on behalf
9 of Penechuck Waterworks.

10 Q. Okay. And is that company affiliated with
11 American Waterworks?

12 A. No, it is not.

13 Q. Okay. And, of course, then your testimony '97
14 before this Commission on behalf of Missouri American was
15 in support of STP?

16 A. Correct.

17 Q. Okay. Your testimony, then, before the Indiana
18 Utility Regulatory Commission, on whose behalf were you
19 testifying?

20 A. Indiana American Water company.

21 Q. And that is a subsidiary of American
22 Waterworks?

23 A. Yes, it is.

24 Q. Okay. And then in '96 before the Florida PSC,
25 on whose behalf were you testifying?

1 A. That was on behalf of the staff of the Florida
2 Public Service Commission.

3 Q. Okay. That was in support of single-tariff
4 pricing?

5 A. In each case, I would not necessarily
6 characterize my testimony as in support of, but in support
7 of consideration of the policy issues raised and generally
8 in support of the legitimacy of single-tariff pricing as a
9 possible option for the commission.

10 Q. I believe in some of these other -- these
11 jurisdictions, other jurisdictions, you have encountered
12 Mr. Harwig?

13 A. Yes, I have.

14 Q. Okay. And has he generally been on the
15 opposite side of the issue on STP?

16 A. Well, I believe the character of our testimony
17 is somewhat different but I certainly understand his
18 position to be contrary to the adoption of single-tariff
19 pricing.

20 Q. Okay. Would you refer back to your EPA book.
21 I think we were on page 85 on the Missouri line of the
22 survey. And I take it all of the responses you got from
23 all of states were essentially from staff members of these
24 commissions?

25 A. That's correct.

1 Q. And do you know who that was in Missouri?

2 A. I believe it was probably Mr. Merciel.

3 Q. Okay. Thank you.

4 A. Or his staff.

5 Q. So when you wrote down no with regard to had

6 single-tariff pricing been prohibited by statute, you were

7 taking Mr. Merciel's word for that?

8 A. In each case, I took the staff members who I

9 believe are knowledgeable about water policy in their

10 state. So I took their word in conjunction with a general

11 literature review and consultation with, you know,

12 available legal resources. But I am not an attorney. So,

13 you know, it's a research determination.

14 Q. Okay. Then I'm looking further on the Missouri

15 line under the reason for approval of STP. You have cost

16 savings. Can you explain that?

17 A. This particular column provides sort of a brief

18 summary of the key issues noticed by the Commission staff

19 members. And in at least that case and I think in others

20 there is an indication that there were savings associated

21 with reduction in regulatory and administrative costs.

22 Q. Okay. Benefits to the company?

23 A. Benefits to the company and ultimately to the

24 ratepayers.

25 Q. Okay. Please turn to page 94 of the same

1 exhibit. And there under the Missouri column you note two
2 water companies that have had an STP approved by this
3 Commission.

4 Looking at the Missouri American line, you say
5 there are seven districts. Correct?

6 A. Correct.

7 Q. And the smallest district is 500 customers,
8 would that be?

9 A. Approximately, yes.

10 Q. And the largest district is 2,800 customers; is
11 that correct?

12 A. That's what I note here, yes.

13 Q. Is that accurate?

14 A. These are, again, the data reported in the
15 survey and these are connection data versus population
16 served. And these would be the ones to which the single
17 tariff applied, you know, to my knowledge. I don't have
18 the original survey in front of me.

19 Q. Right. But that would be 28 connections, that
20 is, customers connected?

21 A. Correct.

22 Q. Okay. Do you know the operating
23 characteristics of any of the districts here in Missouri?

24 A. Yeah, I know some of them. That number does
25 look low to me. So I -- you know, I'd have to go back and

1 check it. That was just limited to a certain number of
2 systems or if it's -- if it's an error.

3 Q. Presumably that is what somebody wrote down
4 with response to --

5 A. Correct.

6 Q. -- in response from the Missouri Commission.

7 Okay. Now, you do have Missouri solidly in the
8 generally accepted column at page 60 of this report?

9 A. Correct.

10 Q. Despite the fact that, of course, I believe as
11 Mr. Coffman indicated, the Commission has indicated that
12 it was going to take it, I guess, the best way to describe
13 it would be on a case-by-case approach?

14 A. Correct.

15 Q. Are you saying you just didn't have time to
16 adjust this survey number or the survey category for
17 Missouri?

18 A. I would not adjust any state unless I was able
19 to recontact every state. So this is a snapshot in time
20 as of the time of the survey and the one major follow-on
21 survey that I did.

22 As another example, California, in a pending
23 case in the Southern California Water Company case that I
24 testified in, the tariff was adopted so they could be
25 potentially moved up or changed. So in other words, as

1 cases roll on you have to put your position --

2 Q. I'm going to move that that last portion be
3 struck as not responsive to my question.

4 I was asking really about Missouri only.

5 MR. FISCHER: Well, Your Honor, I was I think
6 she was explaining the context of her answer and I think
7 that's appropriate.

8 MR. CURTIS: The question was only about
9 Missouri.

10 Could you read back the question.

11 (THE COURT REPORTER READ BACK THE REQUESTED
12 PORTION.)

13 MR. CURTIS: I would like to go ahead and
14 strike the portion of the response of what was going on in
15 California.

16 JUDGE THOMPSON: Please proceed.

17 BY MR. CURTIS:

18 Q. Based on what you know in regard to the
19 Commission's stance respecting single-tariff pricing, and
20 in particular in this case, wouldn't it be more accurate
21 to move Missouri to a case-by-case category at this time?

22 A. If I were to revise the table and have the
23 opportunity to revise not just Missouri but every other
24 state and based on what I know and what I would ask them,
25 I would be inclined to do that, assuming that the Staff

1 member would characterize it that way.

2 Q. And, in fact, I believe at page 65 of your
3 report, at the end of the first paragraph at the top, you,
4 in fact, recognized Missouri's caveat. In the final
5 sentence you say, but in a subsequent rate case, to the
6 understandable chagrin of the utility, the Commission
7 reiterated, quote, that it is not committed to a specific
8 position regarding cost recovery for capital plan
9 additions by means of single-tariff pricing.

10 And then you footnote at 78 the Missouri PSC
11 report and order in WR-97-237. Right?

12 A. Correct.

13 Q. So you were aware at least at the last
14 publication of this book of the Commission's caveat?

15 A. Correct.

16 Q. Please refer to page 2 of your surrebuttal at
17 the bottom of the page, at line 23, the question is, do
18 the potential benefits of rate consolidation apply when a
19 particular significant investment for capital at the new
20 St. Joe treatment plant is required for the core water
21 system, as compared with smaller satellite systems?

22 Well, what do you mean by a core system and
23 satellite systems?

24 A. Often in the operation of a multi-system
25 utility there tends to be one larger core system, you

1 know, where the majority of customers are found. That is
2 not always the case but it often is. And single-tariff
3 pricing in some cases involves the levelizing of rates,
4 you know, among the core system and those satellite
5 systems.

6 And the question I think has arisen in the
7 context of single-tariff pricing, what happens when the
8 large investment with significant amount of capital is
9 required in that core system? Does that still argue for
10 the implementation of a single-tariff pricing?

11 And I was trying to address that point.

12 Q. Okay. Are you then -- you're describing then
13 St. Joe as a core water system and the other districts as
14 satellites of the core?

15 A. Um, that might not be an appropriate
16 characterization. I would say, though, that St. Joe is
17 definitely a larger core system as compared to, say,
18 smaller districts or smaller stand-alone systems.

19 Q. Is St. Joe the largest district?

20 A. I don't have the data in front of me. It's one
21 of the larger certainly.

22 Q. Are there others that are comparable in size to
23 St. Joe?

24 A. As I understand it, there are some communities
25 that are also quite substantial in size.

1 Q. Okay. You're not really, though, familiar with
2 that particular --

3 A. I don't have --

4 Q. -- description?

5 A. -- the table in front of me. I've probably
6 seen it though.

7 Q. At page 3 of your surrebuttal, you mention at
8 line 2 and 3 the reasoning is that all systems managed by
9 the utility benefit from common versus stand-alone
10 operations.

11 How do you define a stand-alone operation?

12 A. A stand-alone operation to me would mean a
13 water system that -- for which costs can be fully
14 attributed to that system and that would include all costs
15 of planning, management, financing, operations, customer
16 service --

17 Q. Right.

18 A. -- without any benefit of common management
19 through a larger entity.

20 Q. So you're essentially saying a water district,
21 as if it were an entity unto itself with no conductivity
22 to any other districts?

23 A. Correct.

24 Q. Okay. So you would have to do everything from
25 legal to administrative to billing all of the way down?

1 A. Correct.

2 Q. Now, that's not relevant here, is it? We're

3 not talking about any one of the districts actually being

4 on a stand-alone basis, are we?

5 A. I don't think anyone is proposing that. I

6 don't think it's relevant to the extent that it speaks to

7 the benefits of being part of a larger utility system.

8 Q. Okay. And then you do say that customers in

9 the satellite system might still pay much less than they

10 would on an entirely stand-alone basis?

11 A. Correct.

12 Q. Okay. Are you aware of the financial impact of

13 the St. Joe plant addition as spread on an STP basis to

14 the other districts?

15 A. Generally, yes.

16 Q. In particular, have you looked at Mr. Harwig's

17 testimony?

18 A. Briefly, yes.

19 Q. Have you seen in particular -- do you have a

20 copy of his direct testimony there?

21 A. I got one.

22 Q. On behalf of -- not on behalf of the St. Joe

23 Industrial Intervenors but on behalf of the Municipal

24 Intervenors and the Warrensburg Industrial Intervenors.

25 A. Yes, I have it.

1 Q. You have it.

2 And I believe this had been premarked as

3 Exhibit 57.

4 Would you go to Schedule 2RD.

5 (OFF THE RECORD.)

6 THE WITNESS: I've got it.

7 BY MR. CURTIS:

8 Q. Okay. Do you remember looking at this table

9 that Mr. Harwig prepared?

10 A. Not specifically but --

11 Q. Okay. Were you present yesterday when

12 Mr. Stout testified with regard to this table?

13 A. No, I was not.

14 JUDGE THOMPSON: What table are we looking at,

15 Mr. Curtis?

16 MR. CURTIS: 2RD, page 1 of 2.

17 JUDGE THOMPSON: Thank you.

18 BY MR. CURTIS:

19 Q. And I'd like you to focus on lines 1, 2 and 3,

20 with your Joplin, St. Charles and Warrensburg. And if you

21 would look at the line -- column line for those. That

22 shows the amount of the rate base that each district would

23 have after this case or with this case based on STP.

24 And what Column 8 does is figures out and

25 projects the amount of additional new plant that each of

1 those three districts will have to gain in order to reach
2 parity with St. Joe. Do you see that?

3 A. Is this at Schedule 3RD?

4 Q. 2RD.

5 A. 2RD. I was looking at the graph.

6 Okay. Now I have it.

7 Q. So we're looking at lines 1, 2 and 3?

8 A. Yes.

9 Q. Joplin, St. Charles, Warrensburg. Scroll over
10 to Column 9.

11 A. Uh-huh.

12 Q. That is the projected rate base for each of the
13 districts through this case, if you will. And if you'd
14 look at Column 8 with St. Joe as a zero base, Mr. Harwig
15 has calculated the amount of additional investment that
16 each of those three districts would require in the plant
17 to bring it to parity for STP purposes with St. Joe.

18 Do you see that?

19 A. Uh-huh.

20 Q. And then in Column 10, there are the
21 percentages. So, for instance, Joplin would have to
22 increase its rate base of 20 million by 277 percent to get
23 to a point where it's at least equal with St. Joe and is
24 no longer subsidizing St. Joe, if you will.

25 Do you understand?

1 A. Yes, I do.

2 Q. So similarly St. Charles would have to more
3 than double its rate base from 27 million to 31 million in
4 order to achieve that equality, and Warrensburg would have
5 to go up by 75 percent. Do you see that?

6 A. Yes, I do. May I ask what time period this is
7 from?

8 Q. That is the big question. Yeah. And I asked
9 Mr. Stout when these -- when a parity achieved for these
10 three districts with St. Joe, and to the best of my
11 recollection he could not say because plant future
12 construction plans are not that set.

13 So my question to you is, does this concern you
14 from an STP standpoint that there are massive subsidies
15 that may be in place for some time for these three
16 districts?

17 A. Not necessarily. Because over time, you know,
18 what single-tariff pricing proposes to do is to, you know,
19 maintain rate stability and levelize rates across
20 territories for which investments will be made in due
21 course, sometimes with plant lasting, as we previously
22 heard, 30, 40, 50 years.

23 And looking at these percentages, and knowing
24 that on average water utilities in this country will
25 probably need to at least double their current investments

1 in order to simply upgrade and improve the infrastructure,
2 these are not actually that far out of line assuming, say,
3 a 20- to 30-year time period.

4 Q. Well, are you aware that if this Commission
5 adopts single-tariff pricing in this case, this will be
6 the flash-cut number that will occur in each one of these
7 districts, but that over the next five years, as there are
8 additional plant addition, additional plant invested in
9 other districts, say, Mexico or Platte County, that those
10 new plant additions will also be spread to Joplin.

11 So Joplin's situation would not necessarily be
12 static. It might wind up in three years having to make up
13 350 percent due to additional plant investment made in
14 other districts that are immediately assigned to Joplin
15 under STP. Does that concern you?

16 A. To the extent that a single-tariff price can
17 accomplish a variety of goals, including revenue stability
18 and rate stability, and, again, also not knowing what
19 their -- relative to their current costs, those
20 percentages are not necessarily -- well, let me go back.

21 I mean, a 200, 300 percent increase may
22 actually not be that dramatic if the current rate being
23 paid is not that high. It depends on the base. I mean,
24 many customers, many water customers in this country will
25 face even more dramatic increases because they're not

1 paying very high right now.

2 So I would look at the -- I would look at the
3 total picture and I would look at the total planning
4 horizon for the water utility and I would have
5 expectations of that in Joplin and all of the rest of the
6 communities would have investments made into their system.

7 Q. Is there any configuration of a multi-district
8 noninterconnected water company that you feel would not be
9 appropriate -- for which STP would not be appropriate?

10 A. I would not like to see substantial subsidies
11 from a high-income community to a -- I'm sorry -- from a
12 low-income community to a high-income community, for
13 example. I think that might be one issue that would be
14 worth considering. And I think there may be others, but I
15 think the point of single-tariff pricing is to look at
16 competing objectives that can be balanced in the process
17 of rate design.

18 Q. For your preparation in this case, did you look
19 at the relative economic bases of the districts here?

20 A. I did not.

21 Q. So you weren't concerned about that with regard
22 to your testimony here?

23 A. I was not testifying on that specific issue.

24 Q. But if you found one of the districts was, in
25 fact, a low-income district -- I'm not suggesting that it

1 is, but if that is a concern for you, wouldn't you have
2 wanted to inquire of that?

3 A. Well, again, the purpose of my testimony is not
4 to present a detailed analysis of the particular cost
5 impact or rate design impact on these communities.

6 Q. Let me -- at page 4 of your surrebuttal, you
7 include a quote from a report and order of the New
8 Hampshire Public Service Commission in a Penechuck
9 Waterworks case, and that continues on page 5.

10 Now, you testified in that matter?

11 A. Yes, I did.

12 Q. Okay. And I believe Mr. Harwig did also?

13 A. Yes, I believe he did also.

14 Q. Okay. Did New Hampshire by this, then, adopt
15 single-tariff pricing?

16 A. Yes, they did.

17 Q. Okay. Generally accepted or --

18 A. I would have to look up in my table but I
19 believe it's case by case.

20 Q. Okay. Yeah. So this was not a blanket
21 endorsement of single-tariff pricing?

22 A. No. And I, of course, did not present it that
23 way. I presented this particular quotation because I
24 thought it did a good job of articulating the reasoning
25 behind the Commission's order in this case.

1 Q. Okay. All right. Have you read the report and
2 order in this case?

3 A. The New Hampshire order?

4 Q. From which you took this?

5 A. Yes.

6 Q. Okay. I'm going to read you what -- and I'll
7 ask you if you recognize this from the report and order.
8 It's the final sentence of the report and order from the
9 New Hampshire Commission.

10 A. Yes.

11 Q. It says, finally, we emphasize that by
12 approving rate consolidation, which is STP, in this case,
13 we are not accepting it as a generic policy for all water
14 companies.

15 A. Yes.

16 Q. Do you remember that?

17 A. Yes, I do.

18 Q. And that's accurate? They said that, you
19 think?

20 A. I believe it's in their order.

21 Q. Okay. Can you describe the Penechuck water
22 system?

23 A. The Penechuck has a number of small systems.
24 They actually provide water and water management services
25 to a diverse number of communities on a wholesale and

1 retail basis. They have, I think, been a leader in terms
2 of developing a regional solution to water problems. They
3 have adopted some troubled systems and brought them into
4 compliance with drinking water regulations.

5 So I think they've been a very effective
6 regional utility.

7 Q. How many districts?

8 A. I want to say approximately 12, or 12 to 18.
9 Something in that range.

10 Q. Okay. I'm looking at page 95 of your EPA
11 report.

12 A. Yes.

13 Q. And it shows -- you show there Penechuck has 12
14 districts; is that correct?

15 A. That sounds correct but I recently did a brief
16 case study of Penechuck and I believe they've continued to
17 acquire and expand. There may be a few more now.

18 Q. Right. And the large district that you refer
19 to is a core district and the others are satellite; is
20 that correct?

21 A. That's correct.

22 Q. The large district is Nashu (phonetic sp) New
23 Hampshire?

24 A. I believe so, yes.

25 Q. And that is about 19,000?

1 A. That sounds about right.

2 Q. And the smallest district you have listed here
3 at page 95 would be 35 customers or 35 connections?

4 A. Approximately, yes.

5 Q. In fact, aren't all of the 11 other districts
6 very small in comparison with Nashu at 19,000?

7 A. I believe they're pretty small but, again, I'm
8 not sure what their conditions are today.

9 Q. Okay. Would you accept this from the
10 New Hampshire report and order where they say, because the
11 community systems are small, ranging from 29 customers to
12 458 customers? Does that sound right?

13 A. That's correct. But that does not also account
14 for total water usage. There are some industrial
15 customers in some of those communities. So actually it's
16 not simply residential.

17 Q. Okay. Do you think the Penechuck Water System
18 is a comparable model to Missouri American?

19 A. Not in terms of those demographics.

20 MR. CURTIS: I have nothing further.

21 JUDGE THOMPSON: Thank you, Mr. Curtis.

22 It is now approximately 15 minutes after the
23 noon hour. We will return at 1:45.

24 Mr. Deutsch, you'll take up your examination at
25 that time. I will be here at 1:30 for those who would

1 like to premark exhibits.

2 Thank you.

3 (THE NOON RECESS WAS TAKEN.)

4 JUDGE THOMPSON: Mr. Deutsch, I believe we are
5 at your cross-examination.

6 MR. DEUTSCH: Thank you, Your Honor.

7 CROSS-EXAMINATION BY MR. DEUTSCH:

8 Q. Dr. Beecher, I'm Jim Deutsch. I represent the
9 city of Joplin, Missouri. Have you ever been to Joplin?

10 A. No, I haven't.

11 Q. Let me get an understanding, if I can.

12 I read all of your testimony, and it's my
13 understanding from the earlier cross-examination that you
14 haven't done any kind of a study to determine whether STP
15 is appropriate or good or bad for this particular
16 district; is that right?

17 A. From the standpoint of a conventional
18 cost-of-service analysis or other detailed socio-economic
19 analysis, no. I've only looked at this case as I have
20 with others from sort of a policy analysis perspective.

21 Q. So does that mean that you're here to recommend
22 to the Commission that they ought to adopt STP or not?

23 A. That might be an oversimplification. I guess
24 I'm here to present what I believe are some of the
25 legitimate reasons for adopting a single-tariff pricing

1 approach, as well as some of the trade-offs involved in
2 adopting that approach. But that there are -- there are
3 certainly facts and circumstances -- circumstances in this
4 case that would suggest continued consideration of
5 single-tariff pricing as an option.

6 Q. Okay. So are you comfortable that you know
7 enough to advise this Commission that single-tariff
8 pricing is an option that should or shouldn't be adopted
9 by it?

10 A. I'm comfortable enough to say that I think it's
11 certainly an option that they should give full
12 consideration to in this case.

13 Q. Okay. Now, in looking at your resume and your
14 testimony, I think that you mentioned earlier, you have
15 testified before in proceedings before concerning STP?

16 A. Yes, I have.

17 Q. Have you ever testified against the adoption of
18 STP?

19 A. Not explicitly, no.

20 Q. I notice you've written a lot of material, a
21 lot of it on this subject; is that right?

22 A. I wouldn't say that I've written a
23 disproportionately more greater amount of material on this
24 subject compared to other subjects I've written about.

25 Q. Okay. You've written on the subject?

1 A. Of single-tariff pricing?

2 Q. Yes.

3 A. Yes. Most specifically the report that is
4 included in my testimony.

5 Q. Have you ever written anything that is
6 exclusively a critique of single-tariff pricing as an
7 option?

8 A. No.

9 Q. Have you ever written something that was
10 basically an endorsement of STP as an option?

11 A. No.

12 Q. So you think that you're basically just neutral
13 on the question of STP?

14 A. I would guess -- I would say that I am a policy
15 analyst who obviously wants to look at both sides of the
16 issue and the trade-offs involved, but I certainly have
17 advocated consideration of STP as a viable policy option
18 depending on the decision criteria that are important to
19 the decision makers, some of which I discuss in my report
20 and in my testimony, including affordability, rate
21 stability and so on.

22 So I think -- I guess my role is to provide
23 some of the policy issues and policy context in which the
24 Commission might consider this option.

25 Q. When you talk about policy considerations, are

1 you talking about public policy or are you talking about
2 policies of the company?

3 A. I mean public policy and regulatory policy.

4 Q. So you don't think you're especially influenced
5 by policies that are adopted that are especially good for
6 the company?

7 A. I don't appear today as a witness of the
8 company. And with this particular issue, the companies
9 have supported the adoption and use of single-tariff
10 pricing. So there is an element of managerial or company
11 policy involved in this particular option. I would -- I
12 would agree to that.

13 Q. So it just happens to be here and you happen to
14 agree with it?

15 A. I was first asked to look at this topic on
16 behalf of the Florida Public Service Commission and look
17 at both sides of the issue. And after conducting that
18 analysis which ultimately led to -- to this, I was
19 certainly persuaded that this is a legitimate policy tool
20 that the commissions can and have used.

21 Q. Isn't it true that from a look at your resume
22 and your testimony and your background on this issue that
23 actually you are an advocate of the adoption of STP?

24 A. I can see why it would be portrayed that way.
25 I don't necessarily characterize myself that way.

1 Q. Would you agree, regardless of your position
2 with regard to the issue generally, that you haven't done
3 any study, you're not here for the company and you haven't
4 examined the issues that are pertinent to the seven
5 districts involved in this case in order to do the kind of
6 a study that you could really make a recommendation in
7 this case that on all of the facts and circumstances STP
8 should be adopted?

9 A. Could you rephrase, please?

10 Q. Would you not agree that you have not done the
11 kind of a study, the kind of work on behalf of the company
12 or on behalf of the St. Joe area public water districts
13 involving all of the facts and circumstances in these
14 seven districts which would enable you to make a
15 recommendation to this Commission that they should adopt
16 STP?

17 A. I have not -- I have not conducted a
18 comprehensive study of that nature, that I think you're
19 describing, but I --

20 Q. So I take that as a, yes, you agree?

21 A. Yes.

22 Q. Thank you.

23 And I take it also that you would agree that if
24 the -- in looking, the best guideline I found for your
25 positions, I guess, in the summary on the EPA study that

1 talks about select arguments in favor and against, am I
2 correct that if the element -- if the aspects of public
3 policy that you list as in favor or not present in a
4 particular set of circumstances, you would not urge a
5 public service commission to adopt STP in that situation?

6 A. That's correct.

7 Q. And if they were present or if they were
8 thought likely to be present, you would recommend it, that
9 STP be considered as an option?

10 A. It would be up to the commission to consider --
11 to jointly consider the positive and the negative because
12 of the nature of this issue being complex and involving a
13 certain number of trade-offs. I think they would look on
14 the whole at the benefits and the costs and make the
15 determination based on that assessment.

16 Q. So it's kind of a score card where you look at
17 the pros and the cons and make up your mind?

18 A. I would not characterize it as a score card
19 because I think ultimately it requires a judgment on the
20 part of the commission that the result is just and
21 reasonable. And I don't think you can calculate that with
22 a score card.

23 Q. I noticed that in your testimony and I think
24 also in your EPA analysis, that you -- paraphrasing, not
25 quoting precisely because I don't have the page in front

1 of me -- that you have referenced the fact that STP needs
2 to be accepted by the community, the districts, the
3 customers, that acceptance of the notion that you're using
4 STP ought to be accomplished?

5 A. I think in the ideal communities accept it, and
6 I think in communities where it's been most successfully
7 implemented that may be true, but I don't think that
8 criterion itself is a single useful litmus test as to
9 whether or not you can adopt single-tariff pricing.

10 Q. But do you agree that it is an important factor
11 to consider as to whether the customer base is going to
12 accept a decision to have STP imposed upon them?

13 A. I think it's a consideration but ratepayers
14 often have to accept determinations on the part of the
15 Commission that they may not agree with.

16 Q. Do you believe that the measure of public
17 policy might take into consideration the level of
18 acceptance of the people who are being served by the
19 service?

20 A. I think the preferences of the people or the
21 ratepayers are a consideration, but I think the obligation
22 of regulators is to balance the interests of the
23 ratepayers with those of the company, as well as consider
24 the public interest, which may rise above both of those.

25 Q. So you would agree, then, that it is a factor

1 that ought to be considered and, for instance, if the pros
2 and the cons were equal, the acceptability among the
3 customer base would be, what, a tie-breaking decision?

4 A. I would not necessarily elevate that single
5 criterion as a tie-breaking criterion.

6 Q. If the result of the employment of an
7 STP approach to the rates in an area, the districts
8 comprising Missouri American were to constitute
9 discriminatory prices between the districts, you wouldn't
10 recommend that it be adopted in that situation, would you?

11 A. I would doubt that a commission would adopt
12 rates that are found to be discriminatory. And so by
13 definition, if they are discriminatory, then they would --
14 they would be inappropriate.

15 Q. But if the rates are going to be the rates and
16 the question is whether they are collected according to an
17 STP model or according to a district-specific model,
18 wouldn't you agree that to the extent there is
19 discrimination arising from the application of the STP
20 option, it ought to be disregarded?

21 A. Well, I believe in regulation there is
22 something we call due and undue discrimination, which
23 deals with the rate-averaging issue in a broad sense, but
24 also with other matters of rate design that require
25 judgment. So I think if the -- if you want to use the

1 term "discrimination" is found by the Commission to be due
2 discrimination on the basis of achieving other goals, then
3 it can be adopted.

4 Q. So it's kind of like your position on the
5 acceptability by the customers of the rate; it's not very
6 important and can be disregarded for other criteria?

7 A. Well, I think discrimination is important, but,
8 again, it requires a determination of what is due and what
9 is undue.

10 Q. And, once again, you haven't really done the
11 kind of a study to determine whether all of these public
12 policy objectives that you have set forth as advantages of
13 STP, whether they are present and achievable in this
14 Missouri American Water district or not?

15 A. That would be a fairly complex study to
16 actually systematically look at each of those criteria.

17 Q. Well, we're engaged in it.

18 A. But on the face of it, though, I think the
19 generic rationales and, I think, the generic arguments for
20 as well as against single-tariff pricing probably apply in
21 one fashion or another. So . . .

22 Q. Apply but only to the extent that you're not
23 analyzing those and saying, yes, this benefits small
24 utilities; yes, this benefits water treatment levels; yes,
25 this benefits -- you're dealing with these things in the

1 hypothetical, the abstract, not in the application to this
2 district?

3 A. Generally, yes. But I think --

4 Q. Thank you.

5 MR. ZOBRIST: Judge, I object to this. This is
6 the second time that Mr. Deutsch has cut her off and there
7 has been no indication as to how she is going to complete
8 her thought, and I request that the witness be permitted
9 to finish her answer.

10 If it's inappropriate, then he can move to
11 strike.

12 MR. DEUTSCH: I don't have any more questions.

13 JUDGE THOMPSON: Did you have another part of
14 that answer?

15 MR. FINNEGAN: Your Honor, the question was
16 answered with a yes.

17 MR. DEUTSCH: It was a yes or no answer, Your
18 Honor. I don't know if she -- the fact that Mr. Zobrist
19 would like her to say more is really not my problem. I
20 suggest it's not yours either.

21 JUDGE THOMPSON: Well, thank you, Mr. Deutsch.
22 Mr. England?

23 MR. ENGLAND: My turn?

24 JUDGE THOMPSON: Yes, sir.

25 MR. ENGLAND: I have no questions.

1 JUDGE THOMPSON: Thank you, sir.

2 Questions from the Bench?

3 Chair Lumpe.

4 QUESTIONS BY CHAIR LUMPE:

5 Q. Dr. Beecher, among the various pros and cons,
6 one of the cons that was mentioned this morning was the
7 incentive to overinvest. And you said that may be an
8 incentive but there are safeguards. Would you spell out
9 some of those safeguards to inhibit the incentive to
10 overinvest?

11 A. I think this case actually demonstrates one of
12 the most important tools, which is the Commission's
13 ability to look at the prudence of investments and approve
14 those prior to their inclusion in the company's rate base
15 and rates. I think that is an important one.

16 I think also utilities have other reporting and
17 requirements that Commission Staff can use to assess their
18 investment, as well as their operation and manag--
19 maintenance decisions and so on. So I think there are
20 safeguards particularly in the regulatory context that we
21 might not have, for example, in an unregulated context.

22 Q. Okay. All right. Looking at the prudence
23 issue, if we in the order said, this is a reasonable
24 alternative, and then went on to say but we are not
25 judging the prudence of it, is that -- is that a green

1 light to the company?

2 A. If -- the approval of the tariff?

3 Q. You say you have four alternatives. This
4 indeed is a -- or this is a reasonable alternative. It
5 doesn't say the others are unreasonable, but it says this
6 is a reasonable alternative. Then we go on in the order
7 to say we are not pre-approving this. We are judging the
8 prudence. We'll judge the prudence. Is that sufficient
9 as a safeguard?

10 A. I think if the Commission ultimately has
11 the opportunity as it appears to have to judge the
12 prudence of the ultimate costs and is able to make those
13 determinations, I think that is an excellent safeguard.

14 Q. And could one in judging the prudence of the
15 alternate costs look at what the costs of one of the other
16 alternatives might have been?

17 A. As far as an investment alternative?

18 Q. Yes.

19 A. Well, my understanding of the prudence
20 question -- and it's not directly in the scope of my
21 testimony here -- but my understanding of it in the
22 context of the safeguards I mentioned is that the
23 Commission's look at prudence relative to the information
24 and circumstances that the utility faced at the time it
25 made critical investment decisions. So that's an

1 important standard given.

2 Given that, though, you can look at the other
3 reasonable alternatives that were available to the utility
4 company at the time it made the investment.

5 Q. To, I guess, sort of beat a dead horse here, I
6 think I heard you say that the Commission should keep
7 their policy options open, that you are simply testifying
8 to the legitimacy of STP as a policy option but you are
9 not suggesting that district specific is also not a
10 legitimate policy?

11 A. I think that's correct. I think both are
12 certainly legitimate rate-making, rate-design options that
13 are there. But I also think that facing substantial rate
14 increases and substantial investment needs over multiple
15 districts over many years certainly would suggest that
16 single-tariff pricing can help mitigate some of the
17 accompanying effects of those cycles of investment.

18 Q. But depending on the particular set of
19 circumstances, both are legitimate policy options?

20 A. I would agree with that.

21 Q. Okay. One last question here.

22 In your resume, the various cases that you were
23 in, I think it's page 15 of your -- in your direct.

24 A. Yes.

25 Q. And there was some brief discussion this

1 morning. Your testimony on single-tariff pricing before
2 the California Public Service Commission, would you give
3 me a little bit about the description of that case and
4 what the decision was?

5 A. Yes. That case, again, involved the Southern
6 California Water Company, now known as, I think, American
7 States Water Company, actually. And similar to this case,
8 there were multiple districts with varying levels of
9 investment and cost profiles, and the company has sought a
10 phased approach to single-tariff pricing.

11 And just as in this case, I testified on to the
12 policy -- as to the policy issues and the trade-offs
13 involved and some of the related, you know, regulatory
14 issues that arise. And that order, I believe, came out
15 last fall, approximately in October, and I believe the
16 order did favor the adoption of the single-tariff pricing
17 strategy proposed by the company.

18 And I also believe that the company has filed
19 now to bring in additional districts under that pricing
20 strategy. So they're continuing, in other words, in their
21 movement forward toward more of a consolidated rate.

22 Q. And did you say they were phasing them in or
23 they went straight to it?

24 A. I believe -- and I should clarify. By phasing
25 in in this particular case, I mean the districts versus

1 phasing in over time. Those are really kind of two types
2 of phase-in. And both could actually occur in a single
3 case. But I think they're phasing in different districts
4 into the rate and they're continuing to do that.

5 But I never -- I did not review the final order
6 in that case but my understanding of the order is that it
7 did approve the company's proposal.

8 Q. So the phase-in was taking a couple of
9 districts and unifying them, and then picking another one
10 and unifying it, instead of taking the whole bunch of
11 districts together and doing it all at one time?

12 A. Correct. That's my understanding, was that the
13 company wanted to deal with -- because they actually, I
14 think, are broken into districts and there are systems
15 within districts, so they were approaching it that way
16 because it's a fairly complex set-up issue.

17 Q. So it's a little different from our seven
18 districts?

19 A. I think it's probably a little more complex.

20 Q. The Indiana one, what was the outcome of that
21 and what was the sort of description?

22 A. Indiana was also another American company so
23 maybe has some parallels here. And they do have multiple
24 districts. I think it's actually quite a number. I hate
25 to go off the top of my head, but 17, 18, maybe.

1 And they -- as I think I describe in my
2 report and in my findings, the Commission had at one
3 point declined to accept the company's proposal for
4 single-tariff pricing and the -- so it was essentially
5 rejected and then in a later filing, I believe, in the
6 cases in there, the Commission did adopt the single-tariff
7 pricing approach.

8 I'm not sure exactly where they stand in terms
9 of implementation. I'm not sure if all -- again, if all
10 of the districts are under a common rate yet in Indiana.

11 Q. So they may have taken a piece-by-piece or
12 district-by-district approach instead of all districts all
13 at once?

14 A. To my recollection, there may be something like
15 that in there, because these systems in Indiana are also
16 geographically dispersed north and south of Indianapolis.
17 So they are really quite far apart. So there may -- and
18 there is actually a wastewater system in there and -- so I
19 am not sure exactly where they are in terms of
20 implementation or in terms of current filings.

21 Q. Talking about 17 or so in that neighborhood?

22 A. As I recall. It's quite a number.

23 Q. Okay.

24 A. And there were treatment plant issues. There
25 was, you know, a treatment facility that was coming online

1 in one of their larger systems too, I believe.

2 Q. Okay. And Florida is the next one. And did
3 I -- maybe I understood you correctly before. Maybe not.
4 That really you were there to sort of assist the staff in
5 how this might or might not be done, as opposed to giving
6 testimony to the Commission.

7 A. No. I did testify.

8 Q. You did testify?

9 A. But I did testify on behalf of the staff. And
10 this was my first entrance into this subject matter. And
11 the Florida staff approached me and asked me to prepare a
12 neutral study of single-tariff pricing to see if there
13 were indeed good policy reasons to adopt or to not adopt
14 this.

15 And that was why I did the survey and did the
16 analysis. And it wasn't until after I completed that
17 initial testimony that subsequently I was approached by
18 companies and other parties about whether I'd be
19 interested in presenting that same -- those same findings
20 before other decision-making bodies.

21 CHAIR LUMPE: I think those are all of the
22 questions I have, Judge.

23 Thank you very much.

24 JUDGE THOMPSON: Thank you, Chair Lumpe.

25 Commissioner Murray?

1 COMMISSIONER MURRAY: Thank you.

2 QUESTIONS BY COMMISSIONER MURRAY:

3 Q. Good afternoon, Dr. Beecher.

4 A. Good afternoon.

5 Q. Earlier in your questioning I believe you said
6 that the surcharge alternative that the company had
7 proposed is not actually single-tariff pricing; is that
8 correct?

9 A. I believe that's correct.

10 Q. How would you characterize that proposal?

11 A. I have not studied it in detail, you know, and
12 the actual calculations of the effects. What concerns me
13 about a surcharge is that the establishment of a surcharge
14 itself could be a very arbitrary and subjective process.

15 Where do we set the base before we start adding
16 surcharges and how do we deal with the temporal and the
17 spacial aspects of that in terms of, you know, should we
18 go back in time -- you know, a simpler time maybe before
19 the 1986 drinking water regulations and start there and
20 then figure out, well, where would surcharges come in or
21 do we just stop now and go forward?

22 And what should that surcharge reflect? Should
23 it reflect the total cost of a single capital improvement.
24 I think if you move toward a model of -- that depends
25 largely on surcharges, you've basically undermined the

1 purpose of the single-tariff price, which sort of has
2 these underlying assumptions about costs leveling out over
3 time and -- and the equity of having a common rate for all
4 of the customers, the company.

5 It sort of undermines that whole -- some of the
6 most fundamental reasons for the single tariff in the
7 first place are undermined by a surcharge mechanism. So I
8 would approach it extremely cautiously, because I think it
9 could actually be very difficult to implement and to
10 justify. Even though on the face of it, it may seem like
11 it solves problems, I think it actually also raises a
12 number of additional issues in my mind.

13 Q. Do you see any advantages to it over a
14 district-specific pricing mechanism?

15 A. I can see that it would certainly appease
16 the folks who feel like they're on the front burner and
17 getting hit at that moment with the rate increase or the
18 people who -- I'm sorry -- having to support, you know,
19 the immediate rate increase.

20 So I think it has a -- a public relations
21 benefit and possibly even a useful mitigating benefit in
22 the short run, but not without a cost that over time if
23 everybody's getting hit with surcharges, again, you know,
24 in theory you'd end up back where you started anyhow and
25 you've introduced a lot of rate complexity and possibly

1 even made the rate-making process more difficult in front
2 of the Commission than a simple -- simple single-tariff
3 rate.

4 Q. Okay. I understand that your testimony was
5 primarily as a policy analysis of single-tariff pricing,
6 but do you have any opinion as to the public policy from a
7 public policy perspective of how the increases should be
8 split between customer charges and volumetric charges?

9 A. I have not analyzed that in detail but I
10 do think, again, as a policy analyst, what we look to
11 with that difference is the higher fixed charge provides
12 rate -- provides revenue stability to the company and a
13 higher variable charge sometimes can be useful for -- for
14 efficiency reasons and sending a good price signal to
15 customers and giving them opportunities to maybe save on
16 their water bill through conservation and other
17 techniques.

18 I tend to, again, as a balancing act and I
19 don't like to see, you know, too much loaded into maybe
20 one or the other. Again, it's a judgment call, but I -- I
21 think it's important that customers do get a good price
22 signal so -- in terms of the variability of their charge.
23 So I tend to want to see -- you know, to see a certain
24 amount of charges in there. But I think it does introduce
25 more uncertainty to the -- revenue uncertainty to the

1 utility.

2 COMMISSIONER MURRAY: Okay. I think that's all
3 of the questions I have.

4 JUDGE THOMPSON: Thank you, Commissioner
5 Murray.

6 Commissioner Schemenauer?

7 COMMISSIONER SCHEMENAUER: Thank you, Your
8 Honor.

9 QUESTIONS BY COMMISSIONER SCHEMENAUER:

10 Q. Good afternoon, Dr. Beecher.

11 A. Good afternoon.

12 Q. Just a couple of questions.

13 On page 24 of your direct testimony you
14 state in lines 7 through 10, prohibiting the use of
15 single-tariff pricing by regulatory, legislative or
16 other means would not be desirable from a public policy
17 standpoint because it would undermine the ability of the
18 regulatory commissions to craft effective policies for the
19 utility industries.

20 You don't mean in that statement that not
21 adopting single-tariff pricing is the same as prohibiting,
22 do you?

23 A. No, I do not.

24 Q. Okay. So commissions are free to adopt it or
25 not adopt it and legislators or judicial courts could

1 prohibit it, I guess.

2 Just one more question.

3 On the case that is before us that you've been
4 contracted to give some expert testimony to, the issue
5 before the Commission is -- I've been trying to concoct
6 some kind of a love potion to administer to all of these
7 parties to make them love each other.

8 Do you have a suggestion for a magic ingredient
9 to either one, whether it's district-specific or
10 single-tariff pricing that would help us in this
11 concoction?

12 A. I wish I did. That is an excellent question,
13 actually, and in almost every case that I've been involved
14 with on this subject, I wish we could take a time-out and
15 have a workshop and look at -- look at our water systems,
16 look at our customers and our goals and what we want to
17 achieve. And I really encourage the companies and all
18 parties in these cases, particularly when they have
19 opportunities outside of a litigative process, to get
20 informed and have some dialogue about -- about water and
21 how we're going to provide safe, reliable, affordable
22 water into the future, given the kinds of costs that most
23 every system in this country is facing.

24 So I guess if there is any answer, I don't
25 know if you can solve it when you're in the middle of a

1 decision process. The time to maybe solve it is to work
2 with customers and work with their stakeholders,
3 representatives and advocates and certainly the consumer
4 counselor and try to get the dialogue going. Because a
5 better educated group of stakeholders, I think, will help
6 come up with some workable solutions.

7 But I think this is not atypical of what is
8 happening in water because of the rising cost issues. And
9 it's just going to challenge everyone for a long time to
10 come.

11 COMMISSIONER SCHEMENAUER: Thank you.

12 That's all I have.

13 JUDGE THOMPSON: Thank you, Commissioner
14 Schemenauer.

15 QUESTIONS BY JUDGE THOMPSON:

16 Q. Did I understand your testimony earlier to be
17 that the Missouri American system or collection of systems
18 was not properly to be described as a core and satellite
19 arrangement?

20 A. On the lunch break I was able to look again at
21 the table, I think, describing the size of the systems.
22 And it's not a classic sort of core satellite, you know,
23 configuration where you have one really gigantic system
24 and several very, very small. You've got here, I think,
25 three approximately reasonable-size systems, get some good

1 economies of scale, and then, I think, three or four that
2 are what I would maybe call small to middle and the
3 Brunswick, which is really quite small.

4 So it's a configuration of a -- I mean, it's a
5 regional, quote, unquote, you know, configuration of
6 systems. I probably wouldn't use core satellite
7 necessarily to describe it except maybe with respect to
8 Brunswick or -- you know, in the water business we debate
9 this all of the time, what is small. To some people,
10 25 customers on a well is small. To other people,
11 25,000 customers is small.

12 JUDGE THOMPSON: Okay. Recross?

13 Do we have any further questions from the
14 Bench?

15 (No response.)

16 JUDGE THOMPSON: Okay. Recross?

17 Mr. Coffman?

18 MR. COFFMAN: No questions.

19 JUDGE THOMPSON: Mr. Franson?

20 MR. FRANSON: No questions, Your Honor.

21 JUDGE THOMPSON: Mr. Finnegan?

22 MR. FINNEGAN: No questions.

23 JUDGE THOMPSON: Mr. Curtis?

24 MR. CURTIS: None. Thank you.

25 JUDGE THOMPSON: Mr. Deutsch?

1 MR. DEUTSCH: No questions.

2 JUDGE THOMPSON: Mr. England?

3 MR. ENGLAND: No. Thank you.

4 JUDGE THOMPSON: Mr. Fischer, redirect?

5 MR. FISCHER: Yes, just briefly, Your Honor.

6 REDIRECT EXAMINATION BY MR. FISCHER:

7 Q. Dr. Beecher, you discussed with Chair Lumpe I
8 believe the Indiana Public Service Commission case?

9 A. Yes.

10 Q. Did the Indiana Public Service Commission
11 change its position on the single-tariff pricing issue?

12 A. Yes, it did. Between the two orders that I
13 believe I cite in my study they, in effect, reversed
14 themselves from a rejection to an acceptance.

15 Q. To an acceptance of single-tariff pricing?

16 A. Correct.

17 Q. And in that case in Florida that you discussed
18 with Chair Lumpe, after you testified on behalf of the
19 staff in that case, what did the Florida Public Service
20 Commission decide to do?

21 A. I can't recall the exact sequence of events.
22 They did -- they did adopt rate consolidation and in that
23 case they used a zonal approach. I believe they grouped
24 systems into -- into comparable zones. And somewhere in
25 the progress they had to deal with an appeal, a judicial

1 appeal on which I also discuss, I think, in the report,
2 where there was some additional consideration by the
3 courts that they had to find functional relationships
4 among these systems in order to use single-tariff pricing.

5 The court actually then reversed itself on
6 that issue. So the Commission was able to go forward and
7 has implemented it. And that case involving Southern
8 States -- which also has a new name now, I think, Florida
9 Cities. I'm not sure. They all keep changing their name.
10 But that case involves more than 120 water systems. I
11 mean, this is very substantial scale single-tariff
12 pricing.

13 Q. And the ultimate result was single-tariff
14 pricing?

15 A. Yes. And I do believe that that is fairly well
16 supported now by the Florida staff and commission.

17 Q. Mr. Curtis asked you during cross-examination
18 about the New Hampshire order that you cited in your
19 testimony?

20 A. Yes.

21 Q. Why did you quote from the New Hampshire order
22 in this case?

23 A. That order, which I believe was written by
24 Commissioner Geiger, I thought did a thoughtful job of
25 addressing the Commission's standard for evaluating rate

1 design, which they put forth sort of a just and reasonable
2 standard, that absent clear guidance or prohibition on
3 this subject matter that they had to rely on their ability
4 as regulators to come up with a determination of justness
5 and reasonableness of the rate, and they were able to do
6 that.

7 I thought that was just well articulated in
8 that particular section from the order.

9 Q. Okay. And during cross-examination, one of
10 the counsel mentioned that you and Mr. Harwig had been
11 appearing in a number of these regulatory proceedings. Do
12 you recall that?

13 A. Yes.

14 Q. Dr. Beecher, in those regulatory proceedings
15 where you and Mr. Harwig have appeared, did any of those
16 states adopt district-specific pricing?

17 A. To my knowledge, none adopted it in the strict
18 sense, no.

19 MR. FISCHER: That's all of the questions I
20 have.

21 Thank you.

22 JUDGE THOMPSON: Thank you, Mr. Fischer.

23 May this witness be excused?

24 MR. ZOBRIST: No. Not until I ask one or two
25 questions, please.

1 JUDGE THOMPSON: Well, Mr. Zobrist, are you not
2 a co-sponsor of this witness?
3 MR. ZOBRIST: I am but does that preclude me
4 from my bite then?
5 JUDGE THOMPSON: I think that typically it
6 would.
7 Does anyone have any objections to Mr. Zobrist
8 asking a couple questions?
9 MR. CURTIS: This would be in the form of
10 redirect?
11 MR. ZOBRIST: Yes.
12 MR. CURTIS: The answer is yes.
13 MR. ZOBRIST: Let me give you a preview. It's
14 not going to be antagonistic. It's actually in response
15 to a question that either Commissioner Murray or Chair
16 Lumpe asked but I wanted to point out a portion of the
17 witness's testimony and leave it at that.
18 JUDGE THOMPSON: Do we have an objection?
19 (No response.)
20 JUDGE THOMPSON: Hearing none, please proceed,
21 sir.
22 (Off the record.)
23 JUDGE THOMPSON: Would you please proceed,
24 Mr. Zobrist?
25 REDIRECT EXAMINATION BY MR. ZOBRIST:

1 Q. Dr. Beecher, on page 23 of your direct, you
2 suggested methods by which public utility commissions
3 might consider implementing single-tariff pricing, and I
4 believe it was either Chair Lumpe or Commissioner Murray
5 asked you about monitoring such a system and programs
6 educating the customers.

7 I would just like to ask you if you could note
8 matters consistent with that testimony that a commission
9 might be able to oversee implementation of a single-tariff
10 pricing that would involve the monitoring and evaluate the
11 effectiveness of the system, public education and things
12 of that nature.

13 A. You're asking what methods they might use?

14 Q. Right.

15 A. Well, certainly the regular rate review process
16 and public hearings that the commission engages in are
17 very useful tools in that way and in theory you could --
18 you could use, you know, additional techniques to -- to
19 find out from customers, you know, what -- what their
20 level of satisfaction is, not only in, you know, with the
21 pricing mechanism but the level of service they're
22 getting.

23 But certainly commissions have a variety
24 of monitoring tools that they can use for utility
25 performance, and I think this would be something that they

1 can look at and they can look at result over time, but a
2 very long time frame that is required for this kind of
3 evaluation, I think.

4 Q. But those types of things could be part of an
5 implementing order in that, in your opinion?

6 A. Yes, I believe so.

7 MR. ZOBRIST: Thank you.

8 JUDGE THOMPSON: Thank you, Mr. Zobrist.

9 May this witness now be excused?

10 You're excused, ma'am. Thank you very much. I
11 hope you catch your plane successfully.

12 Mr. England, since we've gone out of order to
13 take Ms. Beecher I think it's only fair to ask you if you
14 have any witnesses with planes to catch or other time
15 pressures that you would prefer to take up at this time?

16 MR. ENGLAND: Not on this issue, Your Honor.

17 JUDGE THOMPSON: Okay. So shall we go to
18 Mr. Jenkins then?

19 MR. ENGLAND: You can, but I believe there was
20 a request that we take the other St. Joseph area witness
21 out of order.

22 MR. DEUTSCH: Our witnesses are out of town if
23 we could accommodate your schedule.

24 JUDGE THOMPSON: This is Witness Price?

25 MR. DORITY: Yes, sir. That is certainly fine

1 with me.

2 JUDGE THOMPSON: We have no objections?

3 (No response.)

4 We'll take Witness Price at this time.

5 So we will need to insert you, Mr. Zobrist, in

6 the cross-examination order. Where would you like to be

7 inserted.

8 MR. ZOBRIST: Last but not least would be fine,

9 sir.

10 JUDGE THOMPSON: Last would be fine?

11 Very well, sir.

12 (Witness sworn/affirmed.)

13 JUDGE THOMPSON: Please be seated and spell

14 your name for the reporter.

15 THE WITNESS: Helen Price, P-r-i-c-e.

16 JUDGE THOMPSON: Please proceed.

17 MR. DORITY: Thank you, Your Honor.

18 (EXHIBIT NO. 60 WAS MARKED FOR IDENTIFICATION

19 BY THE COURT REPORTER.)

20 HELEN PRICE testified as follows:

21 DIRECT EXAMINATION BY MR. DORITY:

22 Q. Ms. Price, could you give us your business

23 address for the record, please?

24 A. It's P. O. Box 210, Hogsby, Missouri.

25 Q. Ms. Price, by whom are you employed and in what

1 capacity, please?

2 A. I'm the business manager for Public Water
3 Supply District No. 2 of Andrew County.

4 Q. Ms. Price, did you cause to be filed
5 surrebuttal testimony in this proceeding that has now been
6 marked as Exhibit 60?

7 A. Yes, I have.

8 Q. And do you have any changes or corrections to
9 that testimonies you would like to make today?

10 A. No, I do not.

11 Q. And if I were to ask you this afternoon the
12 questions as contained in that testimony, would your
13 answers be the same?

14 A. Yes, they would.

15 Q. And are those answers true and correct to the
16 best of your knowledge, information and belief?

17 A. They are.

18 MR. DORITY: Your Honor, at this time I would
19 offer Exhibit 60 into evidence and tender Ms. Price for
20 cross-examination.

21 JUDGE THOMPSON: Thank you, Mr. Dority.

22 Do I hear any objections to the receipt of
23 Exhibit 60?

24 (No response.)

25 JUDGE THOMPSON: Hearing none, Exhibit 60 is

1 received and made a part of the record of this
2 cross-examination.

3 (EXHIBIT NO. 60 WAS RECEIVED INTO EVIDENCE.)

4 JUDGE THOMPSON: Mr. Coffman?

5 MR. COFFMAN: No questions.

6 JUDGE THOMPSON: Mr. Franson?

7 MR. FRANSON: No questions, Your Honor.

8 JUDGE THOMPSON: Mr. Finnegan?

9 MR. FINNEGAN: No questions, Your Honor.

10 JUDGE THOMPSON: Mr. Curtis?

11 MR. CURTIS: Just a couple.

12 CROSS-EXAMINATION BY MR. CURTIS:

13 Q. Good afternoon, Ms. Price.

14 A. Good afternoon.

15 Q. My name is Lee Curtis. I represent various
16 municipal intervenors and some industrial intervenors in
17 Warrensburg.

18 Would you refer to page 4 of your testimony,
19 and let me ask you to read the sentence beginning on
20 line 27.

21 A. I'm sorry. I didn't hear your question.

22 Q. Would you read the sentence beginning on
23 line 27 at page 4 of your testimony?

24 A. I do not have a copy of the line numbers.

25 JUDGE THOMPSON: You may approach, Mr. Dority.

1 MR. DORITY: I'm sorry, Your Honor.

2 THE WITNESS: STP at the time the St. Joseph
3 district is finally having its facilities upgraded.

4 BY MR. CURTIS:

5 Q. Okay. Are you at page 4?

6 A. Yes, I am, line 27.

7 Q. Yeah. The sentence beginning at the tail end
8 of line 27, beginning with undoubtedly.

9 A. I would suggest that there is an inherent
10 inequity and fundamental unfairness in abandoning STP at
11 the time the St. Joseph district is finally having its
12 facilities upgraded.

13 Q. Right. Continue.

14 A. Undoubtedly there has been greater public
15 opposition to the construction of the St. Joseph treatment
16 plant had the customers known that STP might be abandoned
17 in favor of district pricing.

18 Q. Right. It's that last part that kind of piqued
19 my curiosity. You're saying, I guess, you're implying
20 there that the customers in St. Joseph were not aware that
21 STP might be abandoned or not used as the pricing
22 mechanism for the St. Joe plant.

23 A. Well, in 1995, I believe, we started down this
24 road of single-tariff pricing and at that -- since that
25 time this district has been paying greater percent, the

1 St. Joseph district has, than it would have paid had we
2 not accepted that. And that has been contributed to other
3 improvements that have been made to other systems, and I
4 believe at the time that we started discussing this plan,
5 we assumed that that would be the rate design that would
6 be used.

7 Q. Right.

8 A. Had we known that it wasn't, then we may have
9 looked at other alternatives.

10 Q. Is that right? You think that would have been
11 the case?

12 A. I do not know.

13 Q. Were you aware of other alternatives that the
14 company had looked at?

15 A. No, sir. We just -- we buy water from this
16 company, but I know nothing about the alternatives that
17 they looked at. But I know there was, you know, very
18 little opposition.

19 Q. Where did you get the information that
20 single-tariff pricing would be the pricing mechanism that
21 the company would be using for the St. Joe plant?

22 A. Well, since that was in place at this time, I
23 thought it would seem reasonable that we would not abandon
24 it and then go to some other rate design in the middle of
25 this since we had already been going down this road for

1 five years.

2 Q. How did you learn that? How did you understand
3 that the Commission had been going down the road and you
4 assumed it would remain in place?

5 A. Well, I remember when this was debated as a
6 rate increase. And I learned at that time the advantages
7 of single-tariff pricing; however, at that time it was not
8 benefiting my district.

9 Q. Right.

10 A. And at that time that seemed to be the road
11 that we would be taking in future improvements for the
12 systems that are involved in this.

13 Q. Right. Did you participate in any meeting with
14 the company in the St. Joseph area regarding the new
15 plant?

16 A. Only the informational meeting that they would
17 be building a plant that would be out of the flood plain,
18 and that was because we had been without water for
19 three or four days due to the flood in '93.

20 Q. And what time period was that?

21 A. Oh, it was probably '94 --

22 Q. Okay.

23 A. -- somewhere.

24 Q. Right after the flood then?

25 A. After the flood, yes. We were all concerned

1 about our supply.

2 Q. Were you involved in any of the citizen
3 advisory committee meetings that were held in St. Joseph
4 in the 1997/1998 time period?

5 A. No, sir, I was not.

6 Q. Were you aware of the Commission's report and
7 order in Missouri Americans last rate case, which was
8 WR-97-237?

9 A. We were -- they were our supplier at that time,
10 yes.

11 Q. Right. Were you an intervenor in that case by
12 any chance?

13 A. We were an intervenor but I don't -- I believe
14 we did not offer testimony at that time. I really don't
15 know. I should say I do not know.

16 Q. Are you aware that the Commission in its report
17 and order in that 1997 rate case specifically said that
18 the Commission is not committed to a specific position
19 regarding cost recovery for capital plant additions by
20 means of single-tariff pricing?

21 A. I was aware that they may reconsider at this
22 time, that they did not make a decision at that time but
23 it would be made later.

24 Q. Okay. If you knew that and you knew it was
25 going to be an open question as to how the cost of the

1 St. Joe plant would be recovered, why were you -- why were
2 you surprised, I guess, that they would consider moving
3 off of STP when they had expressly reserved their judgment
4 on it?

5 A. Well, I guess one thing at that time, we were
6 not consulted whether or not the plant would be built.
7 And we are a rather small customer of theirs and so I
8 really didn't have any decision-making ability at that
9 time. But since we had started down that road and it had
10 been supported in the past, I guess I assumed that we
11 would continue on that road.

12 MR. CURTIS: Thank you, Ms. Price.

13 That's all I have.

14 JUDGE THOMPSON: Thank you, Mr. Curtis.

15 Mr. Deutsch?

16 MR. DEUTSCH: No questions.

17 JUDGE THOMPSON: Mr. England?

18 MR. ENGLAND: No questions, Your Honor.

19 JUDGE THOMPSON: Mr. Zobrist?

20 MR. ZOBRIST: No questions.

21 JUDGE THOMPSON: Questions from the Bench?

22 Chair Lumpe.

23 CHAIR LUMPE: Just one, Ms. Price.

24 QUESTIONS BY CHAIR LUMPE:

25 Q. Do you have the figures of what would be the

1 cost to your district under the STP and what would be the
2 cost to your district under district specific, if either
3 of those occurred? Are you aware of the difference in
4 cost to you?

5 A. Yes. We have heard that single-tariff pricing
6 might be 35 percent or 54 percent, and then I believe in
7 my testimony we found that if it was district-specific
8 pricing, it might go as high as 268 percent for our rates
9 and some of the other districts would have over
10 100 percent increase.

11 Q. But your specific district, you say that if it
12 went district specific then your -- is it public water
13 number --

14 A. District No. 2, Andrew County.

15 Q. Andrew County. Okay.

16 You're saying that what you've been told or led
17 to believe is it would be about 200 percent?

18 A. In some of the reports if all of the revenue is
19 recovered from the St. Joseph district, it could affect
20 the water districts, and here that would be the four that
21 I am representing as much as 268 percent.

22 CHAIR LUMPE: Thank you.

23 JUDGE THOMPSON: Thank you, Chair Lumpe.

24 Commissioner Murray?

25 COMMISSIONER MURRAY: Thank you.

1 QUESTIONS BY COMMISSIONER MURRAY:

2 Q. Good afternoon, Ms. Price.

3 A. Hi.

4 Q. Is any alternative that is proposed here
5 today -- is there any alternative proposed that you are
6 aware of in which the water districts would not pay more
7 than the same percentage increase that others are paying?

8 A. Well, if there was an across-the-board
9 increase, then we would pay the same percentage, but in
10 any of these other plans, it seems as though the water
11 district would be paying a higher percentage than some of
12 the other customers.

13 Q. So the single-tariff pricing with an
14 across-the-board increase would result in an equal
15 percentage going to the customers -- or to the water
16 districts; is that correct?

17 A. That is my understanding, yes.

18 Q. Okay. And if the water district -- when the
19 water district receives an increase, how will it pay for
20 those increases?

21 A. We will have to raise the rates to our
22 customers.

23 Q. And what is the make-up of your district in
24 terms of customers, just generally?

25 A. My district has 1,238 customers. 1,206 of

1 those are residential customers who have an approximate
2 usage of about 5,800 gallons per month. We have 32 that
3 we call commercial which really that is not correct
4 because we only have three or four that actually would use
5 water in the production of their business. The others
6 mostly is just restroom, lunch room and that type of thing
7 but they are a business, so we listed them as commercial.

8 So most of the rate increase will be applied
9 to, essentially, residential customers.

10 Q. Okay. And is it your position that because of
11 the significant nature of the increases sought here and
12 the complexity of this case in general that we should not
13 be looking at any shifts in class cost of service?

14 A. Because of the enormous increase and as you
15 said, the complexity of it, I believe that there should
16 not be any change in rate classes at this time.

17 COMMISSIONER MURRAY: Thank you for your
18 testimony.

19 JUDGE THOMPSON: Thank you, Commissioner
20 Murray.

21 Commissioner Schemenauer?

22 COMMISSIONER SCHEMENAUER: Thank you, Your
23 Honor.

24 QUESTIONS BY COMMISSIONER SCHEMENAUER:

25 Q. Good afternoon, Ms. Price.

1 A. Hi.

2 Q. The public water supply districts that you're
3 here on behalf of, they're all independent, nonprofit
4 and organizations that aren't regulated by either the
5 Commission or they're not -- they don't have to report to
6 stockholders; is that correct?

7 A. That is correct. We are not-for-profit
8 political subdivisions incorporated under the State of
9 Missouri.

10 Q. Do you know whether or not any of these water
11 districts have alternative means of water supply either
12 through wells or purchases from other communities?

13 A. Probably not purchases from other communities.
14 Any alternative supplies would come from wells and systems
15 that the customers do have. Most of them still have some
16 sort of water that they could use if they had to; however,
17 I cannot say that it would be safe or potable or good to
18 be used. But they possibly could do that.

19 Q. Some public water supply districts have their
20 own wells and furnish water to their customers or they
21 purchase it from someone who has a well or a spring. Do
22 you have any of those options?

23 I mean, would any of those water supply
24 districts be able to get public financing to set up their
25 own water supply?

1 A. They possibly could form some type of a
2 committee to do that. I think it would take eight to
3 ten years to be able to do that probably. And then I have
4 no idea what the cost would be of doing something like
5 that.

6 Q. There are a lot of new public water supply
7 districts being formed each year. I think in three or
8 four years in Henry County they formed three new public
9 water supply districts and got Federal and State
10 assistance to construct their water tank and their pumps
11 and their wells. Of course, I don't know the condition of
12 the water in your area. Maybe the well water isn't
13 satisfactory to use in a drinking water system.

14 A. No. If we were able to dig wells deep enough
15 to have the volume that would be needed, most of the time
16 it has high iron, salt content, needs a lot of treatment
17 to even make it usable. And so that is one of the reasons
18 that our district and the districts that I represent,
19 we're buying our water already treated from Missouri
20 American. It seemed the most economical thing to do.

21 And also, supply, if we had to have our own
22 treatment plant, there is a lot of expense in that. At
23 the time we were financed and had our loans from the
24 Department of Agriculture, the idea was just to bring an
25 adequate supply of reasonably priced water to rural

1 America. And so we did it in the least expensive way
2 possible at that time.

3 Q. Do you know if your rates that your customers
4 pay, are they comparable to the rates that are paid in the
5 City of St. Joseph or the City of -- or in Platte County
6 or Parkville?

7 A. I'm not aware of Platte County or Parkville.
8 Our residential customers do pay more per unit than the
9 residential customers in St. Joseph, because of the fact
10 that we have so few customers per mile and it's a greater
11 increase in the cost of distribution. So that cost would
12 come into play here.

13 Q. Are any of your residential customers in
14 communities in small cities or towns or are there any of
15 Andrew County's Public Water District No. 1, any of those
16 residences in the city limits of St. Joseph?

17 A. I do not believe there are any in the city
18 limits of St. Joseph. We have some very near. Now, I
19 don't know about Andrew County No. 1 because they have
20 done expansions that I'm not aware of just where their
21 line is and where the city limits of St. Joseph is.

22 COMMISSIONER SCHEMENAUER: Thank you. That's
23 all I have.

24 JUDGE THOMPSON: Thank you.

25 Further questions from the Bench?

1 Chair Lumpe.

2 CHAIR LUMPE: Yes.

3 FURTHER QUESTIONS BY CHAIR LUMPE:

4 Q. Ms. Price, you talked a little bit about the
5 rate design or the allocation on the classes. Do you have
6 a similar rate design, say, to Missouri American; in other
7 words, you have a flat rate for all -- a customer charge
8 and then a flat rate for all customers, whether they're
9 residential or business, or do you have different rates
10 for residential and business?

11 Do you understand what I'm saying?

12 A. We actually have a four-step rate block but
13 it's the same for business, commercial or residential.
14 The difference is in the usage, the amount of water that
15 they use and our -- we do have what we call a minimum bill
16 and for that amount the customer may use 1,000 gallons
17 before they're charged any more.

18 Q. Okay. So you don't have a customer charge for
19 fixed charges and then the four blocks; you have a minimum
20 usage amount and then other blocks of usage?

21 A. That is correct.

22 CHAIR LUMPE: All right. Thank you.

23 JUDGE THOMPSON: Further questions from the
24 Bench?

25 Recross based on questions from the Bench.

1 Mr. Coffman?

2 MR. COFFMAN: No questions.

3 JUDGE THOMPSON: Mr. Franson?

4 MR. FRANSON: No questions, Your Honor.

5 JUDGE THOMPSON: Mr. Finnegan?

6 MR. FINNEGAN: No questions.

7 JUDGE THOMPSON: Mr. Curtis?

8 MR. CURTIS: A minute.

9 No questions. Thank you.

10 JUDGE THOMPSON: Thank you.

11 Mr. Deutsch?

12 MR. DEUTSCH: No questions.

13 JUDGE THOMPSON: Thank you.

14 Mr. England?

15 MR. ENGLAND: No questions. Thank you.

16 JUDGE THOMPSON: Mr. Zobrist?

17 MR. ZOBRIST: No questions. Thank you.

18 JUDGE THOMPSON: Redirect, Mr. Dority?

19 MR. DORITY: Just a couple, Your Honor.

20 REDIRECT EXAMINATION BY MR. DORITY:

21 Q. Ms. Price, in response to some questions from

22 Commissioner Murray regarding the customer mix, if you

23 will, of your customer base for the public water supply

24 district, is your district representative of the other

25 intervenor water districts on whose behalf you are

1 testifying this afternoon?

2 A. Yes, they are. I had talked with them prior to
3 this meeting and I had them give me some numbers on that.
4 And I would say that our mix is very representative of the
5 other water districts, mix of residential and commercial
6 customers.

7 Q. In response to a question from Commissioner
8 Schemenauer regarding alternatives that might be available
9 to you, as a customer of Missouri American Water company,
10 do you have a long-term contract in place at this point in
11 time?

12 A. Yes, we do. I believe we have some 15 years to
13 go yet.

14 MR. DORITY: Thank you.

15 That's all I have.

16 JUDGE THOMPSON: Thank you, Mr. Dority.

17 May this witness be excused?

18 MR. DORITY: Thank you.

19 JUDGE THOMPSON: You are excused, ma'am.

20 Please step down.

21 Thank you very much for your testimony today.

22 MR. DORITY: Thank you, Your Honor, for
23 accommodating us out of turn.

24 JUDGE THOMPSON: That's quite all right.

25 Mr. England?

1 MR. ENGLAND: Yes, sir.

2 JUDGE THOMPSON: Can we go on to Mr. Jenkins?

3 MR. ENGLAND: It's fine with me if it's fine

4 with everybody else.

5 Call Mr. Jenkins to the stand.

6 (Witness sworn/affirmed.)

7 JUDGE THOMPSON: Thank you.

8 Please take your seat and spell your name for

9 the reporter, if you will.

10 THE WITNESS: My name is James M. Jenkins and

11 my last name is spelled J-e-n-k-i-n-s.

12 JUDGE THOMPSON: Thank you, sir.

13 Proceed, Mr. England.

14 JAMES M. JENKINS testified as follows:

15 DIRECT EXAMINATION BY MR. ENGLAND:

16 Q. Would you please state your business address

17 for the record, please?

18 A. My business address is 535 North New Ballas

19 Road, St. Louis, Missouri.

20 Q. By whom are you employed and in what capacity?

21 A. I'm employed by Missouri American Water

22 Company, St. Louis County Water Company and Jefferson City

23 Waterworks Inc. and I'm vice-president and treasurer for

24 all three companies.

25 Q. Are you the same James M. Jenkins that has

1 caused to be prepared and filed in this case two pieces of
2 prepared testimony, one entitled rebuttal testimony of
3 James M. Jenkins and which has been marked for purposes of
4 identification as Exhibit 4?

5 A. I am.

6 Q. Another of which is entitled surrebuttal
7 testimony of James M. Jenkins which has been marked for
8 purposes of identification as exhibits No. 5?

9 A. Yes.

10 Q. Do you have any changes or corrections that
11 need to be made to that to either one of those pieces of
12 testimony at this time?

13 A. No, I do not.

14 Q. If I were to ask you the questions appearing in
15 both of those pieces of testimony, would your answers here
16 today under oath be the same as appear in those prepared
17 pieces of testimony?

18 A. Yes, they would.

19 Q. And are those answers true and correct to the
20 best of your knowledge, information and belief?

21 A. Yes, they are.

22 Q. Thank you, sir.

23 MR. ENGLAND: Your Honor, my understanding
24 is that Mr. Jenkins will be appearing -- or excuse me --
25 is appearing at this point in time on the issue of rate

1 design phase-in. He will be appearing later in the
2 proceeding on the issue of prudence, I believe, and
3 evaluation.

4 And would it be proper for me to offer
5 testimony at this time or at the last moment when he
6 appears in this proceeding?

7 JUDGE THOMPSON: I believe it's proper to offer
8 it now.

9 Mr. Coffman, do you have a different opinion?

10 MR. COFFMAN: I'm not sure I would have any
11 reason to suggest any portion of his testimony be struck
12 but that could be the situation under the prudence issue.
13 And given that possibility, I would prefer the testimony
14 be offered after Mr. Jenkins has taken the stand for the
15 prudence issue.

16 JUDGE THOMPSON: Any other comments?

17 Mr. Deutsch?

18 MR. DEUTSCH: No. I don't have any comments.

19 JUDGE THOMPSON: Thank you. We'll go ahead and
20 let you offer it then when Mr. Jenkins returns on the
21 prudence issue.

22 MR. ENGLAND: Okay. I will do that.

23 I will tender Mr. Jenkins at this time, I
24 believe, on the issues of rate design and phase-in.

25 JUDGE THOMPSON: Thank you, sir.

1 St. Joseph Area Water District?

2 MR. DORITY: No questions, Your Honor.

3 JUDGE THOMPSON: Mr. Zobrist?

4 MR. ZOBRIST: I just have one question,
5 Mr. Jenkins.

6 CROSS-EXAMINATION BY MR. ZOBRIST:

7 Q. In your capacity as an officer of St. Louis
8 County Water, do you know whether that company is
9 committed to maintain its rate base in a separate fashion
10 as opposed to the rate base under discussion here today
11 regarding Missouri American?

12 A. I'm not sure I understand that question.

13 Q. There have been questions in this proceeding
14 with regard to whether when St. Louis County Water Company
15 comes before the Commission that it -- will it seek to
16 maintain its rate base separately or will it seek to roll
17 it into the Missouri American Water Company base and thus
18 perhaps create an issue on the tariff design that the
19 Commission is considering in this case?

20 And my question is, has the company made any
21 commitment to maintain the St. Louis County Water
22 Company's rate base as a separate rate base apart from the
23 seven districts under examination here today?

24 A. The company has not made a final decision with
25 regard to that matter.

1 MR. ZOBRIST: Thank you.

2 JUDGE THOMPSON: Thank you, Mr. Zobrist.

3 Mr. Coffman?

4 MR. COFFMAN: Yes. Thank you.

5 CROSS-EXAMINATION BY MR. COFFMAN:

6 Q. Good afternoon, Mr. Jenkins.

7 A. Good afternoon.

8 Q. I just have a couple of questions, one on your

9 Schedule J and J-1 to your -- I guess, your rebuttal

10 testimony where you list your background and

11 qualifications.

12 A. Yes.

13 Q. In the next-to-last paragraph of that page, you

14 state that you were elected vice-president and treasurer

15 for both Missouri American Water Company and St. Louis

16 County Water Company in June of 1999.

17 A. That is correct.

18 Q. Are all of the officers identical between those

19 two companies?

20 A. I believe they are.

21 Q. Okay. And then I was surprised to learn that

22 you've been elected vice-president and treasurer for the

23 Jefferson City Waterworks Company, Inc. in May of this

24 year.

25 A. That is correct.

1 Q. Can you explain to me what relationship
2 Jefferson City Waterworks Company, Inc. has to Missouri
3 American, if any? Is it a --

4 A. Well, it's a separate corporation.

5 Q. What is its relationship to United Water
6 Missouri?

7 A. Well, the -- Missouri American acquired United
8 Water Missouri. Subsequent to that time, the name has
9 been changed to Jefferson City Waterworks Inc.

10 Q. Okay. I hadn't heard that. But very
11 informative. Thank you.

12 And so Jefferson City Waterworks Inc. is the
13 same company that is currently serving this city?

14 A. That is correct.

15 Q. Okay. Are the officers for Jefferson City
16 Waterworks Inc. identical to the officers of Missouri
17 American Water Company?

18 A. They are.

19 MR. COFFMAN: Okay. Very interesting.

20 I think that's all of the questions that I have
21 on this issue.

22 JUDGE THOMPSON: Thank you, Mr. Coffman.

23 Mr. Franson?

24 MR. FRANSON: Thank you, Your Honor.

25 CROSS-EXAMINATION BY MR. FRANSON:

1 Q. Mr. Jenkins, a few questions.

2 Could you look at your rebuttal testimony,
3 page -- page 5?

4 A. I have it.

5 Q. Okay. Specifically lines 13 through 15,
6 beginning with the AWK provides no guarantees of MAWC
7 security; it's under no obligation to advance funds to
8 MAWC. In fact, as its sole shareholder, AWK demands that
9 each of its subsidiaries, including MAWC, demonstrate an
10 independent ability to service its debts and then it
11 continues.

12 Do you see where I'm referring to?

13 A. I do.

14 Q. AWK is what?

15 A. American Waterworks.

16 Q. That is, in fact, the parent company of
17 Missouri American Water Company?

18 A. That is correct.

19 Q. Now, is it your testimony that if MAWC was
20 not able to service its debt, that American Waterworks
21 wouldn't do anything to assist MAWC?

22 A. I think my testimony is clear in the terms that
23 American Waterworks does not provide any guarantee that it
24 would assist. As an officer, if that was to happen, I
25 would have to go before the board and seek approval to get

1 any equity funds if that was so necessary.

2 Q. Now, are you a member of the board of American

3 Waterworks Company?

4 A. Am I?

5 Q. Yes.

6 A. No.

7 Q. But you would have the option if MAWC had

8 financial problems to approach American Waterworks, your

9 sole shareholder?

10 A. Yes, we would have the option to explain our

11 financial situation and see what the board wanted us to

12 do.

13 Q. And isn't it fair to say that if you personally

14 own a company, you're its sole shareholder, that you would

15 want to see that company be a viable entity and you might

16 have to consider if there were problems pumping funds into

17 that?

18 A. Well, not if the funds that you pump into it

19 are not allowed to return.

20 Q. Has it ever happened that American Waterworks

21 has had to advance funds to one of its subsidiaries?

22 A. Well, they advance funds --

23 Q. No. Has it ever happened --

24 A. -- every day.

25 Q. -- that American Waterworks has had to advance

1 funds to one of its subsidiaries for that subsidiary to
2 meet its obligations?

3 A. Well, for example, in this very proceeding, as
4 an officer of Missouri American, the company filed a
5 financing case in order to help finance the St. Joe water
6 treatment plant in which we asked for equity funds to be
7 provided by the parent company. And the parent company
8 relying upon past practice of this Commission in terms of
9 being able to earn a return on those funds, advanced those
10 and that was approved in our last financing case.

11 Q. Okay. Perhaps I need to rephrase my question.

12 My question is, has there ever been a situation
13 that you are aware of where one of the subsidiaries of
14 American Waterworks has had to get funds from the American
15 Waterworks Company, not through necessarily the normal
16 course of business they run into problems, that they've
17 had to ask the parent company for funds?

18 A. In terms of financial distress, is that the
19 context of the question?

20 Q. Yes.

21 A. I do not know.

22 Q. Now, doesn't the fact that there is a parent
23 company that has equity, has funds available, doesn't that
24 give MAWC an advantage that other water companies may not
25 have?

1 A. If MAWC can demonstrate to its parent company
2 that it can earn a fair return on its investment and has
3 access to the capital markets, yes.

4 Q. Well, isn't the fact that a return on equity
5 and the benefits of economies of scale and other reasons,
6 that's why some companies such as Missouri American do, in
7 fact, consolidate?

8 A. That's true. American Waterworks through its
9 service company provides many services, one of which is
10 finance. The other can be engineering services,
11 consolidated purchase agreements and water quality
12 assistance.

13 Q. Mr. Jenkins, are you, in fact, the chief
14 financial officer of the Missouri American Water Company?

15 A. The actual title is vice-president and
16 treasurer.

17 Q. Okay. Are the financial statements actually
18 prepared under your direction and you're ultimately
19 responsible for the preparation of those?

20 A. As one of the finance officers, yes. We also
21 have a comptroller that is more directly responsible for
22 the day-to-day financials.

23 Q. But that comptroller reports to you; is that
24 correct?

25 A. No.

1 Q. Who does that comptroller report to?

2 A. It reports to the president.

3 Q. And that is who you also report to?

4 A. Yes.

5 Q. Now, you're also a licensed CPA?

6 A. That's correct.

7 Q. Now, isn't it true that Financial Accounting

8 Standard 92, I believe, consistent with your testimony and

9 consistent with the testimony of Mr. Hamilton would only

10 prohibit Missouri American Water Company from actually

11 recording revenues if there was, in fact, a revenue

12 deferral as part of a phase-in in this case?

13 A. If there was a phase-in ordered in this case,

14 as Mr. Hamilton previously testified to, the expenses

15 would be required to be booked, the expenses would

16 negatively impact financial statements and the revenues

17 that were so deferred in terms of financial reporting

18 purposes would not be allowed to be reported.

19 Therefore, the company would suffer an

20 immediate negative financial impact which I modeled in my

21 financial statements to this testimony.

22 Q. Okay. We'll come to that shortly.

23 But the bottom line is, the effect would be on

24 the company's financial statements, not on the ability to

25 receive the revenue as part of the phase-in of the later

1 years?

2 A. Yes. I'd have to read the order, but, yes, in
3 terms of if the Commission was to offer a guarantee in
4 terms of recoverability of those deferrals.

5 Q. Okay. But assuming that the order was
6 consistent that the company would be allowed to receive
7 those deferrals, then your answer to that question is that
8 it would only affects financial statements in a given
9 year?

10 A. It would reflect negatively on the financial
11 statements in the initial years in which, for example, in
12 JMJ-2-3 in which I modeled the Staff recommendations in
13 this case, the company would earn 3.7 percent on equity.
14 And then as we proceeded through the process, through
15 2004, the company would earn 13.52 on equity.

16 Q. Okay. Now, Mr. Jenkins, isn't it fair to say
17 that in a case such as this, that there are other concerns
18 before this Commission besides the actual impact on the
19 financial statements of the company such as rate shock,
20 rate design, prudence of plant, all kinds of other issues
21 that go into the final decision?

22 A. Yes.

23 Q. And are you aware that part of the Staff's
24 proposal is to carrying charges, I believe, equal to the
25 rate of return on this or on the return of equity -- I'm

1 not sure which -- that would go with those deferrals?

2 A. Yeah. The Staff has indicated that they would
3 allow a carrying charge equivalent to the company's
4 authorized cost of capital relating to any phase-in plan.

5 Q. And that is, in fact, a benefit to the company
6 if there was, in fact, a phase-in consistent with the
7 Staff's proposal and using the Staff's revenue
8 requirement? The carrying charges?

9 A. Well, in terms of the benefit it keeps the
10 company in present value terms whole; however, on
11 financial reporting purposes, the benefit is quickly lost
12 in the early years until the revenues that are collected
13 exceed the true one-time rate increase level of the
14 company.

15 Q. Now, your financial statements, isn't it fair
16 to say that you have those -- those financial statements
17 are available to bond holders of your company?

18 A. That is correct.

19 Q. And isn't it also fair to say that you would
20 like the best possible return listed on your financial
21 statements?

22 A. That is correct.

23 Q. And, in fact, if you had a lower rate of return
24 than you expected but there was a specific reason such as
25 a phase-in authorized and ordered by the Missouri Public

1 Service Commission, wouldn't you, in fact, put a footnote
2 or other annotation on your financial statement to explain
3 that, and wouldn't that be part of something you would
4 consider doing?

5 A. I think a footnote would be noteworthy in this
6 situation. However, the bond holders would evaluate the
7 financial statements with first reference towards GAAP in
8 which earnings would be below, in this case, 3 to -- below
9 5 percent on equity. And then they would have to go back
10 to the footnotes and evaluate the future recoverability of
11 whatever the specific pricing mechanism that was allowed
12 by the Commission.

13 Q. But, once again, GAAP refers -- the generally
14 approved accounting practice -- what is it practice or
15 procedure?

16 A. Principles.

17 Q. Principles.

18 Those, again, reflect what you have to do on
19 your financial statements, exclusively; isn't that
20 correct? It really doesn't have to do with what the
21 ultimate decision of this Commission is.

22 A. True.

23 Q. Sir, turning to your rebuttal, turning your
24 attention to line -- page 6, lines 2 -- 2 to 3, if you
25 could turn there, please.

1 If you could -- could you read starting where
2 it says on line 2, specifically.

3 A. And where do you want me to stop?

4 Q. At the end of that sentence on line 3.

5 A. Specifically earnings each year will be reduced
6 by the amount of the revenue deferral net of taxes.

7 Q. Now, you're saying revenue would be reduced but
8 what we're talking about is, immediately -- let's take a
9 snapshot here.

10 You've got that statement. Revenues, don't you
11 really mean anticipated revenues, because the company --
12 if there was a phase-in the company isn't getting every
13 single thing they want? Is that what you're referring to?

14 A. No. What I'm referring to, hypothetically
15 speaking, if the company was under traditional rate making
16 is order to increase its rates \$10 million. However, the
17 Commission elected under a phase-in program to increase
18 rates only \$2 million, then I would have \$8 million of
19 expenses not covered in my current financial statements.

20 Those \$8 million net of tax would be allowed to
21 flow right through the financial statements and in that
22 context would be around \$5 million negative impact to
23 earnings, and this company consistently only earns \$6
24 million. Therefore, the financial statements that I'm
25 going to be presenting to the public, presenting to the

1 bond holders, are going to represent some very negative
2 earnings evaluations that they will have to look at and
3 evaluate.

4 Q. However, you're still -- actually your first
5 year over the previous year even under a phase-in, your
6 revenues would be, in fact, increased, isn't that correct,
7 by the \$2 million in the hypothetical you asked?

8 A. Yes. I would have \$2 million of cash to
9 recover \$10 million of revenue requirement.

10 Q. Now, you're not here today to say that you have
11 any reason to doubt if there was a phase-in ordered, that
12 the company would, in fact, be allowed to recover that
13 revenue. You're not here to say that, are you?

14 A. I don't believe I understand your question.

15 Q. Okay. If there is a phase-in -- and let's say
16 it goes along with your schedule JMJ-2-3, you don't -- and
17 using the Staff's revenue requirement and everything else
18 that you've used in that schedule, you don't have any
19 reason to doubt that the company would be allowed to
20 recover the revenues ordered as part of a phase-in, do
21 you?

22 A. Any time amounts are stuck in a regulatory
23 asset, the quality of those earnings from a financial
24 perspective are put into question. And what I mean about
25 that is, we don't have to look any farther than this case

1 in terms of issues such as carrying costs, the
2 capitalization rate used to capitalize on the St. Joe
3 treatment plant now, two or three years after the fact.

4 We've got recommendations in this proceeding in
5 which --

6 Q. Your Honor, I'm going to object to this as
7 nonresponsive. I did not ask him about prudence. I was
8 asking about recovery of future revenue.

9 I'd ask that that be stricken.

10 MR. ENGLAND: Your Honor?

11 JUDGE THOMPSON: Mr. England.

12 MR. ENGLAND: On the contrary. He asked this
13 witness if he had any reason to doubt he wouldn't get the
14 revenues under a phase-in plan that he was entitled to,
15 and I think he's giving him a perfect example that is in
16 this case, where future revenues may be put at jeopardy
17 and the recovery of those revenues may be put in jeopardy.
18 I think it's clearly relevant and it ought to be allowed.

19 JUDGE THOMPSON: I believe the answer was
20 responsive.

21 MR. FRANSON: Thank you, Your Honor.

22 JUDGE THOMPSON: Are you finished? Do you have
23 more?

24 THE WITNESS: No. I was going to add to the
25 answer with your permission.

1 JUDGE THOMPSON: Please proceed.

2 THE WITNESS: So in terms of capitalization
3 rates, for example, in this proceeding, as I was
4 explaining, we've got a situation in which two years after
5 the fact we've got differing opinions on what the
6 capitalization rate should be.

7 Other examples would include, in terms of my
8 understanding of these type of deferrals, is that future
9 commissions are not necessarily bound in terms of having
10 to follow the deferrals that were recommended by prior
11 commissions.

12 BY MR. FRANSON:

13 Q. Are you personally aware of any case directly
14 of an order of the Missouri Public Service Commission
15 where deferrals were -- phase-ins were granted and then
16 those funds were not recovered as part of the rates?

17 A. In terms of the Missouri Commission?

18 Q. Yes.

19 A. No.

20 MR. FRANSON: No further questions.

21 JUDGE THOMPSON: Thank you, Mr. Franson.

22 Mr. Finnegan?

23 MR. FINNEGAN: Yes. Thank you, Your Honor.

24 CROSS-EXAMINATION BY MR. FINNEGAN:

25 Q. Mr. Jenkins, if you'd turn to page 3 of your

1 surrebuttal testimony, which is Exhibit 5, and look at
2 your answer beginning on line 7 to the question about the
3 impact of a disallowance or phase-in.

4 Do you see your answer there?

5 A. Yes.

6 Q. The first thing is the SFAS 90 and SFAS 92,
7 they're the same as the FAS 90 and the FAS 92 that
8 Mr. Hamilton talked about?

9 A. Yes, they are.

10 Q. Okay. With respect to SFAS 90, involving
11 disallowances, you say that requires an immediate
12 write-off; is that correct?

13 A. I do.

14 Q. Okay. And then with respect to SAF 92
15 pertaining to phase-ins, you say this prohibits
16 capitalization of the cost deferred for future recovery
17 under phase-in plans; is that correct?

18 A. That's correct.

19 Q. You don't say that FAS 92 requires an immediate
20 write-off, do you?

21 A. What SFAS 92 requires is that the expenses
22 that are going to be booked will go ahead and flow
23 through the financial statements. Any revenues that the
24 Commission would indicate that were allowable for deferral
25 would not be allowed to be deferred; therefore, the

1 financial statements would be negatively impacted and
2 would have the same impact as if there was a write-off.

3 Q. The same the impact but it would not be a
4 write-off. You wouldn't show \$2 million up here of
5 revenues and then show down below a write off of \$2
6 million revenues because you didn't get them?

7 A. No. What I'd show under my previous
8 hypothetical is that \$2 million of actual revenues would
9 be received. \$8 million of -- or \$10 million of expenses
10 would be booked; therefore, resulting in an \$8 million
11 pre-tax negative impact to earnings that would have the
12 exact same impact as if it was a write-off.

13 Q. That would be just for the first year?

14 A. That would be for the first year.

15 Q. Okay. If something else would happen, you'd
16 have a different impact the second year. Right?

17 A. Yes.

18 Q. I think you indicated something on your next
19 page about the effect of this would be -- of the financial
20 impact on the top of page 4, would make your ROE extremely
21 volatile over the next five years?

22 A. Could you direct me to the --

23 Q. Okay. On page 4, the lines 3 to 5.

24 JUDGE THOMPSON: Surrebuttal testimony?

25 MR. FINNEGAN: Surrebuttal.

1 THE WITNESS: Yes. Yes.

2 BY MR. FINNEGAN:

3 Q. And by volatile can we read the ROE is higher
4 the next five years?

5 A. Well, what I'm referring to is describing a
6 situation that is occurring in Schedule JMJ-4 in which a
7 combination of a prudence disallowance and a phase-in
8 proposal would result in negative 48 percent return on
9 equity in the first year, jump up to 2.31 percent return
10 on equity in the second year, go up to 7.77 percent the
11 third year, peak at 8.35 percent in 2003, and then begin
12 to go back down in 2004.

13 Q. Well, what about your JMJ-3, where you take --
14 you analyze the Staff proposal?

15 A. Yeah. In the Staff proposal, because initially
16 the Staff in its direct -- direct case only had a
17 disallowance on AFUDC, the modeling of this shows more of
18 the traditional impact of just a pure phase-in without
19 putting a prudence disallowance on it in which the first
20 year you would have a very thin equity return -- in this
21 example 1.21 percent -- and then it would work its way up
22 to an overearning situation in 2004 as the company
23 completely recovered its revenue requirement plus all of
24 the carrying charges on top of that and which we would be
25 earning 13.39 percent.

1 Q. So that in that case volatile could be read to
2 be higher return on equity every year because you're
3 getting increased rates every year?

4 A. The original question and answer was in
5 response to how the OPC's original proposal -- the impact
6 of the OPC is not the Staff.

7 Q. I'm sorry. I missed that. But you would also
8 call the Staff's volatile too, would you not, earnings ROE
9 as being volatile, it's moving?

10 A. No, I wouldn't refer to that as being volatile.

11 Q. Okay.

12 A. I'd refer to it as underearning in the initial
13 years of the phase-in and overearning in the future years
14 of the phase-in.

15 Q. Which means you average earn your return? You
16 under earn and over earn and then you add those two
17 together and divide by five and you've got an average
18 there. Right?

19 A. In terms of -- if I'm allowed to recover all of
20 these deferrals, yes.

21 MR. FINNEGAN: That's all of my questions.

22 JUDGE THOMPSON: Thank you, Mr. Finnegan.

23 Mr. Curtis?

24 CROSS-EXAMINATION BY MR. CURTIS:

25 Q. Good afternoon, Mr. Jenkins?

1 A. Good afternoon.

2 Q. Can you tell me when Missouri American acquired
3 the United Water Missouri now known as Jefferson City
4 Waterworks?

5 A. I think we actually took ownership and got the
6 approval from the Commission in April of this year.

7 Q. And when did -- when was St. Louis County Water
8 acquired?

9 A. That was June of 1999.

10 Q. And when was this present rate case filed?

11 A. I believe September -- no. Sorry.
12 October 15th or so of 1999.

13 Q. All right. Why was not St. Louis County Water
14 Company included in this rate filing as an additional
15 district to shoulder the burden of the St. Joe plant?

16 A. Well, at the time we had just -- the
17 transaction had just been completed in terms of American
18 taking ownership of St. Louis County Water Company and we
19 did not have our financial statements and our operations
20 in such a manner that we felt a rate case needed to be
21 filed.

22 Q. But you could have joined the St. Louis County
23 system into the present seven districts to at least
24 provide some additional spreadability of the St. Joe
25 plant, could you not, even if it didn't need a rate

1 increase particularly for St. Louis County?

2 A. Well, when you put together a rate case filing,
3 that is not something that can be done in quick order.
4 St. Louis operating as an independent county had its own
5 rate filing cycles that it was operating under. Missouri
6 American, with the size of the St. Joe plant, basically
7 had no oppor-- no other opportunity but to file when it
8 did file in order that it could get proper recognition of
9 when the plant would be placed into service.

10 MR. CURTIS: Thank you.

11 I have nothing further.

12 JUDGE THOMPSON: Thank you, Mr. Curtis.

13 Mr. Deutsch?

14 MR. DEUTSCH: No questions, Your Honor.

15 JUDGE THOMPSON: Thank you.

16 We'll take a ten-minute recess and return for
17 questions from the Bench.

18 (A recess was taken.)

19 JUDGE THOMPSON: We are ready for questions
20 from the BENCH with respect to Mr. Jenkins.

21 Chair Lumpe?

22 QUESTIONS BY CHAIR LUMPE:

23 Q. Mr. Jenkins, am I reading your testimony
24 correctly if I infer that you really would not like to see
25 a phase-in but you would rather see, if we use something

1 else, a surcharge?

2 A. That is two different answers to that question.
3 The company would like nothing else but to be able to
4 implement a phase-in plan. We've worked very hard with
5 our external auditors and, as we've seen today, we just
6 can't get one that is acceptable in terms of generally
7 accepted accounting principles.

8 So that has put us in a very difficult
9 situation before the Commission in terms of having to deal
10 with a sizeable revenue requirement in which, if it's not
11 allowed in terms of whatever that final level is in its
12 entirety, we're going to place our financial statements in
13 an adverse financial position.

14 So whether the Commission's pricing mechanism
15 is pure single-tariff pricing or some sort of mechanism of
16 the surcharge was an option we proposed, given those
17 factors, we would like to have that up front in rates
18 immediately.

19 Q. Okay. I think that what you're telling me, the
20 only thing I left out was that you would like to do
21 phase-in but you don't see a way to do it. If somebody
22 else could find the way that didn't -- that met the
23 problems you're addressing, you would not oppose a
24 phase-in. But given what you think the case is, if it
25 were not just right out single-tariff pricing, a surcharge

1 would be the next best thing. Is that right?

2 A. A surcharge that allowed the entire rate
3 increase would be better from our perspective than a
4 phase-in.

5 Q. All right. Mr. Jenkins, did you work with
6 St. Louis County Water before you went to work?

7 A. Yes, I did.

8 Q. And you would have some sense of the
9 infrastructure needs of St. Louis County?

10 A. Yes, I would.

11 Q. And I heard a very large number this morning,
12 much larger than I thought it was. I thought it was in
13 the neighborhood of 90 million. I heard somebody say 250
14 million. If that were to have been joined in this case,
15 what do you think St. Joseph's position would have been?

16 A. And it's a very good question, and something
17 that we're wrestling with right now is trying to get our
18 arms around all of the numbers from all of the three
19 companies that we currently have under American ownership
20 in Missouri.

21 With respect to St. Louis County Water Company,
22 our rate base, for example, in terms of gross plant is
23 \$500 million. Missouri Americans is, I think around --
24 let me check for that -- right around \$144 million. So
25 we are quite a -- in terms of St. Louis, it is quite a

1 bit -- quite a bit larger. If we put this \$70 million
2 investment in perspective, that \$70 million approximated
3 about \$11 million revenue requirement. It's in that
4 neighborhood, which St. Louis is \$100 million business, so
5 that would be about an 11 percent rate increase.

6 So in terms for us to get up to a 55 percent
7 increase, our infrastructure program at St. Louis County
8 Water would need to immediately be in the neighborhood of
9 \$350 million. And based on that -- the information that
10 I've seen today, it's not at that level.

11 Q. As I recall from the last case, the numbers
12 that were talked about were in the neighborhood of
13 90 million, I thought, somewhere in that ballpark. And
14 you're saying that because of the value of that property
15 and even though those infrastructure means are that great,
16 greater than St. Joe's, by adding that value to the rest
17 of the value, it would lower potential rates?

18 A. In terms of capital investment --

19 Q. Yes.

20 A. -- I think the answer is yes, at least
21 initially.

22 But that type of issue has to be looked at in
23 its entirety and you've got all sorts of factors besides
24 just capital and O&M, et cetera. Our present needs and
25 what we're looking at in terms of investment is in the

1 neighborhood over the next three years of around \$40 to
2 \$45 million in terms of actual infrastructure replacement.

3 CHAIR LUMPE: Okay.

4 Thank you, Mr. Jenkins.

5 JUDGE THOMPSON: Thank you, Chair Lumpe.

6 Commissioner Murray?

7 COMMISSIONER MURRAY: Thank you.

8 QUESTIONS BY COMMISSIONER MURRAY:

9 Q. Your financial impact analysis exhibits, what
10 is the physical year that is used there? You showed
11 between -- you show 2000, 2004 but what is --

12 A. It is a calendar year.

13 Q. Calendar year.

14 Would it be possible then for you to do a
15 statement showing the current numbers or the numbers for
16 the calendar year 1999 as they currently exist for the
17 company for all of these items, return on average, common
18 equity, the debt-to-equity ratio, that kind of thing?

19 A. Oh, in terms of what the actual 1999 results
20 are?

21 A. Yes.

22 Q. Okay. Could you prepare that as a late-filed
23 exhibit?

24 A. I could. And I think it's noteworthy to advise
25 you at this time in terms of the return on equity, I think

1 it's something that has to be looked at very closely.
2 Given the magnitude of the St. Joseph treatment plant, the
3 company has got -- in 1999 was carrying a substantial
4 amount of short-term debt.

5 We were carrying that short-term debt because
6 we were strategically planning to be able to utilize
7 low-cost tax-exempt financing. And at the point of no --
8 of getting that approval was late December of 1999. And
9 we were not able to actually take that short-term debt and
10 put it into debt and equity, in terms of short term -- or
11 in terms of long term and equity boring, and our return
12 figures in 1999 in my opinion are skewed on the upward
13 end.

14 And they're not really a proper evaluation of
15 what the return on equity is because of the timing issue
16 with -- with regard to the tax-exempt difficulty we had in
17 getting volume cap in the State of Missouri.

18 Q. And I wouldn't have a problem in your filing --
19 with your filing of that exhibit some footnote with an
20 explanation?

21 A. And that's the reason why I wanted to bring
22 that up, because my first thought is I would footnote that
23 exhibit.

24 Q. And then could you also carry your analysis
25 into the year -- to another year? There is nothing to

1 show us, is there, that the increased revenues would cease
2 after year 2004?

3 A. Okay. I utilized a five-year planning scope.
4 Are you wanting us to go beyond five years or --

5 Q. Well, I realize that Staff is suggesting a
6 five-year phase-in. And one of your -- well, the Staff's
7 analyses would incorporate that five-year phase-in that
8 your pro forma based on Staff's proposal, and then Public
9 Counsel I had forgotten how many years they suggested the
10 phase-in. I think it was three.

11 A. No. I think their phase-in extends seven years
12 because they have two years of automatic rate reductions.

13 Q. Okay. Let me see if I can phrase what I'm
14 trying to get at.

15 The increased rates are going to continue
16 beyond this five-year period regardless of which proposal
17 we develop; is that correct?

18 A. In terms of a phase-in proposal?

19 Q. No. Even if we don't do a phase-in proposal.
20 The increase in the rates.

21 A. Well, if we don't do a phase-in proposal, for
22 example, revenues will grow by customer growth. That
23 would be one example. Or in the planning horizon, if we
24 were to plan a rate filing and assume another rate
25 increase, revenues could grow. But those are about the

1 only two areas that you would see.

2 Q. Okay. There may be no benefit in what I'm
3 asking for in going beyond this, but I would like to see
4 the statement showing the current numbers as they existed
5 for 1999.

6 And I would also like to ask you to look at
7 your JMJ-3, which is the one that, as I understand it,
8 includes Staff disallowance for the excess capacity.

9 A. Yes, it does.

10 Q. And if you look at the debt for each year, each
11 year it is quite a bit below 60 percent; is that correct?

12 A. That is correct. Or that ratio is the -- goes
13 from 57 percent to about 54.7 percent.

14 Q. And the highest would be the year 2000,
15 57.1 percent?

16 A. That is correct.

17 Q. And if you look at your JMJ-2-3 which does not
18 include Staff's disallowance for excess capacity, that
19 ratio never goes above 57 percent and that would also be
20 in the year 2000; is that correct?

21 A. That is correct.

22 Q. And then just one last question.

23 I know you attempted to answer the question and
24 maybe I just didn't -- was not listening carefully enough.
25 But you were asked earlier why wasn't St. Louis County

1 Water included to help shoulder the burden for this rate
2 increase, and I believe your answer was that it was too
3 soon after the acquisition to determine the numbers.

4 And that just seems like a very good question
5 particularly when you're talking about very large rate
6 base with the St. Louis County customers. Could you try
7 explain that again?

8 A. Okay. Yes. Obviously when you go through an
9 acquisition, in terms of employee turnover, in terms of
10 beginning to pull the company together and I've used the
11 phrase as "kick the tires," begin to evaluate where you're
12 at in terms of being a combined statewide utility versus
13 just a St. Louis utility, it just takes you, in my
14 opinion, about a year to get your feet wet and begin to
15 understand the business and how you're going to actually
16 operate the companies on a statewide basis to be able to
17 put together the routine required known and measurable
18 type adjustments that this Commission and the parties that
19 evaluate our rate cases utilize to set rates.

20 And, quite frankly, we just didn't feel like we
21 had in terms of that just the mechanics of doing a rate
22 case, didn't -- didn't have that type of information
23 available so we could put it in good working order to be
24 able to present a -- present a filing.

25 Q. And then I thought I heard you also answer

1 someone -- or one of the witnesses for the company, I
2 believe, answered some question earlier that it hadn't
3 been determined yet whether in the future rate case that
4 you would be recommending that St. Louis Water Company --
5 St. Louis County Water Company customers also be included
6 in a single-tariff pricing application.

7 Is that something that hasn't been decided yet
8 as to how to treat that portion of the customers?

9 A. That's correct. I mean, that's something
10 we're currently evaluating today. And one of the other
11 reasons I mentioned in terms of timing of a rate case, as
12 St. Louis County Water Company, before the acquisition we
13 had our own tiny type of arrangements.

14 And Missouri American basically had to get
15 before the Commission in terms of dealing with its
16 significant investment in the St. Joseph treatment plant
17 and, if we recall, one of the issues that the company did
18 settle -- attempted in terms of a settlement proposal with
19 a few of the parties in this proceeding was to do
20 something like what we're talking about in terms of a
21 combined-type rate filing, a combined merger agreement in
22 which at that time of putting that type of filing
23 together, we would have had all of the numbers together,
24 all of these complicated rate design issues at the same
25 time and made a decision of whether we would file a

1 district specific with St. Louis, some sort of
2 single-tariff pricing or a combination of the two.

3 Those decisions just haven't been made yet.

4 COMMISSIONER MURRAY: Thank you.

5 JUDGE THOMPSON: Thank you, Commissioner
6 Murray.

7 Commissioner Schemenauer?

8 COMMISSIONER SCHEMENAUER: Thank you, Your
9 Honor.

10 QUESTIONS BY COMMISSIONER SCHEMENAUER:

11 Q. Good afternoon, Mr. Jenkins.

12 A. Good afternoon.

13 Q. Just a few questions.

14 Your testimony is only is only on the financial
15 impact of the disallowance of excess capacity and also the
16 financial impact of the phase-in; is that correct?

17 A. As well as prudence disallowances too.

18 Q. So if I asked you why the excess capacity was
19 built into the new water plant, you could tell me?

20 JUDGE THOMPSON: If I could clarify for a
21 moment, Commissioner.

22 Mr. Jenkins will be testifying twice. He's
23 testifying right now on rate design, is that correct, and
24 he will come back and testify on prudence.

25 MR. ENGLAND: That is correct. And I think --

1 COMMISSIONER SCHEMENAUER: Is this a prudence
2 question?

3 I don't know either. I mean, I'm trying to
4 read his testimony and figure out what to ask him.

5 BY COMMISSIONER SCHEMENAUER:

6 Q. Is this testimony now limited just to the
7 financial impact of disallowing the excess capacity and
8 phase-in?

9 A. My testimony addresses the financial impact,
10 not the opinion of the prudence, whether we're talking
11 about prudence of construction or building or the excess
12 capacity adjustments. It's only the financial impacts
13 that such Commission decisions will have on the company's
14 financial statements.

15 Q. So if I asked you whether or not the excess
16 capacity of the plant was to make up for all of the leaks
17 in the system, you wouldn't know. Right?

18 A. That's correct.

19 Q. And I should ask who about that?

20 A. I believe Mr. Young.

21 Q. Okay.

22 A. On your schedules, pro forma financial
23 statements, GM-2, 3 and 4, dividends that are shown on
24 there, those dividends are paid to your sole shareholder;
25 is that correct?

1 A. That is correct.

2 Q. American Waterworks Company?

3 A. That is correct.

4 Q. And your concern on the financial impact is if
5 we have a phase-in of increases, that a future commission
6 in 2003 would come in and say you're overearning and
7 reduce your ability to recover those?

8 A. That is one of my concerns.

9 Q. What other concern do you have?

10 A. Another concern is parties making
11 representations in terms of how to calculate the related
12 deferral.

13 For example, in this case we've got a
14 difference of opinion in what we thought as the company
15 was a proper carrying charge rate and of the actually
16 applied carrying charge rate in terms of the St. Joseph
17 treatment plant for its construction cycle, and now, when
18 the plant is finished and being able to be placed in
19 service, the evaluation of what the proper carrying charge
20 rate, we've got parties proposing to use a different one
21 that has an adverse financial impact on the company.

22 Those are the kind of examples that when you
23 stick these things in deferrals out into the future are
24 real world things as the treasurer of this company as well
25 as, in my view, bond holders are concerned about.

1 Q. And bond holders, someone has mentioned bond
2 holders' concerns before.

3 Who are the bond holders of American Waterworks
4 or Missouri American Water Company?

5 A. We've got a -- we've got private insurance
6 companies that loan us -- that loan us money, the tax
7 exempt that we've got funded through the State of
8 Illinois, in which, for example, the latest one, the
9 Edward Jones was the underwriter and has sold to many,
10 many individual small investors across the -- you know,
11 probably mainly in the State of Missouri.

12 Q. And these are Missouri micro bonds, not
13 American Waterworks?

14 A. That is correct.

15 Q. And do bond holders typically buy bonds with
16 the expectation of selling them before they complete the
17 stream of revenue to them or capital gains, or are they
18 holding them for that stream of revenue that they're going
19 to get that is either tax exempt or a higher interest rate
20 than normal?

21 A. I don't know about all of the individual bond
22 holders. I think a lot in terms of -- are holding them
23 for their duration.

24 Q. Most of them don't buy bonds with the
25 expectation of capital gains on the bonds. They're

1 holding them for that revenue stream. And if they buy
2 them -- and some notes in the financial statement indicate
3 that some disallowances have been made by a regulatory
4 body or some revenues have been deferred, you wouldn't
5 expect those bond holders to jump in the market and sell
6 those bonds at a discount, would you?

7 I mean, the price may go down but certainly
8 they wouldn't jump in there and sell them, would they?

9 A. In terms of just limited to the phase-in type
10 of an issue, I wouldn't -- I don't disagree. Because in
11 terms of the interest coverage ratios and some of those
12 type of triggers that would cause someone to have serious
13 concerns about your ability to make those type of debt
14 interest payments are not there.

15 COMMISSIONER SCHEMENAUER: That's all I have.

16 Thank you.

17 JUDGE THOMPSON: Chair Lumpe?

18 FURTHER QUESTIONS BY CHAIR LUMPE:

19 Q. We have been talking about St. Louis County and
20 you said the company hasn't made a decision yet.

21 What about Jefferson City, and I think that was
22 raised in the merger or the stock buy. Would they come
23 under STP and have you made that decision yet?

24 A. No. Our preliminary plans in terms of all
25 three of these companies in terms of some sort of

1 consolidated rate filing are, at least at the initial
2 levels, more -- it hasn't been approved through our board
3 yet, but would be to be filing rate cases in 2003 that
4 would finally, we believe, by that time we'll have all of
5 the three companies put together.

6 Now, that does not mean that we won't file an
7 individual rate case, for example, for St. Louis County
8 Water Company. The Jefferson City Waterworks just
9 finished its rate cut filing. So that gets me back to the
10 point. Each one of these companies, we're at different
11 timing cycles of their rate filings. In my view this is
12 an increasing-cost business. And we're looking in the
13 very near future at filing a St. Louis County Water
14 Company rate case on its own, pure district-specific
15 pricing. And those decisions are being made right now.

16 Q. So possibly you said 2003 you'll be back
17 here -- somebody will be back here saying bring these in
18 for single-tariff price.

19 A. Well, you know, you have to -- we have to take
20 each one of these individual rate decisions and we have to
21 evaluate them. We don't have the companies merged
22 together as one corporate entity yet. We have to come
23 before the Commission and get that approval.

24 And at that time we've already had recent rate
25 filings in theory with Missouri American, Jefferson City

1 Waterworks and one that is pressing for St. Louis County
2 Water Company. Those are the -- the real-world decisions
3 that we're trying to make as the management of this
4 company.

5 CHAIR LUMPE: Thank you, sir.

6 JUDGE THOMPSON: Further questions from the
7 Bench?

8 QUESTIONS BY JUDGE THOMPSON:

9 Q. Mr. Jenkins, if you look at your Schedule JMJ-4
10 to your surrebuttal testimony, what exactly is a negative
11 48.56 percent return on common equity? What does that
12 mean?

13 A. That means that our retained earnings balance
14 is -- is negative. And this, Your Honor, gets to the
15 prudence disallowance phase. So if there was a prudence
16 disallowance and all of our retained earnings had to be
17 written off because of a decision by the Commission, our
18 returned earnings would be negative and, quite frankly, it
19 means devastation.

20 Q. Okay. Now, on this schedule for that
21 year 2000 with that negative 48.56 percent return, you
22 nonetheless show that dividends would be paid; is that
23 correct?

24 I believe you show 2,419,000 common stock
25 dividends and 183,000 preferred stock dividends?

1 A. And that is because in terms of the -- in
2 this case, that decision would be rendered in the
3 September 15th time frame.

4 Q. So dividends would have already been paid?

5 A. Been paid for the first two quarters of the
6 year, and then after that, they stop.

7 Q. I see. Okay.

8 Then on this schedule, for the next three
9 years, you show no dividends at all. Do you see that?

10 A. That is correct.

11 Q. Why is that?

12 A. That is because our retained earnings balance
13 is negative and we are prohibited by State statute to be
14 able to pay dividends when our retained earnings balance
15 is in a negative position.

16 Q. Okay. Now, for example, in year 2003, 2003,
17 you project a return on common equity of 8.35 percent?

18 A. That is correct.

19 Q. Okay. But that would still -- your retained
20 earnings would still be negative?

21 A. Yeah. Because the net income that is generated
22 by that 8.35 percent hasn't built up enough from the
23 one-time write off related to a -- in this case it's a
24 \$30 or \$40 million prudence disallowance. We haven't made
25 that much net income to get our -- to get our retained

1 earnings balance back to being positive.

2 Q. If I were to add up these negative retained
3 earnings figures across all of these five years on this
4 schedule, would that give me the total amount of the write
5 off you're talking about?

6 A. I don't -- no, it will not. Because there is
7 net income that is going in each and every year.

8 JUDGE THOMPSON: Okay. I'm a somewhat naive
9 reader of financial statements, as you can see.

10 Thank you.

11 COMMISSIONER MURRAY: Judge?

12 JUDGE THOMPSON: Yes, ma'am.

13 Commissioner Murray?

14 COMMISSIONER MURRAY: I'd like to ask another
15 question.

16 FURTHER QUESTIONS BY COMMISSIONER MURRAY:

17 Q. This may be a naive question also but --

18 A. That's okay.

19 Q. -- is there anything at this point that would
20 keep us from considering the nonunanimous stipulation and
21 agreement that was originally filed here?

22 I see the deferral actually didn't begin until
23 August 1, 2000 under that stipulation and agreement.

24 A. I don't know.

25 COMMISSIONER MURRAY: I wonder who would -- if

1 anyone would be able to address that.

2 MR. ENGLAND: Commissioner, I hate to do this
3 to my witness, but I'm afraid that the guy you've got on
4 the witness stand is probably the best one to answer the
5 question and he's indicated he can't. So . . .

6 I could try to lead him but I'm not sure
7 they're going to allow me to do that on redirect.

8 JUDGE THOMPSON: Mr. Conrad offered.

9 BY COMMISSIONER MURRAY:

10 Q. Is it fair to say you don't have an opinion on
11 that?

12 A. Yeah, I don't have an opinion. And that was
13 more directed towards the legality of the issue. That
14 issue when we brought that settlement, in terms of the
15 contested settlement arrangements, it met with such
16 opposition from the other parties that, you know, the
17 decision was made that we shouldn't proceed forward with
18 it.

19 Now that we're at least right here in the trial
20 and going through all of those types of issues, you know,
21 I don't know if that is a reasonable option. I would have
22 to, you know, think about it and definitely confer and
23 discuss with other officers of our company and ultimately
24 our board. Because we need a board approval to sign that
25 agreement.

1 Q. Okay. So it's fair to say that that is not
2 under consideration in this proceeding?

3 A. That's correct. We've went full -- full scale
4 cross-examination and trial.

5 COMMISSIONER MURRAY: Thank you.

6 JUDGE THOMPSON: Further questions from the
7 Bench?

8 Recross, Mr. Dority?

9 MR. DORITY: No. Thank you.

10 JUDGE THOMPSON: Mr. Zobrist?

11 MR. ZOBRIST: No questions. Thank you.

12 JUDGE THOMPSON: Mr. Coffman?

13 MR. COFFMAN: No, thanks.

14 JUDGE THOMPSON: Mr. Franson?

15 MR. FRANSON: Yes, briefly, Your Honor.

16 RECROSS-EXAMINATION BY MR. FRANSON:

17 Q. Mr. Jenkins, are St. Louis Water -- St. Louis
18 Water Company and MAWC currently interconnected?

19 A. No.

20 Q. How about MAWC and Capital City Water, which I
21 believe is now Jefferson City Waterworks?

22 A. No.

23 Q. Now, did the Commission ever order that the
24 company use a specific AFUDC rate?

25 Was there ever a Commission order requiring

1 that, a specific rate used by the company?

2 A. It's my understanding that that is the rate
3 that has been used in each and every rate case filing.
4 And for the history of this company in terms of
5 capitalizing AFUDC on construction.

6 Q. Mr. Jenkins, that was not my question.

7 My question remains, did the Commission,
8 Missouri Public Service Commission, ever order Missouri
9 American Water Company to use a specific AFUDC rate?

10 A. To the extent rate base has been included --
11 strike that.

12 To the extent capital has been included in rate
13 base for the additions that were capitalized in the past
14 and, therefore, those additions have been reflected in
15 past rate orders, then in terms of -- I don't know what
16 the law is about that -- but in terms of what has happened
17 is the Commission today is allowing assets with rate base
18 that have had a fully capitalized carrying cost rate for
19 the construction cost on the assets placed in service.

20 Q. Okay. My question remains, for the third time,
21 do you know whether the Commission has ever said, Missouri
22 American Water Company, you will use this AFUDC rate?

23 It's either, yes, they have, or, no, they
24 haven't, or you don't know.

25 A. In that context, I don't know.

1 Q. Now, in the stipulation and agreement that has
2 been referred to, was there a specific statement in there
3 that MAWC would not bring St. Louis County into this kind
4 of rate case and share the cost as part of a unified rate
5 case?

6 A. I would have to review the stipulation. There
7 is some language that we can read for the record.

8 MR. FRANSON: If I may approach the witness,
9 Your Honor.

10 JUDGE THOMPSON: You may.

11 BY MR. FRANSON:

12 Q. If you would look at this, I believe it's a
13 copy of the agreement.

14 A. In this stipulation agreement there was a legal
15 language that read as follows --

16 MR. FRANSON: Your Honor, I would object to
17 this as nonresponsive.

18 I haven't heard any objection from counsel on
19 this and I think that is what I'm about to hear. I don't
20 think this is going to be responsive to my question.

21 JUDGE THOMPSON: I believe the witness is
22 attempting to respond to your question, Mr. Franson, and
23 I'm going to allow him to continue his attempt.

24 MR. FRANSON: Thank you, Your Honor.

25 THE WITNESS: The actual language in the

1 stipulation and agreement is, in the new rate cases that
2 are to be filed by MAWC and County Water, none of the cost
3 of service that is fairly allocable to the seven operating
4 districts that now compromise MAWC will be included in the
5 proposed revenue requirement for County Water and none of
6 the cost of service that is fairly allocable to County
7 Water's service territory will be included in the proposed
8 revenue requirement for MAWC.

9 This restriction will not be binding on other
10 parties to those cases.

11 JUDGE THOMPSON: Thank you, Mr. Jenkins.

12 MR. FRANSON: If I may approach the witness.

13 JUDGE THOMPSON: You may approach.

14 MR. FRANSON: Your Honor, I don't have any
15 further questions.

16 JUDGE THOMPSON: Thank you, Mr. Franson.

17 Mr. Finnegan?

18 RECROSS-EXAMINATION BY MR. FINNEGAN:

19 Q. Mr. Jenkins, you've indicated that the
20 companies or company is studying the combination of
21 Missouri American and St. Louis County Water and Capital
22 City and/or Capital City. I assume there is several
23 combinations you've looked at?

24 A. Yeah. The new name is Jefferson City
25 Waterworks Inc.

1 Q. That was a long time ago. That is when I lived
2 there, using the proper name Jefferson City Water.

3 You are studying that; is that correct?

4 A. We've not put a study together in terms of all
5 of those three companies to date. Quite frankly, we're
6 trying to get our arms around the situation. We're
7 looking to the order that is entered September 15th of
8 this year, and I realistically think, based on our current
9 planning, that the 2003 time frame by the time we get
10 through the regulatory approvals is when we'll be looking
11 at some sort of combined rate filing. And I can't
12 honestly tell you today what we're going to do.

13 Q. You said -- you prefaced that that was relating
14 to the three companies. How about the two companies,
15 Missouri American and St. Louis County?

16 A. The answer would be the same.

17 Q. You have no preliminary studies?

18 A. No.

19 Q. No hypothetical? You looked at nothing on
20 paper?

21 A. No.

22 MR. FINNEGAN: That's all of the questions I
23 have.

24 JUDGE THOMPSON: Thank you, Mr. Finnegan.

25 Mr. Curtis?

1 RE CROSS-EXAMINATION BY MR. CURTIS:

2 Q. Mr. Jenkins, you indicated that, I believe, in
3 response to a question from Commissioner -- Chair Lumpe
4 that you are, in fact, contemplating filing St. Louis
5 County as a stand-alone or a DSP-priced water utility?

6 A. That's correct.

7 Q. Is that inconsistent with the company's
8 approach to STP for the other seven districts here?

9 A. I don't believe so.

10 Q. I thought your testimony from your witnesses is
11 that STP is the way of the future for all multi-district
12 water companies.

13 Why wouldn't it apply here with the addition of
14 St. Louis Company Water?

15 A. Well, I think as Dr. Beecher's EPA study
16 demonstrates, there is many versions of STP and they run
17 the full gamut. And sitting here today, we have not made
18 the decision in terms of how we're going to put these
19 companies together on a combined district-specific
20 consolidated rate basis.

21 I don't have a magic formula yet. We need to
22 take a look at what the Commission -- how the Commission
23 is going to react in this case and we'll see where we go
24 from there.

25 Q. What criterion do you look at in determining

1 whether to bring St. Louis County in or not?

2 A. Well, right now the criterion we're looking at
3 with St. Louis Water Company is its need to replace an
4 aging infrastructure and we need -- we believe we need to
5 get before the Commission to be able to consider those
6 type of issues.

7 Q. Chair Lumpe mentioned a \$90 million figure and
8 then I heard you say in maybe the three- to five-year
9 period that that would be a \$45 million figure.

10 Did I hear that about right?

11 A. Yeah. We're -- over three years we're looking
12 in the terms of the \$40 to \$45 million figure.

13 Q. Well, just looking at those numbers and looking
14 at the \$500 million rate base in St. Louis County versus
15 the \$144 million rate base of Missouri American, and
16 contemplating also the 90 million -- 90,000 customers in
17 Missouri American versus the over 300,000 customers in
18 St. Louis County, it would occur to me that the addition
19 of St. Louis County Water as an eighth district to
20 Missouri American to help share the burden of the St. Joe
21 plant would be -- would have a salutary effect on the
22 ratepayers in the existing seven districts.

23 Would that not be intuitively your conclusion
24 also?

25 A. I don't have a conclusion with that, because

1 I've not got all of the information available to me to
2 analyze that.

3 When you deal with single-tariff pricing, you
4 deal with cost bands. St. Louis may have different cost
5 bands than the other districts. There is a whole host of
6 issues that we have to look at and I don't have a magic
7 formula for that sitting here today.

8 Q. Is alleviation of rate shock to the existing
9 seven districts based on the St. Joe plant a
10 consideration that the company might have made?

11 A. What do you mean by rate shock?

12 Q. Well, the district under your STP proposal in
13 this present rate case would experience a 50 percent
14 increase. And I would suggest that is a shocking increase
15 for someone like Joplin or Warrensburg, or other districts
16 like St. Charles that have had very little plant addition
17 since the last rate case.

18 A. In terms of rate shock, we address that through
19 Mr. Stout, but I understand the percentage is high. In
20 terms of your monthly water bill going from, for example,
21 \$20 to \$30 a month and that -- how that relates with other
22 commodities, including other utilities, other water
23 companies. I don't know how to define that in terms of
24 that being rate shock or not.

25 Q. Well, I mean, the simple addition of an

1 additional 300,000 customers as an eighth district in the
2 present system certainly would have ameliorated in this
3 present case that 50 percent rate shock increase, would it
4 not?

5 A. I don't know for sure.

6 MR. CURTIS: Okay. I have nothing further.

7 JUDGE THOMPSON: Thank you, Mr. Curtis.

8 Mr. Deutsch?

9 RECROSS-EXAMINATION BY MR. DEUTSCH:

10 Q. Mr. Jenkins, if it is appropriate at this time
11 for the St. Louis County water district to be separate and
12 it is appropriate for the Jefferson City Waterworks to be
13 separate, could you explain to me why it is that Joplin
14 cannot as easily be separated to be treated like Jefferson
15 City and St. Louis?

16 A. I'm not an attorney but right now we're three
17 separate corporations with three separate sets of tariffs.
18 I don't know how you can put together one set of tariffs
19 for three separate utility companies.

20 Q. I could incorporate another company for you.

21 I appreciate that you're not a lawyer.

22 Assuming there is no legal problem with Missouri American
23 creating a separate Joplin subsidiary called the Joplin
24 American Water Company, what distinguishes Joplin from
25 St. Louis County, from Jefferson City or from any of the

1 other water utilities that you intend to acquire over the
2 next several years?

3 A. Joplin would be a district just like the other
4 companies if we were under one separate umbrella. So I
5 don't know if I can answer that question.

6 Q. So you really don't know that there is any
7 reason why Joplin has to be included in your single-tariff
8 pricing scheme; they could as easily be excluded.

9 A. No, I didn't say that. Joplin is under
10 the ownership of Missouri American as a part of that
11 corporation and part of that district. The rate filing
12 was filed under Missouri American. So, therefore, the
13 related costs and that rate strategy is under the Missouri
14 American operation.

15 Q. Yes, I appreciate that.

16 What if the City of Joplin and its citizens who
17 are thrilled with this rate increase decide that -- as you
18 recollect, it was at one time was a municipal utility.
19 What if they were to decide to go back into the water
20 business and acquire that? What would that do to your
21 single-tariff pricing scheme for the rest of the
22 districts?

23 A. I don't know.

24 MR. DEUTSCH: I don't have any other questions.

25 JUDGE THOMPSON: Thank you, Mr. Deutsch.

1 Commissioner Schemenauer has a question.

2 COMMISSIONER SCHEMENAUER: Thank you.

3 FURTHER QUESTIONS BY COMMISSIONER SCHEMENAUER:

4 Q. Mr. Jenkins, St. Charles water district has an
5 interconnecting supply line with -- is it St. Louis City
6 or St. Louis County?

7 A. It's with St. Louis City.

8 COMMISSIONER SCHEMENAUER: St. Louis City.
9 Thank you.

10 That's all.

11 JUDGE THOMPSON: Further questions from the
12 Bench?

13 Does anyone feel the need to recross based on
14 Commissioner Schemenauer's last question?

15 Okay.

16 Redirect, Mr. England?

17 MR. ENGLAND: Yes. Thank you.

18 REDIRECT EXAMINATION BY MR. ENGLAND:

19 Q. Following up on some questions by Mr. Curtis
20 regarding why you do not seek to combine St. Louis County
21 and Missouri American rate filing, was that proposed as
22 part of that nonunanimous stipulation and agreement that
23 Mr. Franson had you read from?

24 A. Yes, it was.

25 Q. And was that stipulation opposed by Mr. Curtis

1 and his clients?

2 A. It's my understanding that it was.

3 Q. And do you imagine one of the that we aren't
4 consolidating those two for purposes of review before this
5 Commission is the objections of the parties that didn't
6 sign, such as Warrensburg?

7 A. That is correct.

8 Q. Chair Lumpe asked you about the infrastructure
9 needs of St. Louis County Water Company and referenced a
10 \$90 million figure that I understand came from maybe
11 St. Louis County Water Company's last rate case.

12 Is that the genesis of that figure?

13 A. I don't recall.

14 Q. Okay. Since St. Louis County's last rate case,
15 has it further investigated the infrastructure replacement
16 needs in St. Louis County?

17 A. Yes, it has.

18 Q. What has it done?

19 A. We have contracted with a consulting firm by
20 the name of Weston and that engineering firm has evaluated
21 our main breaks in terms of a break-even or a
22 present-value-type analysis, in which we're predicting the
23 main breaks into the future in relationship between repair
24 or replace and making the optimal replacement decision
25 under -- under that tool.

1 Q. And what are the preliminary results of that
2 report, if you know, sir?

3 A. The preliminary result is it calls for a -- a
4 replacement need over a five-year period, and I can't
5 remember the exact miles of main.

6 Q. Do you have any idea in rough figures the
7 amount of dollars to be spent in that period of time?

8 A. In rough figures, probably in the hundred
9 million dollar range.

10 Q. In response to some questions from Commissioner
11 Schemenauer, I believe you were talking about the bond
12 financing of the company and the issuance of tax-exempt
13 bonds, but I thought you said something through the State
14 of Illinois. If you did, would that have been a mistake
15 and you were referring to the -- you meant to refer to the
16 State of Missouri?

17 A. Yes. I meant to the refer to the State of
18 Missouri.

19 MR. ENGLAND: Thank you, sir. I have no other
20 questions.

21 JUDGE THOMPSON: Thank you, Mr. England.
22 Can this witness be excused?

23 MR. ENGLAND: Well --

24 JUDGE THOMPSON: I guess not excused. He's
25 coming back.

1 MR. ENGLAND: That is correct.
2 JUDGE THOMPSON: You may step down temporarily,
3 sir.
4 Mr. Salser?
5 MR. ENGLAND: He will be our next witness.
6 (Witness sworn/affirmed.)
7 JUDGE THOMPSON: Please take your seat and
8 spell your name, if you would, for the reporter.
9 THE WITNESS: My name is James E. Salser,
10 S-a-l-s-e-r.
11 JUDGE THOMPSON: Thank you, sir.
12 Please proceed, Mr. England.
13 MR. ENGLAND: Thank you.
14 JAMES E. SALSER testified as follows:
15 DIRECT EXAMINATION BY MR. ENGLAND:
16 Q. I'm sorry.
17 Did you state your name for the record, please?
18 A. Yes.
19 Q. And could I have your business address, please?
20 A. This has changed since I filed my direct
21 testimony.
22 Q. And if that's too difficult for you, how about
23 your home address?
24 A. Just wait a minute.
25 Business address is P. O. Box 157, Double A,

1 Route 2, Ravenswood, West Virginia.

2 Q. I'm almost hesitant to ask the next question
3 but I need to.

4 By whom are you employed and in what capacity,
5 Mr. Salser?

6 A. I am self-employed as a rate consultant.

7 Q. That hasn't changed since the filing of the
8 testimony; is that correct?

9 A. No.

10 Q. Okay. Thank you.

11 Mr. Salser, are you the same James E. Salser
12 that has filed three pieces of prepared testimony, the
13 first of which is entitled the direct testimony -- get it
14 in front of me. James E. Salser. Excuse me. And which
15 has been marked for purposes of identification as Exhibit
16 No. 6?

17 A. Yes.

18 Q. The second piece of testimony which is entitled
19 rebuttal testimony of James E. Salser and which has been
20 marked for purposes of identification as Exhibit No. 7?

21 A. Yes.

22 Q. And finally a third piece of testimony that
23 has been entitled surrebuttal testimony of James E. Salser
24 and has been marked for purposes of identification as
25 Exhibit 8?

1 A. Yes.

2 Q. With respect to those testimonies do you have
3 any changes or corrections at this time besides the
4 address that you've previously noted?

5 A. Yes. On my direct testimony, on page 7, on
6 line 7, it reads JES-2, Post-in-Service, AFWDC. It should
7 be AFUDC.

8 Q. So the W should be replaced with the letter U?

9 A. Right.

10 Then also on page 9 --

11 Q. Is this still on your direct, sir?

12 A. Yes. On line 5 it should read at the end of
13 the sentence -- be 11.65 percent. Then on question -- or
14 line 6, question 16, where it is 11 percent, it should be
15 11.65.

16 JUDGE THOMPSON: Is this on the same page?

17 THE WITNESS: Yes.

18 JUDGE THOMPSON: And it should be corrected
19 how, did you say?

20 THE WITNESS: 11.65.

21 JUDGE THOMPSON: Thank you.

22 THE WITNESS: Then also on surrebuttal,
23 page 2, line 6, where it reads September 15, 2000 it
24 should be September 15, 2001. In other words, the zero
25 should be a one.

1 BY MR. ENGLAND:

2 Q. Are those all of the corrections and changes
3 that you're aware of at this time?

4 A. Yes.

5 Q. With those corrections in mind, if I were to
6 ask you the questions appearing in those three pieces of
7 testimony, would your answers today here under oath be the
8 same as contained in those three pieces of testimony?

9 A. Yes.

10 Q. And are those answers true and correct to the
11 best of your knowledge, information and belief?

12 A. Yes.

13 MR. ENGLAND: I guess based on the prior ruling
14 with Mr. Jenkins' testimony, since Mr. Salser will appear
15 later in the proceeding on other issues, I'll withhold
16 offering his testimony at this time but tender him for
17 cross-examination.

18 JUDGE THOMPSON: Very well.

19 Mr. Dority?

20 MR. DORITY: No questions, Your Honor.

21 JUDGE THOMPSON: Mr. Zobrist?

22 MR. ZOBRIST: No questions.

23 JUDGE THOMPSON: Mr. Coffman?

24 MR. COFFMAN: Thank you.

25 CROSS-EXAMINATION BY MR. COFFMAN:

1 Q. Good afternoon, Mr. Salser.

2 A. Good afternoon.

3 Q. I want to ask you a couple of questions about a
4 schedule to your surrebuttal testimony, which has been
5 marked as Exhibit 8, your first schedule which is labeled
6 schedule JES-S1.

7 I believe in this schedule you have illustrated
8 some revision of Public Counsel's phase-in proposal?

9 A. Yes, I have.

10 Q. And is it true that what you've done here is
11 recognized earnings of one half year of the deferral in
12 the current year?

13 A. That is correct.

14 Q. Okay. Does the annual depreciation expense
15 result in an increase in the accumulated depreciation
16 reserve absent any other changes such as retirements?

17 A. Will you repeat your question again, please?

18 Q. Does the annual depreciation expense result in
19 an increase in the accumulated depreciation reserve absent
20 other changes such as retirements?

21 A. Yes.

22 Q. Did you attempt to reflect the effect of the
23 growth in accumulated depreciation here, thereby reducing
24 rate base during each year, as you illustrated your
25 revision to Public Counsel's phase-in proposal?

1 A. Now, the only thing I reflected here was where
2 we showed the -- the deferral of the -- the revenues being
3 deferred, the income on that. I just mirrored the exhibit
4 that Russ Trippensee had filed.

5 Q. So the answer is no?

6 A. That's correct.

7 Q. Okay. Would you accept that the annual
8 depreciation expenses included in Public Counsel's revenue
9 requirement for St. Joe was approximately \$1.6 million?

10 I assume you would be able to find that number
11 in work papers of Mr. Trippensee that were submitted to
12 you.

13 A. I don't have the work papers with me.

14 Q. Have you reviewed work papers of Mr. Trippensee
15 on this issue?

16 A. Yes.

17 Q. Okay. You have no recollection of the
18 annual depreciation expense in Public Counsel's revenue
19 requirement recommendation?

20 A. I don't remember that, no.

21 Q. Okay. Would it surprise you if it was
22 \$1,595,000?

23 A. No, it would not.

24 Q. Okay. If you had included the growth and
25 accumulated depreciation reserve resulting from the annual

1 depreciation expense, would its inclusion offset the
2 increase in rate base associated with the deferred
3 revenues shown on this schedule we're looking at?

4 A. The revenue requirement itself has that, the
5 accumulated depreciation as a reduction of rate base. I
6 don't remember seeing Mr. Trippensee's rate base
7 calculation.

8 Q. You did review his work papers though?

9 A. Yes.

10 Q. You don't recall -- I'm sorry. I don't
11 understand. You don't recall seeing accumulated
12 depreciation reserve or depreciation expense in those work
13 papers?

14 A. I don't recall seeing accumulated depreciation
15 as a reduction of rate base.

16 Q. Well, my question was, wouldn't growth and
17 accumulated depreciation reserve offset an increase in
18 rate base?

19 A. I'm not sure it hasn't -- he hadn't already
20 reflected that. I'd have to look at these working papers
21 to see that.

22 Q. If I could locate those work papers or if you
23 could locate them, would you be able to better answer my
24 question?

25 A. Yes.

1 JUDGE THOMPSON: Perhaps, Mr. Coffman, this
2 would be a good place to break for the day.

3 MR. COFFMAN: That would be fine with me.

4 JUDGE THOMPSON: If you could supply the work
5 papers to the witness and we can commence at eight o'clock
6 tomorrow morning, put the witness on the stand and he can
7 have an opportunity to look those over before we start
8 back up.

9 We will be in recess until eight o'clock
10 tomorrow morning.

11 MR. CONRAD: Can I get these marked.

12 JUDGE THOMPSON: I would be happy to.

13 We can go off the record now.

14 (EXHIBIT NOS. 61 THROUGH 66 WERE MARKED FOR
15 IDENTIFICATION BY THE COURT REPORTER.)

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