STATE OF MISSOURI

PUBLIC SERVICE COMMISSION

TRANSCRIPT OF PROCEEDINGS

Hearing

June 16, 2000
Jefferson City, Missouri
Volume 16

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

KEVIN THOMPSON, Presiding,
DEPUTY CHIEF REGULATORY LAW JUDGE.

SHEILA LUMPE, Chair,
KELVIN SIMMONS,
M. DIANNE DRAINER, Vice-Chair
COMMISSIONERS.

REPORTED BY:

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ASSOCIATED COURT REPORTERS, INC.

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P R O C E E D I N G S

(EXHIBIT NO. 103 WAS MARKED FOR IDENTIFICATION.)

JUDGE THOMPSON: Mr. Salser, do you understand you're still under oath, sir?

THE WITNESS: Yes, sir.

JUDGE THOMPSON: And we are on the record, Kellene. Very good. Mr. Conrad?

MR. CONRAD: Your Honor, off the record and at a couple of earlier times before today the parties had discussed waiver of the -- really, in effect, submission of the preretirement issue on Briefs and on the testimony as it had been filed.

We were agreeable to that say for an expression of acquiescence by the other parties in a verbal stipulation, that stipulation being simply that if the company had chosen to go forward with the renovation plan instead of the course that it did, that said premature retirement issue and the panoply of depreciation issues involved therein would simply not be present in this case.

And if the other parties are agreeable to that, then we have no problem with waiving the witnesses.

MR. ENGLAND: We can so stipulate.

JUDGE THOMPSON: Mr. Dority?

MR. DORITY: Yes, sir.

MR. KRUEGER: We can so stipulate also, your Honor.

JUDGE THOMPSON: Thank you. Mr. Coffman?

MR. COFFMAN: Public counsel is willing to stipulate to that.

JUDGE THOMPSON: The only problem I see is that Mr. Deutsch is not here, and unlike some of the other parties who evidently don't plan to be back, I have not heard from Mr. Deutsch that he does not plan to be back. So I think we will have to present this to him and get his acquiescence. But at any rate, we can put this pending matter aside until such time as Mr. Deutsch gets here.

MR. ENGLAND: I don't know if this is in the nature of an objection, but I have no problem waiting for Mr. Deutsch. However, if he does not appear today, it would be my motion that he's waived any right he has. I think you made it abundantly clear at the beginning of this case that people could come and go as they wanted to, but if they weren't here for their turn of cross-examination or anything else that was going on, I think they've waived that right.

JUDGE THOMPSON: Well, that's exactly true, and I think we can wait a few minutes for Mr. Deutsch on this issue, but certainly I won't wait all day.

MR. ENGLAND: I was going to say, until we close the record today. My only concern is I'm not sure I'm going to have this witness back to answer questions.

JUDGE THOMPSON: I understand. And as I said, I also do not know at this point whether any of the Commissioners will have questions for these witnesses. So I will have to present this list of issues and witnesses to the Commissioners and find out if there are any questions. Okay. And if there are, then you'll have to proceed with those. Okay. Fair enough?

Why don't you step down, sir, for the time being, and why don't we take up Mr. Rackers?

MR. ENGLAND: Could we -- the reason we were taking this particular issue, the premature retirement issue first with Mr. Salser is Mr. Rackers and Mr. Trippensee both are going to take the witness stand for cross-examination on the issue of phase-in. Mr. Trippensee couldn't be here first thing this morning, so I had agreed to put these other issues up first to give him time to be here. He had some family matters he had to take care of.

JUDGE THOMPSON: Very well. So I'm getting the message that you guys want to go forward with Mr. Salser. Am I clear on that? And what is the issue?

MR. ENGLAND: In a manner of speaking.

JUDGE THOMPSON: What is the issue we will be hearing?

MR. COOPER: The deferred taxes issue.

JUDGE THOMPSON: Very well. And Mr. Cooper, are you taking the direct on this?

MR. COOPER: I will, yes, your Honor.

JUDGE THOMPSON: Please proceed.

JAMES E. SALSER testified as follows:

DIRECT EXAMINATION BY MR. COOPER:

Q. Please state your name for the record.

A. James E. Salser.

Q. Are you the same James E. Salser that appeared previously in this hearing?

A. Yes.

Q. Do you understand and acknowledge that you're still under oath?

A. Yes.

MR. COOPER: Your Honor, at this time I would offer Exhibit 6, 7 and 8 into evidence and tender Mr. Salser for cross-examination.

JUDGE THOMPSON: Thank you, Mr. Cooper. Do I hear any objections to the receipt of Exhibit 6, 7 or 8?

(No response.)

Hearing no objections, Exhibit 6, 7 and 8 are received and made a part of the record of this proceeding.

(EXHIBIT NOS. 6, 7 AND 8 WERE RECEIVED INTO EVIDENCE.)

JUDGE THOMPSON: Cross-examination. Mr. Dority, you're up first.

MR. DORITY: Your Honor, I have no questions regarding the testimony that has been offered. However, I did have a question in regards to follow-up from a statement that Mr. Jenkins had made when he was on the stand responding to a question from the Bench on behalf of Commissioner Schemenauer, and I'll be happy to wait and take that up later.

JUDGE THOMPSON: It's a question for this witness?

MR. DORITY: It is for this witness.

JUDGE THOMPSON: Why don't you ask him whatever questions you might have on any topic so that we can move forward today.

MR. DORITY: I'll be happy to do that.

CROSS-EXAMINATION BY MR. DORITY:

Q. Good morning, Mr. Salser.

A. Good morning.

Q. A day or two ago in response to a question posed by Judge Thompson, I believe it was on behalf of Commissioner Schemenauer, he was asked if during the planning stages for construction of the St. Joseph treatment plant, did the company consider the concept of rate shock that would occur to the customers particularly in the St. Joseph area or all the other customers of the company, and he said that was a question better asked of yourself, and so I would ask you that question.

Did the company, in fact, consider the impacts of rate shock on its customer base in planning the St. Joseph treatment plant, and if so, were the amounts that were considered the 35 percent across-the-board rate that people were being told at that point in time or what was the value?

A. At that point in time, the company --

JUDGE THOMPSON: Mr. Salser, could you turn the microphone closer to your mouth? Thank you, sir.

THE WITNESS: Yes. At that point in time, the company was looking at a number of options, and one of them was using CWIP and rate base as a way to construct during the construction period instead of waiting until after the completion of the construction project.

I think that's basically where we were at, trying to get that -- lower the rate increases over a period of time during the construction period instead of all at once.

BY MR. DORITY:

Q. Okay. Another witness had indicated, I believe it was Mr. Amman, that the rate shock of having the plant placed in service at one time after construction was considered. Is that your recollection?

A. Yes.

Q. And what was the amount, if you could give me, that you were thinking would be the impact on the customer base of the company in terms of percentage increase?

A. I believe at that time around 42 percent.

Q. So that's the amount across-the-board increase to all customers of the company that was considered the impact?

A. Yes. Just for the St. Joe treatment plant only.

MR. DORITY: Thank you, sir. That's all I have.

JUDGE THOMPSON: Thank you, Mr. Dority. Mr. Conrad?

MR. CONRAD: Subject to the stipulation, we would have no questions.

JUDGE THOMPSON: Thank you. Mr. Deutsch?

MR. DEUTSCH: No questions.

JUDGE THOMPSON: Mr. Coffman?

MR. COFFMAN: No questions.

JUDGE THOMPSON: Mr. Krueger?

MR. KRUEGER: Thank, your Honor.

CROSS-EXAMINATION BY MR. KRUEGER:

Q. Good morning, Mr. Salser.

A. Good morning.

Q. Are you -- is the company still contesting this deferred tax issue?

A. For related to the ITC?

Q. Related to the acquisition of Missouri Cities?

A. Yes.

Q. And that's not changed by testimony you filed yesterday as true-up testimony?

A. No.

Q. In that testimony, there is a schedule of rate base as of April 30, 2000 water districts, and there is no -- you show no adjustment to the rate base per Staff for premerger Missouri Cities; is that correct? Do you need to see this?

A.   I'd like to see it.

MR. KRUEGER: May I approach, your Honor?

JUDGE THOMPSON: Yes, you may.

BY MR. KRUEGER:

Q.   You show no adjustment to the rate base per Staff in that schedule?

A.   That adjustment should have been made.

Q.   So you're saying that's an error, then?

A.   Yes.

Q.   With respect only to the deferred tax balances, assuming everything else is equal, as of the date of acquisition is the newly combined rate base greater than the simple sum of the rate bases for Missouri Cities and Missouri-American as of the -- compared to the day prior to the sale?

A.   Would you mind repeating your question again, sir?

Q.   Not a bit. With respect only to the issue of deferred tax balance, assuming everything else is equal, unchanged, as of the date of acquisition of Missouri Cities by Missouri-American, is the simple sum of the rate bases of Missouri Cities and

Missouri-American the same on the day immediately
after the acquisition as it is immediately prior to
the acquisition?

A. No. That would have been reduced by the --
it would have been increased as a result of the
deferred taxes.

Q. You're saying that the rate base is
greater --

A. Yes.

Q. -- for after the acquisition than the sum of
the rate bases immediately prior to the acquisition?

A. The rate base would have been the same until
you had a rate order which suggested the -- if you
calculate a rate base, it will not be included in rate
base after the sale.

Q. So your answer is yes?

A. Yes.

Q. Okay. Thank you.

MR. KRUEGER: No other questions, your
Honor.

JUDGE THOMPSON: Thank you, Mr. Krueger.
Questions from the Bench, Chair Lumpe?

CHAIR LUMPE: I have no questions.

QUESTIONS BY JUDGE THOMPSON:

Q. Mr. Salser, I have a question for you, or should I say Commissioner Schemenauer has a question for you, if I can find it. Well, I can't find it but I can remember it.

Can you explain to me, sir, when the decision was made to pursue a new plant rather than the renovation that had previously been evidently planned?

A. I believe it was the flood of '93.

Q. So it was about the time of the flood?

A. Yes, it was. During that period of time we had taken a look at just renovating the plant until the flood.

Q. And the original plan with respect to the new facility, as I understand it, was to have a third party build the plant and then Missouri-American would rent it?

A. You're talking -- referring to a Special Purpose Corporation, which a separate corporation would actually build and own the plant and then Missouri-American would lease that from the Special Purpose Corporation. Is that what we're referring to?

Q. I believe so.

A. Okay.

Q. Do you know when and why that aspect of the plan was changed?

A. Yes. We had asked for a rate of return at that point, I believe around a 15 percent return on equity, because the ratio would be around an 80/20 ratio, and the Commission did not order -- in the order find that it would guarantee that rate of return.

Q. When you speak of a ratio being 80/20, what ratio do you refer to?

A. The debt/equity ratio. The debt would be 80 percent and the equity would be 20.

Q. I see. Thank you, sir.

JUDGE THOMPSON: Recross based on questions from the Bench, Mr. Dority?

MR. DORITY: No, thank you, your Honor.

JUDGE THOMPSON: Mr. Conrad?

MR. CONRAD: Nothing further, your Honor. Thank you.

JUDGE THOMPSON: Mr. Deutsch?

MR. DEUTSCH: No questions, your Honor.

JUDGE THOMPSON: Mr. Coffman?

MR. COFFMAN: No questions.

JUDGE THOMPSON: Mr. Krueger?

MR. KRUEGER: Your Honor, this isn't in response to a question from the Bench, but I would like to belatedly move to strike the private letter ruling that was attached to Mr. Salser's rebuttal testimony. I neglected to do that at the time the exhibit was offered.

The reason being that the private letter ruling is not relevant to any issue in this case, it's not addressed to this company, there's not a proper foundation for it, and the letter ruling itself states that it may not be cited as precedent.

JUDGE THOMPSON: This is a private letter ruling from the Internal Revenue Service?

MR. KRUEGER: Yes, it is, your Honor. It's attached to the rebuttal testimony of Mr. Salser.

MR. COOPER: Your Honor, I guess as an initial matter, we'd say that the exhibit's already been received. Perhaps it's too late for this objection.

But secondly, I think that the theory that's outlined in that private letter ruling is relevant to this issue that -- explaining Mr. Salser's position. It's helpful to the Commission for illustrative purposes, and we believe that the Commission can take it for whatever weight it deems to give that schedule.

MR. KRUEGER: I apologize for not making the objection in a more timely fashion, your Honor. I don't believe that anybody has been harmed since there was no questioning in regard to this.

And in regard to the second point, the private letter ruling states specifically, This ruling is directed only to the taxpayer who requested it. Section 6110J3 of the code provides it may not be used or cited as precedent.

MR. COOPER: I don't believe, your Honor, that we're citing it to say that, Commission, here's what the IRS did. You absolutely must follow this letter ruling. I think, however, the theory that is explained in that private letter ruling is of value in this proceeding and would be valuable to the Commission.

MR. KRUEGER: It seems to me that that's exactly what they're doing, they're trying to use this as a precedent to say that the Commission must follow.

JUDGE THOMPSON: Well, Mr. Krueger, since you failed to object when it was offered, I'm going to overrule your objection at this time. It has been received into the record and it will stay in the record, and you may argue in whatever fashion you deem appropriate in your Brief as to what use should or should not be made of it. Thank you.

Let's see, I guess we're up to redirect. Mr. Cooper?

MR. COOPER: Yes, your Honor.

REDIRECT EXAMINATION BY MR. COOPER:

Q. Mr. Salser, you were asked -- you were asked a question from the Bench as to when a decision was made to pursue the new plant. Do you remember when the board approved that decision?

A. Not exactly.

Q. Would it have been after a certain amount of study was completed?

A. Oh, yes. There's a feasibility study prepared after the flood, and at that point it was brought to the board of directors of Missouri-American.

Q. Was there a certificate case before the Commission in that interim as well?

A. Yes.

Q. Now, you were also asked some questions about, I guess, what I'll refer to as project financing, which I believe was a subject of Commission Case WF-97-241. Do you remember those questions?

A. Yes.

Q. In your answer, you referred to 80/20. Could you tell us what the 80 is, what the 20 is?

A. The 80 is the amount of debt, and the 20 percent is the amount of equity in the project.

Q. How do those percentages differ from, I guess, what you might refer to as traditional financing?

A. Normally the debt is in the 55 to 60 percent range and the equity is in the 40 to 45.

Q. In the project financing proposal, was there any requirement for a guaranteed rate of return?

A. No.

Q. How about an average rate of return over the life of the project financing?

A. Yes. There's a return of 15 percent over the course of the financing.

Q. Did that contemplate a return of 15 percent in the first year and the 20th year or did it change over time?

A. It changed over time.

Q. Was it smaller or larger than 15 percent in the early years?

A. Smaller in the earlier years.

Q. Smaller or larger than 15 percent in the later years?

A. Larger in the later years.

Q. Did the Commission approve or disapprove that project financing proposal to include the average rate of return of 15 percent over the life of the project?

A. They would not approve the 15 percent rate of return on equity over the life of the project.

Q. Are you familiar with a Motion for Rehearing that Missouri-American filed in Case No. WF-97-241?

A. Yes.

Q. In your opinion, would that set forth Missouri-American's concerns about the lack of the guarantee of the average rate of return of 15 percent?

A. Yes.

MR. COOPER: Your Honor, we would like to ask the Commission to take official notice of Missouri-American Water Company's Motion for Rehearing filed with the Commission on October 20, 1997 in -- there were actually two case numbers -- Case No. WA-97-46 and Case No. WF-97-241. And I believe Mr. England passed out copies of that earlier today before we went on the record.

JUDGE THOMPSON: Okay. Are there any objections to the Commission taking official notice of this document which is contained in the Commission's official file of the cases referred to by Mr. Cooper?

MR. COFFMAN: Your Honor, I'm not sure I would have a problem with such official notice. There are, I believe, motions responding to it and other matters and arguments that respond to the comments made in this that were addressed in Briefs and other documents in the case. Assuming there would be no prohibition or difficulty with citing to those arguments and --

JUDGE THOMPSON: We will be happy to take official notice of those as well, Mr. Coffman, if that's what you would like. I think that they have to be part of the record of this matter for you to refer to them, as has recently come up in another case. So that means they have to be offered here.

MR. COOPER: Actually, your Honor, we might be able to move this more quickly. We wouldn't have any objection to doing just that. However, my review of the record leads me to believe that there are no responsive pleadings to this Motion for Rehearing.

MR. COFFMAN: I don't believe there were -- there was a response, at least from my office, to this Motion for Rehearing, but I believe the arguments were addressed in Briefs. I guess --

JUDGE THOMPSON: Like I said, I'll take official notice of whatever in that record you would like me to.

MR. COFFMAN: I guess, then, in that -- I would then ask that the Commission take official notice --

JUDGE THOMPSON: I guess we've already got the transcript in, don't we?

MR. COFFMAN: Yes, the entire transcript.

JUDGE THOMPSON: Should we just take official notice of that entire record?

MR. COFFMAN: As long as I don't have to provide copies to everyone, that would be great.

MR. ENGLAND: And conversely, not if we have to provide.

MR. COFFMAN: I think that the Initial and Reply Briefs of the Office of the Public Counsel would be sufficient to satisfy my concern on this matter. Again, I would have no problem with the entire case being granted official notice provided that the burden of providing copies of that record would not be mine.

MR. KRUEGER: Then I would also ask, your Honor, that official notice be taken of the Initial and Reply Briefs filed by the Staff.

MR. COOPER: Which is fine, your Honor. I think that the -- this document, we only ask the Commission take notice of it to explain why Missouri-American did what it did.

I realize the other parties have positions as to whether the Commission's ruling was a good idea or wasn't a good idea, but I think the purpose of this line of questioning and, as I say, the official notice of the Motion for Rehearing was just to explain Missouri-American's position on why it did not pursue project financing.

JUDGE THOMPSON: As I said, I will happily take official notice of these items you are asking for. For that matter, I'll take official notice of the entire record of that case if that would be better.

I would point out to whoever it was who asked me to take official notice of the transcript of that case that that does not include, to my mind, prefiled testimony. So if what you wanted into the record was contained in prefiled testimony in that case, then as far as I'm aware it's not yet in the record of this case. You might want to think about that.

MR. COOPER: Your Honor, one other thing. While we talk about the transcript of 97-46, I think before we went on the record today it was discussed that you had requested an electronic copy of the 97-46 transcript. We do have that for you, and while we're on the record we would go ahead and present that to you.

JUDGE THOMPSON: You may present it and I will receive it cheerfully. The reason I ask for copies is there was a telephone case some months ago where I took official notice of some documents produced by Staff which I was then unable to find anywhere within the four walls of the Commission.

So that is why I ask for the parties to give me copies of what they want me to take notice of since they evidently have the documents and I cannot be sure that I can find them here.

MR. COFFMAN: So --

JUDGE THOMPSON: Mr. Coffman?

MR. COFFMAN: Just to make sure I'm perfectly clear in understanding what the Commission's just taken official notice of --

JUDGE THOMPSON: So far I haven't taken official notice of anything, other than the transcript we've already discussed.

I have been asked to take official notice of Missouri-American's Motion for Rehearing in Case WA-97-46. I have also been asked to take official notice of OPC's Initial and Reply Briefs in that case and official notice of Staff's Initial and Reply Briefs in that case.

MR. DORITY: Your Honor, I would join in on behalf the Public Water Supply Districts for their Briefs that may have been filed in that matter if everyone's going to have their Briefs in this proceeding. I'm not sure for what use the other parties will be referring to them, so I think I would also request that ours be taken official notice of.

JUDGE THOMPSON: Thank you, Mr. Dority. Okay.

MR. CONRAD: Your Honor, surprisingly, I will not ask that official notice be taken. I don't think that -- although quite obviously convincing to the Commission, I'll simply brief the issue again.

JUDGE THOMPSON: Thank you, Mr. Conrad. Do I hear any objections or any further objections to the request that official notice be taken of Missouri-American's Motion for Rehearing in Case WA-97-46?

(No response.)

Hearing none, the Commission will take official notice as requested.

Do I hear any objection to the Commission taking official notice of the Briefs filed by the Office of Public Counsel, by the Staff of the Missouri Public Service Commission or by the Public Water Supply Districts in the neighborhood of St. Joseph represented by Mr. Dority?

(No response.)

Hearing no objections, I will take official notice of those items as well.

With respect to the Briefs, I will require the parties to provide copies of those items to me. Okay. The you don't have to provide copies offer applied only to the entire record, not to just bits and pieces of it.

Now, we're done with you, right?

MR. COOPER: I believe so, your Honor.

JUDGE THOMPSON: And before you leave, we have to take up the issue of the waiver that was discussed prior to the arrival of Mr. Deutsch. Mr. Conrad, could you repeat your stipulation request?

MR. CONRAD: I will endeavor to do so, and the thrust of it simply was to ask the parties to stipulate that if the company had chosen to do a reconstruction or a rebuild or renovation of what has now been called the old plant instead of going forward with the construction of the new plant, that the entire issue and panoply of subissues therein contained regarding premature retirement of the old plant would not even be in this case.

JUDGE THOMPSON: You're being asked to agree to this. Everyone else has.

MR. DEUTSCH: Really?

(Laughter.)

JUDGE THOMPSON: And if you so agree, then we will release Mr. Salser and we will not hear any witnesses on premature retirement. So that would be Mr. Salser, Ms. Mathis and Ms. Bolin.

MR. DEUTSCH: Well, in that case, I agree, your Honor.

JUDGE THOMPSON: Okay. You may step down, Mr. Salser.

(Witness excused.)

And Mr. Deutsch, the other parties have also waived cross, so they tell me, on Mr. Salser with respect to the Accounting Authority Order, Mr. Rackers and Mr. Trippensee with respect to the Accounting Authority Order, and Mr. Salser and Mr. Rackers with respect to the AFUDC capitalization rate.

And if you are willing to waive cross-examination on those witnesses as well, then we will not hear from them.

MR. DEUTSCH: The people of the city of Joplin waive cross-examination of those witnesses, your Honor.

JUDGE THOMPSON: Would those be your friends in Joplin?

MR. DEUTSCH: Those are all my friends.

JUDGE THOMPSON: Okay. Now, I have also pointed out to the parties that at this point I do not know whether or not any of the Commissioners will have questions for those witnesses, and if they do, then we will have questions from the Bench for those witnesses. Okay.

MR. CONRAD: If your Honor please, let me also -- while we're on the record, at an earlier point when we were off the record your Honor indicated that no Commissioner appeared to have questions for Mr. Harwig with respect to his revenue requirement direct testimony.

JUDGE THOMPSON: That is true.

MR. CONRAD: The other parties had indicated, I believe, yesterday that they were willing to waive cross-examination of him, but I would therefore, subject to all of that, since it had not been offered or received, offer at this time his Exhibit No. 64, which is his direct testimony on revenue requirement.

JUDGE THOMPSON: Thank you, Mr. Conrad. Do I hear any objections to the receipt of Exhibit 64?

MR. ENGLAND: No objection.

JUDGE THOMPSON: Hearing no objections, Exhibits 64 is received and made a part of the record of this proceeding.

(EXHIBIT NO. 64 WAS RECEIVED IN EVIDENCE.)

JUDGE THOMPSON: I think we're ready for Mr. Gibbs.

(Witness sworn.)

JUDGE THOMPSON: Please take your seat and spell your name for the reporter if you would.

THE WITNESS: Doyle L. Gibbs, G-i-b-b-s.

JUDGE THOMPSON: Direct examination.

DOYLE L. GIBBS testified as follows:

DIRECT EXAMINATION BY MR. KRUEGER:

Q. Would you please state your name and address for the record.

A. Doyle L. Gibbs. My business address is 815 Charter Commons, Suite 100B, Chesterfield, Missouri.

Q. By whom are you employed and in what capacity?

A. I'm employed by the Missouri Public Service Commission as a regulatory auditor.

Q. Did you prepare the prefiled testimony in this case which has previously been marked as Exhibit No. 36, direct testimony of Doyle L. Gibbs?

A. Yes.

Q. And did you also prepare the prefiled testimony in this case which has been previously filed as Exhibit 37, surrebuttal testimony of Doyle L. Gibbs?

A. Yes.

Q. Do you have any corrections or additions to make to that -- to either of those testimonies at this point?

A. No, I do not.

Q. Are the answers provided true and correct to the best of your knowledge and belief?

A. Yes, they are.

Q. If I asked you the same questions today as are contained in your testimony, would your answers be the same?

A. Yes, they would.

MR. KRUEGER: Your Honor, I'd offer Exhibits 36 and 37 into the record and tender the witness for cross-examination.

JUDGE THOMPSON: Thank you, Mr. Krueger. Do I hear any objections to the receipt of Exhibits 36 or 37?

(No response.)

Hearing no objections, Exhibits 36 and 37 are received and made a part of the record of this proceeding.

(EXHIBIT NOS. 36 AND 37 WERE RECEIVED INTO EVIDENCE.)

JUDGE THOMPSON: Cross-examination, Mr. Dority?

MR. DORITY: No, thank you, Judge?

JUDGE THOMPSON: Mr. Conrad?

MR. CONRAD: No questions, your Honor.

JUDGE THOMPSON: Mr. Deutsch?

MR. DEUTSCH: No questions, your Honor.

JUDGE THOMPSON: Mr. Cooper?

MR. COOPER: Is that OPC as well?

JUDGE THOMPSON: Did I miss you? I'm sorry.

MS. COOK: I have no questions, your Honor.

JUDGE THOMPSON: I had turned my page too quickly. I do apologize, Ms. Cook. Mr. Cooper?

MR. COOPER: I do have questions, your Honor.

CROSS-EXAMINATION BY MR. COOPER:

Q. Mr. Gibbs, your adjustment for deferred taxes relates to Missouri-American Water Company's acquisition of Missouri Cities Water Company, correct?

A. That's correct.

Q. And are you aware that that acquisition was

closed by the parties on August 31st of 1993?
A. That's approximately the right time frame.
Q. And the acquisition was accounted for as a purchase of assets for federal income tax purposes, wasn't it?
A. That's correct.
Q. Approximately when do you believe the initial accounting entries for this transaction would have been made?
A. I would assume shortly thereafter.
Q. Shortly after August of 1993?
A. Yes.
Q. Now, on page 17 of your direct testimony, you state that the deferred taxes represented actual cash contributed by the ratepayer. Do you remember that?
A. Yes.
Q. Who was this cash contributed to?
A. The actual rates that this applied to was paid to Missouri Cities.
Q. And I suppose -- who was Missouri Cities' parent?
A. Avatar.
Q. And the cash was contributed for the purpose of payment of taxes, correct?

A. Payment of taxes that at the time was deferred.

Q. Those taxes were eventually paid by the seller in this transaction, correct?

A. They would have had to pay those taxes based upon the gain on the sale of assets, yes.

Q. And so you have no reason to believe that any taxes have gone unpaid, do you?

A. No.

Q. In your surrebuttal testimony on page 3 -- I'll let you turn to that.

A. Yes.

Q. You state that if an issue has been litigated and a decision handed down on that issue by the Commission, there might be sufficient precedent, assuming the underlying facts have not changed. What are you referring to there? What would there be sufficient precedent for?

A. What I'm saying is, if it was a specific issue of deferred taxes, the merger or acquisition was just -- was whether or not you could acquire Missouri Cities. It did not address for ratemaking purposes any specific issues.

Q. Now, if you'll turn over to the next page of your surrebuttal, I believe you've got a question that starts on line 9 where you ask, Should the fact that Staff did not present deferred taxes as issues in the company's two prior cases have any significance? And I believe your answer to that is no, followed by some explanation. Do you see that?

A. Yes.

Q. Based upon that, I guess, I'm assuming that it's your belief that the issue of the deferred taxes related to Missouri-American's acquisition of Missouri Cities has not been raised by the Staff previously, correct?

A. That's correct.

Q. Do you know Mr. Roy M. Boltz, Jr.?

A. Yes, I do.

Q. He's employed by the Commission Staff, correct?

A. Yes, he is.

Q. And has been for some time?

A. Yes, he has.

Q. Do you remember what position he holds?

A. He's a regulatory auditor for the Commission.

MR. COOPER: Your Honor, may I approach the witness?

JUDGE THOMPSON: You may.

MR. COOPER: I'm handing the witness a document that's entitled rebuttal testimony of Roy M. Boltz, Jr. in Cases No. WR-95-205 and SR-95-206.

MR. KRUEGER: May I see a copy of the document?

MR. COOPER: You sure may. Does anybody else need a copy?

MR. FRANSON: Mr. Cooper, what page are you referring to?

MR. COOPER: None yet.

JUDGE THOMPSON: Thank you, Mr. Cooper. I'm sure, of course, if you offer it, then we'll need one for the other Commissioners.

BY MR. COOPER:

Q. Mr. Gibbs, does that appear to you to indeed be the rebuttal testimony of Mr. Boltz in Cases 95-205 and 95-206?

A. Yes, it does.

Q. And those cases were Missouri-American water and sewer rate cases, correct?

A. That's correct.

Q. Are you aware that a proposed acquisition adjustment was the subject of that rate case?

A. Yes, it was.

Q. Now, if you could turn to page 18 of

Mr. Boltz's testimony. Are you there, Mr. Gibbs?

A. Yes, I am.

Q. Do you see that beginning on line 1 Mr. Boltz criticizes Mr. James Salser because he says Mr. Salser's analysis does not take into consideration the revenue requirement associated with the impact of the acquisition on deferred taxes and investment tax credit?

A. Yes, I see that.

Q. Could you move down to line 6? I believe I have a question and an answer, portion of an answer that's been highlighted. Could you read that for us?

A. The question states: What is the impact of this acquisition on the area of deferred income taxes?

And the highlighted portion of the answer, Since this transaction is considered a sale of assets by Missouri Cities Water Company as the seller to MAWC, the buyer, the deferred taxes funded by MCWC ratepayers that have accumulated throughout the life of the Missouri property will be lost to MAWC. This deferred tax reserve is normally used as an offset to rate base in setting rates, and because of the sale the rate base associated with MCWC property will be higher due to the loss of this deduction. The end result is that Missouri customers will lose rate base recognition of the flow-back of deferred tax as a result of the acquisition.

Q. Okay. Do you know Mr. Ted Robertson?

A. Yes, I do.

Q. Is Mr. Robertson employed by the Office of the Public Counsel?

A. I believe he is.

Q. And has he been employed by the Office of the Public Counsel for a number of years?

A. I couldn't tell you how many years.

Q. But more than one or two, correct?

A. Yes.

MR. COOPER: Your Honor, I'd like to approach the witness again.

JUDGE THOMPSON: You may.

MR. COOPER: I'm handing the witness a document that is entitled rebuttal testimony of Ted Robertson from Cases No. WR-95-205 and SR-95-206, and I'll also pass around some copies for yourself and the Commissioner and the other parties.

JUDGE THOMPSON: Thank you, Mr. Cooper.

BY MR. COOPER:

Q. Mr. Gibbs, would you turn to page 12 of Mr. Robertson's testimony.

A. Yes.

Q. And at line 16, do you see that there's a question, Would recovery in rates of the acquisition of premium associated with this merger be a public detriment?

A. Yes.

Q. And Mr. Robertson's testimony is yes, and following that he provides some explanation, correct?

A. Yes, he does.

Q. Now, if you would turn the page to page 13, I would ask that you read for us the highlighted portion of the paragraph beginning at line 1.

A. It reads, Additionally, since the transaction is considered a sale of assets for federal tax purposes, the deferred taxes that have accumulated throughout the life of the Missouri property will be lost. Therefore, the rate base and related return on rate base associated with the Missouri property will be higher after the sale than it was immediately prior to the sale.

Q. Would you agree with me that the testimony of both the Staff and the Office of the Public Counsel in Case No. WR-95-205 indicates that the deferred taxes would be lost?

A. Their testimony states that. I think that's in support of the detrimental effect of including the acquisition adjustment as a component of rate base.

Q. And a continuation of that is then that both the Staff and the OPC utilize this loss of deferred taxes as a reason to oppose the acquisition adjustment?

A. It's apparent that in that particular proceeding that was the case.

Q. And Mr. Gibbs, I'm going to -- if it's all right with the Bench, I'm going to hand you one more document here.

JUDGE THOMPSON: You may.

MR. COOPER: This is a document that is -- represents to be the Report and Order from Cases No. WR-95-205 and SR-95-206, which is also cited, I believe, as 4 Missouri PSC 3rd 205.

BY MR. COOPER:

Q. Mr. Gibbs, would you turn over to page 217.

A. Yes.

Q. On page 217, do you see a portion that's been highlighted?

A. Yes.

Q. Would you read that for us.

A. The Commission finds in this case that the company has failed to justify an allowance for the acquisition adjustment. The Commission finds that, as argued by OPC, the ratepayers will already suffer one negative effect from the sale of MCWC stock. Because the transaction is considered a sale of assets for federal tax purposes, the deferred taxes that have accumulated throughout the life of the property will be lost.

Q. Based upon what you've just read, would you agree with me that the loss of the deferred taxes was understood by the Commission at the time of Case 95-205 and, in fact, was a significant reason that the Commission denied Missouri-American's proposed acquisition adjustment in that same case?

A. I think the Commission used that as part of the basis for not including the acquisition adjustment. The position of the Staff since that -- since that particular proceeding, we've had at least three different cases before the Commission where they have approved Stipulations and Agreements with companies with mergers that have, in effect, taken a rate base reduction associated with those loss of deferred taxes specifically.

Q. At the time of Case No. 95-205, the Commission was not -- or the Staff was not taking that position, was it?

A. Apparently not.

Q. And because of what the Commission viewed to be an impact upon the ratepayers as a result of the deferred taxes, the Commission did not approve Missouri-American's acquisition adjustment, correct?
A. That appears to be part of the basis for that denial, yes.
MR. COOPER: Your Honor, I have no more questions at this time and would ask that the Commission take official notice of the rebuttal testimony of Roy M. Boltz, Jr. in Cases No. WR-95-205 and SR-95-206 and the rebuttal testimony of Ted Robertson from the same cases.
JUDGE THOMPSON: Okay. Just a moment. Okay. I've been asked to take official notice of rebuttal testimony of Roy Boltz offered in Case WR-95-205. Do I hear any objections?
(No response.)
Hearing no objection, that testimony is received and made a part of the record of this proceeding.
I've also been requested to take official notice of the rebuttal testimony of Ted Robertson offered in the same case. Do I hear any objections to the request that official notice be taken?
(No response.)

Hearing none, official notice is taken of that as well.

That completes your cross-examination, Mr. Cooper?

MR. COOPER: It does, your Honor.

JUDGE THOMPSON: Questions from the Bench, Chair Lumpe?

CHAIR LUMPE: Yes.

QUESTIONS BY CHAIR LUMPE:

Q. Mr. Gibbs, looking at Mr. Salser's rebuttal testimony, on page 9 and starting about line 8 on the -- where he's referring to the Internal Revenue Service rules.

A. Yes.

Q. And on line 8 he starts, The deferred tax reserve is deemed to cease to exist as to the asset sale, and goes on through line 12, cites treasury regulation. How could we go back and revisit this if it's -- if it's closed and the taxes have been paid?

A. Well, the taxes have been paid really have nothing to do with Missouri-American per se. The taxes, these are -- these represent dollars that the ratepayers have provided to Missouri Cities because of the tax-free nature that they provided to the company. And in the process of the sale, where these things are wiped off the slate so to speak, the ratepayers have now lost that deduction.

If you take the rate base of Missouri Cities and the rate base of Missouri-American and add them together immediately after the merger, the rate base would actually be higher because of the loss of those deferred taxes.

Admittedly, it is not Missouri-American's responsibility to pay those taxes, but somewhere the ratepayer has lost. And this is just -- I think just an equitable situation where they should continue to have that deduction.

Q. So in the intervening period of time, in the various cases that have occurred in the intervening period, this was not noted and it was felt appropriate. We all of a sudden discovered this and decided to change?

A. Well, as you're probably well aware, merger activity has certainly increased in the last several years, and so we've taken a deeper look at mergers and acquisitions.

And as I had previously indicated, we've had at least three cases within a relatively short period of time where this has been addressed in the Stipulation and Agreement where the companies involved have actually agreed to reduce rate base because of that loss of deferred taxes.

Q. And I believe I'm aware of that, and that's why I guess I can't go back and say, Well, why did the Commission in a previous day do this?

A. I think personally it was just something that was just bypassed. It was just a different train of thought, you know, when we looked at it.

Q. But in looking at the mergers that are occurring now, you are looking more deeply into them, and I agree in various stipulations I have seen the treatment that you're talking about. But I was just curious how we could go back and reverse what was done.

A. Well, I don't know that we're actually reversing to the extent that we're asking them to restate their rates from prior cases, you know, and reimburse. We're looking at correcting a situation now and going forward with it. So I don't -- I don't see it in the terms of a retroactive type of atmosphere.

But I can understand that once -- once you've had a couple cases like we've had and it seems to have been ignored, that it is a little more difficult probably to swallow that, why should we be correcting it now, but I just think it's the equitable thing to do.

CHAIR LUMPE: Thank you, Mr. Gibbs.

JUDGE THOMPSON: Thank you, Chair Lumpe.

QUESTIONS BY JUDGE THOMPSON:

Q. Mr. Gibbs, could you explain to me what deferred taxes are?

A. Deferred taxes are related -- these here, it's depreciation, where you have a different depreciation you can take for tax purposes than you do for book purposes, so there's a timing difference. The ratepayer supplies the taxes to the company as if that difference doesn't exist.

So the company does not have -- the taxes associated with that difference is not actually submitted to the IRS for payment of taxes. It becomes tax-free capital for the company to use any way that they desire.

Q. I see. Thank you.

JUDGE THOMPSON: Recross based on questions from the Bench, Ms. Cook?

RECROSS-EXAMINATION BY MS. COOK:

Q. Mr. Gibbs, how are the ratepayers compensated for those taxes paid absent the sale?

A. The ratepayer is compensated for the

tax-free nature of these funds as an offset to rate base.

MS. COOK: That's all I have. Thank you.

JUDGE THOMPSON: Thank you, Ms. Cook. Mr. Dority?

MR. DORITY: No questions, Judge.

JUDGE THOMPSON: Mr. Conrad?

MR. FINNEGAN: No questions.

JUDGE THOMPSON: Mr. Deutsch?

MR. DEUTSCH: No questions.

JUDGE THOMPSON: Mr. Cooper?

MR. COOPER: Yes, your Honor.

RECROSS-EXAMINATION BY MR. COOPER:

Q. Mr. Gibbs, in answering one of Chairman Lumpe's questions, you made mention of the Staff taking a deeper look at the deferred taxes issue, but as we've seen from the testimony that you read earlier and the Commission's Order, the Commission as well as the parties were well aware of this effect in Case No. 95-205, weren't they?

A. Yes, I believe that's true.

Q. And you refer to various cases where Stipulation and Agreements have been entered into to make adjustments based upon the deferred taxes. There's not been a litigated case on that issue, has there?

A. Not litigated, no.

Q. And you also made mention, I think you made a statement that these taxes are not submitted to the IRS, but the taxes are eventually paid, aren't they?

A. Well, that's the whole purpose of deferral. I mean, you're deferring that payment to a later date, yes. Eventually those will eventually be paid.

Q. And in this case, they would have been paid sometime after the Missouri-American's -- Missouri-American's purchase of Missouri Cities, correct?

A. And they would have been paid by the Avatar group.

Q. The seller in that transaction?

A. Exactly.

MR. COOPER: That's all the questions I have, your Honor.

JUDGE THOMPSON: Thank you, Mr. Cooper. Redirect, Mr. Krueger?

MR. KRUEGER: Thank you, your Honor.

REDIRECT EXAMINATION BY MR. KRUEGER:

Q. Mr. Gibbs, do the ratepayers of Missouri-American still support the plant that generated the deferred taxes in question as a result

of the purchase of Missouri Cities?
A. Yes, they do.
Q. And do the ratepayers still supply depreciation and return on that plant?
A. Yes, they do.
Q. Do you believe that Mr. Boltz and Mr. Robertson were simply pointing out detriments that could result from the purchase of Missouri Cities by Missouri-American?
A. Based on the testimony that I've seen, the testimony was in relationship to the acquisition adjustment. So yes, I think that would be a true statement.
Q. Thank you.
Do you believe that either of these two gentlemen are indicating by their testimony that the Commission should not accept the adjustment you have recommended?
A. I don't know that I can speak for them. From the -- I'm speaking now on behalf of Staff and I'm saying yes. So I don't know what Mr. Robertson would say, but hopefully Roy would agree.
Q. Do you have any reason to believe that he would not?
A. No, I do not.

Q. You mentioned other cases in which the adjustment you propose was accepted by the Commission. In those cases, did the Commission approve recovery of an acquisition adjustment?
A. No, they did not.
Q. Can you tell what those cases were? Do you know what the case names and numbers were?
A. Well, I've stated one case in my surrebuttal testimony, which was GM-90-440 involving Western Resources and Southern Union. Another case is EM-97-515 involving KCP&L and Western Resources, and GN-2000-312 between Atmos Energy Corporation and Associated Natural Gas.
MR. KRUEGER: No other questions, your Honor.
JUDGE THOMPSON: Thank you. You're excused, Mr. Gibbs. You may step down.
THE WITNESS: Thank you.
(Witness excused.)
JUDGE THOMPSON: I believe Mr. Gibbs is the last witness on the deferred income tax issue?
MR. COOPER: Yes, your Honor.
JUDGE THOMPSON: We have left the return on equity issue with witnesses Walker, McKiddy and Burdette, and I understand Mr. Walker is not available

today?

MR. ENGLAND: That's correct.

JUDGE THOMPSON: And then we have Mr. Trippensee and Mr. Rackers returning for phase-in. And Mr. Trippensee, in fact, has also not testified or been cross-examined with respect to several other issues such as rate design, I believe.

MR. ENGLAND: Well, that's true. To the extent he addresses other issues in his prepared testimony, that would be a true statement. The purpose of my cross-examination, I think the reason I require him to be here is primarily focused on the phase-in aspect which I guess is a subissue under rate design.

JUDGE THOMPSON: So are we then prepared to proceed with Ms. McKiddy?

MR. KRUEGER: No, your Honor. I think the understanding of the parties was that the rate of -- return on equity witnesses would all be presented on Tuesday following the testimony by Mr. Walker.

JUDGE THOMPSON: I see. So are you telling me we're not prepared to proceed with anyone at this time?

MR. ENGLAND: No. We're prepared to proceed with Mr. Rackers, to conclude my cross-examination with respect to the issue of phase-in that was deferred earlier in the proceeding, and then Mr. Trippensee with respect to my and anybody else's cross-examination with respect to his testimony.

JUDGE THOMPSON: Well, then, let's have Mr. Rackers back.

MR. FRANSON: And just for your information, I'll be handling Mr. Rackers at this point.

JUDGE THOMPSON: I appreciate the heads up, Mr. Franson.

MR. ENGLAND: And I will be handling Mr. Rackers, to the extent he can be handled, for purposes of the company.

JUDGE THOMPSON: Thank you, Mr. England. All right, then. Mr. England, please proceed.

MR. ENGLAND: Thank you.

STEPHEN M. RACKERS testified as follows:

CROSS-EXAMINATION BY MR. ENGLAND:

Q. Good morning, Mr. Rackers.

A. Good morning.

MR. ENGLAND: I need to have an exhibit marked, if I may, which hopefully will come as no surprise to the witness.

JUDGE THOMPSON: This will be Exhibit 105, and how is it described?

MR. ENGLAND: I believe these are Staff's phase-in scenarios, work sheets.

JUDGE THOMPSON: Also I should mention when you get a chance, Mr. England, I need one more copy of Exhibit 103.

MR. ENGLAND: Okay.

(EXHIBIT NO. 105 WAS MARKED FOR IDENTIFICATION.)

JUDGE THOMPSON: Please proceed.

BY MR. ENGLAND:

Q. Mr. Rackers, you have Exhibit 105 before you; is that correct?

A. Yes.

Q. And these are work sheets or spread sheets that I believe were prepared by you or someone in staff under your supervision?

A. That's correct.

Q. And my understanding is that they attempt to show Staff's proposed phase-in of rates for four districts, the Brunswick, Mexico, Parkville and St. Joseph; is that right?

A. That's correct.

Q. Can I turn your attention to the first page, which I believe is the phase-in calculation for Brunswick, and I'd like to ask you a couple of questions so I'm sure I understand what's going on here.

A. Okay.

Q. What appears to be shown here is a phase-in over a five-year period of time; is that correct?

A. That's correct.

Q. And for the Brunswick division or district, it appears that you've got or are proposing a 27 percent increase per year for each of those first five years?

A. That's correct.

Q. And if I look in roughly the middle of the page, under column 5 where it says Brunswick revenues after increase, I see a number of approximately $363,000. Do you see that?

A. Yes.

Q. Is that the total revenue that the Brunswick ratepayers would be paying at that point in time?

A. No, I don't think that -- hold on for just a second.

Q. Sure.

A. Yes, I believe that's correct.

Q. Okay. And if I were to compare that with what I believe to be the revenues they are currently paying prior to any increase, that would be the

$112,000 amount approximately shown in column 1 about three lines up, correct?

A. Yes.

Q. My rough math indicates, then, an increase after five years of approximately $252,000 or 225 percent. Does that order of magnitude seem reasonable to you?

A. I think your math is correct.

Q. Okay. Now, in the sixth column you've got a negative 36 percent there. Do you see that, about the middle of the page?

A. Under column 6?

Q. Yes.

A. Yes.

Q. Okay. My understanding is that that is an adjustment to eliminate, is it the carrying costs that have been accrued and paid up to that point in time?

A. The 36 percent reduction would reflect the -- all other things equal and being held constant, that would reflect the rate reduction that would need to take place to reduce the company's rates so that they wouldn't be in an overearnings situation.

Q. Okay. And that automatic or rather -- excuse me.

That is the automatic, if you will,

adjustment that Mr. Trippensee proposes on behalf of the Office of the Public Counsel as part of his phase-in plan, correct?

A. That's correct.

Q. And to which you responded, I think, in your surrebuttal testimony?

A. That's correct.

Q. My understanding is you don't necessarily -- or you don't feel that that is necessary because all other things won't remain equal during that five-year period of time; is that correct?

A. That's correct. And Staff has proposed that the company provide additional data in the form of a monitoring report, which I think would allow Staff to stay abreast of the earnings that are actually being earned.

Q. So if, in fact, there was an overearnings in year six, Staff could have addressed it at that time; is that right?

A. Well, we would need to address it sometime before that, but that's the idea behind the monitoring reports, that they would provide information so that we could address that situation.

Q. Okay. Similarly, with respect -- I'm going to flip to the last page of that exhibit -- the

St. Joseph proposed phase-in, if I make the same comparison there in column 5 of St. Joseph revenues after increase with St. Joseph revenues prior to increase in line 1 -- or, excuse me, column 1, the difference between those two would show me the overall revenues increase, if you will, St. Joseph district would pay on both the total dollar and I could calculate a percent amount as I did with Brunswick?

A. That's correct.

Q. Okay. With either Brunswick or -- well, let me finish something on St. Joe. And again, my rough calculation in the St. Joseph district reveals or shows that total revenues after year five, additional revenues paid by St. Joseph customers after year five is approximately 16 and a half million dollars. Does that look about right to you?

A. Yes.

Q. And my rough calculation of percentages would then produce a 165 percent overall increase in district revenues at the end of the five-year phase-in?

A. That's correct.

Q. Okay. Now, do you know with either -- with respect to either St. Joseph or Brunswick what the raw, if you will, increase either in dollars or percent would be under Staff's -- my understanding is this is Staff's revenue requirement, too; is that right?

A. Yes.

Q. Do you know what the raw increase would be without the phase-in, either in dollars or percent?

A. I think the total first year rate increase appears under column 1 as 8,180,750.

Q. Okay. That was -- I wasn't sure, but that would be a nonphased revenue deficiency per Staff's revenue requirement for the St. Joseph district?

A. That's correct.

Q. Okay. So if I want to make those comparisons, I look at, as I did after the phase-in, it would be to take the eight million -- eight-million-one roughly increase and compare it to the nine-million-nine of current revenues?

A. Yes.

Q. Okay. Thank you. And that would be the same for the other districts as well, that number would appear in column 1 -- I say that number. That raw increase would appear in column 1 under total revenue requirement increase?

A. Well, it's a little bit different in Brunswick --

Q. Oh, I'm sorry. Then let's --
A. -- because of the shift of 175,000 to Joplin.
Q. Okay.
A. But including that shift to Joplin, I think the answer to your question is correct for Brunswick, too.
Q. Okay. So let's look at Brunswick, then, if we can. The total revenue requirement increase of roughly $120,000 there does not include the 175,000 that Staff is proposing to get from the Joplin district?
A. Yes.
Q. Okay. If we were to do a true district-specific cost of service for Brunswick, the total revenue requirement increase would be approximately 120 plus the 175?
A. That's correct.
Q. Okay. Thank you.
Now, as we discussed, this -- these phase-in proposals are based on Staff's revenue requirement before true-up, correct?
A. No. This reflects true-up.
Q. Oh, it does?
A. Yes.

Q. So would it reflect the St. Joseph plant valued at the true-up amount, which is roughly 70 million, or the budgeted amount which was filed with the case for roughly 74 million?
A. The 70 million figure.
Q. Okay. Keeping your attention on the true-up, and I've only had a chance to look at this real quick, but I want to make sure I understand where Staff is. After true-up, what are -- what are the total company current revenues, if you know?
A. I don't know that. I don't have that schedule.
Q. If I give you the schedule, can you pull it out for me?
A. Sure.
MR. ENGLAND: May I approach the witness?
JUDGE THOMPSON: You may approach.
BY MR. ENGLAND:
Q. I can't find it, I don't think, as fast as you can.
A. That figure would appear on Accounting Schedule 9 under the total water tab.
Q. Okay.
JUDGE THOMPSON: Mr. England, for the record, could you describe the document that you have

handed to the witness?

MR. ENGLAND: Yes, sir. What I've handed the witness is the accounting schedules that I believe were filed yesterday with the Commission and reflect the Staff's revenue requirement after true-up.

JUDGE THOMPSON: Okay. Can we go ahead and reserve No. 106 for that?

MR. ENGLAND: We can. It would be my understanding we would have probably put that in along with the supporting testimony on the 26th when we have our true-up hearing.

JUDGE THOMPSON: Mr. Krueger, what do you prefer?

MR. KRUEGER: I think I would prefer to offer it at that time because it will all be in connection with the true-up hearing.

JUDGE THOMPSON: Very well.

MR. ENGLAND: I just want to pull some numbers out of that for purposes of this record.

JUDGE THOMPSON: Please proceed.

BY MR. ENGLAND:

Q. Mr. Rackers, you said that total revenue number appears on Schedule 9. Can you give me that number, please?

A. 30,473,792.

Q. Okay. And then again referring to that document, what is the Staff's total revenue deficiency after true-up?

A. Before or after phase-in?

Q. I'm sorry. No phase-in, just raw increase.

A. At the mid, the amount is 10,709,595.

Q. And now with the phase-in, what would the first year's revenue be, please?

A. 2,868,779.

Q. 779 did you say?

A. Yes.

Q. Thank you. Okay. With those numbers in mind, again doing some rough and imprecise calculations, it appears that Staff's revenue deficiency is approximately one-third of its -- of the company's total current revenues, or stated another way, a proposed overall increase of about 33 percent?

A. Before phase-in?

Q. Yes.

A. Yes.

Q. And similarly, with phase-in, would that be roughly a 9 percent increase in current revenues in the first year?

A. That's approximately correct, yes.

Q. Okay. With phase-in in mind, it appears that we would be deferring approximately $8 million for recovery in later years?

A. That's correct.

Q. Let me switch gears on you, if I can. If the Commission were to decide to adopt the phase-in but increase the threshold amount, if you will, to say 35 percent as proposed by Mr. Harwig, would that act to shorten the recovery period under your phase-in proposal?

A. Let me make sure I understand your question. Maybe we can look for an example.

Q. Sure.

A. If I look at Schedule 105, are you asking me if I have a rate increase of 27 percent there?

Q. Right.

A. Are you asking me if we increase that to 35, would it shorten the length of the phase-in?

Q. Yes.

A. I'd have to do the calculation for Brunswick because it's close, the 27 and 35. I think that's certainly true for Mexico, Parkville and St. Joseph.

Q. Okay. Fair enough.

Would you also agree with me that it would tend to lessen the impact of the carrying costs that accumulate during the phase-in period?

A. Yes, it would.
Q. On page 7 of your rebuttal testimony.
A. I'm there.
Q. It's on lines -- or it appears on lines 8 through 10. You state, After the phase-in of recent plant addition, the Staff proposes phase-in for specific customer classes in each district that continue to experience very significant rate increases. Do you see that?
A. Yes.
Q. Again, getting back to Exhibit 105, this simply shows a phase-in of revenues by district, not by customer class, correct?
A. Correct.
Q. If we were to phase in -- additionally, if you will, phase in rate impacts by customer class, wouldn't that have the effect of reducing even more the first year phase-in revenue increase of roughly two-million-eight?
A. Yes, it would. And it would also, I think, be -- I think you would also get into a situation where the phase-in would be unwieldy. I think you'd have -- rather than five phase-ins you might have 10 or 15. So that's one reason why that wasn't done as I discuss in my surrebuttal.

Q. Well, I guess my question is, are you proposing to phase in by class or are you just going to phase in by district and let the chips fall where they may on the various classes?

A. We would propose to phase in by district.

Q. So to the extent a customer class -- and I can't recall Staff's accounting -- or excuse me, rate design schedule, but let's just say, for example, that a customer class in Brunswick would experience a roughly 400 percent increase.

Even after the $175,000 contribution from Joplin, Staff's proposal would be to get -- to recover that from that customer class over a five-year period, no longer than five-year period of time?

A. Would you ask me that again?

Q. Yeah. I'm sorry. It probably was confusing.

To the extent a particular customer class, for example, in Brunswick would experience a 400 percent increase based on Staff's revenue deficiency, and after taking into consideration the contribution from the Joplin district of $175,000, Staff's proposal would be to recover that 400 percent increase over a phase-in period of no more than five years?

A. Well, I think the five years is correct, but I don't think that you will have a customer class in Brunswick with a 400 percent rate increase after the support from Joplin of 175,000.
Q. Okay. To the extent there's a customer class, let's say, in St. Joseph that would experience a 200 percent increase as a result of Staff's revenue requirement, would you propose to recover it from that particular class over a phase-in period of no more than five years?
A. Well, again, your five years is right, but I don't believe there's any customer classes in St. Joe that are going to get a 200 percent or 250 percent rate increase.
Q. Well, I'll stand corrected on the percentages, but I just wanted to make sure that I understood that, regardless of the impact on the class, the phase-in would not exceed the five years that you're proposing?
A. That's correct.
Q. Okay. And you recognize that included in the phase-in are carrying costs, correct?
A. Yes, I do.
Q. And I think in your testimony you indicated that you've computed them at the return -- overall

rate of return recommended by your financial witness, Ms. McKiddy?

A. That's correct.

Q. Is it fair to say that if the Commission were to adopt a phase-in, that the appropriate carrying costs for purposes of such phase-in would be the overall rate of return as authorized by the Commission in this case?

A. That's correct.

Q. Let me switch gears on you, please. Surrebuttal testimony, page 4, beginning of line 20.

A. I'm there.

Q. You state, The Staff is mindful of the fact that its phase-in proposal may cause a reduction in the level of earnings reported on the company's financial statements. Do you see that?

A. Yes.

Q. Can I take -- can I take it from that statement that you agree with Mr. Hamilton's opinion that company will be required to either write off or not record the deferred revenues associated with any phase-in?

A. Well, I think as I responded to a question from the Bench on that topic, I don't agree with Mr. Hamilton's interpretation of FAS-92. But based on what I heard him say in his testimony and realizing that he probably has the last say on those financial statements, it appears to me that his mind is made up with regard to not being able to recognize those deferrals.

Q. I thought in response to a question, I believe from Chair Lumpe, that you indicated that you did not agree with Mr. Hamilton with respect to a phase-in of the impact from single tariff pricing to district-specific pricing, but you seemed to leave open the notion or the concept, if you will, that you might agree with him if the phase-in were strictly a phase-in of revenue requirements. Did I understand that correctly or did I not?

A. I think what I said was that I might agree with him with the -- to the extent the phase-ins were tied to plant increases. But if they were tried to revenue shifts or the movement from single tariff pricing to district-specific pricing, I didn't think that FAS-92 or his interpretation was appropriate.

But as I said, I'm not sure that that's neither here nor there because, having listened to his testimony, if there's a phase-in that the Commission orders from this case, he said under -- he couldn't envision under any circumstance that those deferred revenues could be recognized in a financial statement.

Q. Have you ever had to give an opinion similar to the opinion Mr. Hamilton's going to have to give for Missouri-American's financial statements?

A. No.

Q. Let me take a hypothetical situation for you. Let's assume there would be no rate increase in this case, that it was simply a rate design case, the only issue being single tariff pricing versus district-specific pricing, and the Commission determined that they wanted to make a complete switch to district-specific pricing from the single tariff we have today. Are you with me so far?

A. Yes.

Q. But in doing so it produces significant revenue shifts, both reductions as well as increases. And assume further that the Commission adopts a phase-in proposal for those customers experiencing significant rate increases as a result of the rate design shift. Okay?

A. Yes.

Q. So as a result of that rate design order, the company will receive actual cash revenues less than it currently receives today, correct?

A. Yes.

Q. With the deferral or deferred revenues making up the balance?

A. Correct.

Q. Okay. Is it your opinion in that situation that the company could continue to reflect those deferred revenues as revenues on its books or would it have to write them off or eliminate them from the financial statement?

A. In my opinion, they could recognize those revenue deferrals on the books.

Q. Even though we would agree that they would not be receiving the same cash revenues after that rate design order as they did before?

A. Correct.

Q. It would be your professional opinion that the financial accounting standards and generally accepted accounting principles would allow the company to book those deferred revenues under that hypothetical resulting from that phase-in?

A. Yes.

Q. Would you agree with me that if the PSC decides to disallow plant as a result of a determination of imprudence in this case, that generally accepted accounting principles do require the company to write off that disallowance?

A. Based on my experience, I think that there is some magnitude or some materiality standards that companies usually apply in that situation, because I'm familiar with plant disallowances that the Commission has made, and upon reviewing financial statements of the company involved, there has been no writeoff.

Q. In the case before the Commission where there are proposals to disallow roughly 30 to $40 million of the cost associated with the new St. Joseph treatment plant, you would agree with me that that would be a material writeoff, would you not?

A. Yes.

Q. And given that assumption, if we were required to write -- excuse me -- if the Commission were to disallow 30 to $40 million of the cost associated with the new treatment plant as a result of the determination of imprudence, would you agree with me that the company would be required to write that off?

A. I would agree that the company would be required to write some of that disallowance off. The exact amount, I'm not sure.

Q. Would you agree with me that, to the extent the company's earnings in the current year did not cover the amount of the writeoff, that it would have to write down retained earnings?

A. I believe that's true.

Q. What if the Commission were to disallow plant due to a determination of excess capacity, is it your opinion that they would have to write off that amount?

A. Well, I think this would follow the same line of questioning we had before. I think there's some materiality threshold before that would occur.

Q. But assuming it was material, assuming the writeoff exceeded current year's earnings, it would result in not only a writeoff of the earnings for the year but retained earnings, correct?

A. Some portion of retained earnings.

Q. Thank you.

Let me switch gears on you. Surrebuttal, page 5, lines 9 through 12. You reference two cases where the Commission has adopted phase-ins, one a Union Electric case and the other a Kansas City Power & Light case. Do you see that?

A. Yes.

Q. And I believe you indicate that on lines 11 and 12, All amounts deferred were reflected in the cost of service and rates. Do you see that?

A. Yes.

Q. How long were the deferral periods or phase-in periods for those two companies, do you know?

A. I don't know for sure. I think it was more than five, less than ten.

Q. Okay. For both?

A. Yes.

Q. Okay. And at page 12 of your direct, at the very bottom there, carrying over to the top of page 13, you discuss how you or Staff envisions a phase-in to work, and specifically I'm focusing on the prior approval, if you will, of -- by the Commission of tariffs that would implement four steps or phase-ins of rates after the initial rate I guess as well?

A. That's correct.

Q. And you say, Each subsequent rate increase will take effect automatically on the annual anniversary of the effective date of the rates from the rate case?

A. Correct.

Q. Okay. Is that how Union Electric and KCPL phase-ins were set up?

A. That's my understanding, yes.

Q. So they were allowed to implement phase-ins with a series of tariffs preapproved reflecting whatever that phase-in period was, five or ten years or anywhere in between?

A. I'm not sure that the actual tariffs or customer class were approved in advance. Each subsequent year may have been increased by the percentage that was indicated by the phase-in.

Q. Did the UE and KCPL phase-ins go the full phase-in period uninterrupted?

A. No.

Q. In fact, did Staff and Public Counsel file a complaint against Union Electric and its phase-in after approximately two to three years proposing a decrease at least in the carrying costs because of a reduction in the cost of equity?

A. Would you -- I'm not sure I understand your question.

Q. Sure. After the Union Electric phase-in began, didn't Staff and Public Counsel file a complaint, each file a complaint against Union Electric and against its rates alleging, among other things, that the carrying costs associated with the phase-in needed to be reduced because of a reduction in the cost of equity during that period of time?

A. Well, the reason I'm having trouble answering the question is in both of those cases the phase-in process was stopped, and all amounts that had been previously deferred and unrecovered by the company were placed into rate base and were provided a return on and they were amortized over a period.

They were essentially treated like another piece of plant that the company earned a return on, whatever the appropriate return was at that time, and they received a return of the deferrals over an amortization period.

Q. To the extent that the deferred revenues when initially set up were based on a carrying cost of, say, 11 percent, and two or three years later that carrying cost was reduced because of reductions in the cost of equity, wouldn't subsequent deferral amounts from years two to three on have been reduced as well?

A. Well, they -- I think I'd have to do a calculation to give you a definitive answer, but my recollection is that the carrying cost rate that was applied to those unrecovered deferrals, just like any other part of rate base, was less than the carrying cost that was originally put into the phase-in.

But that carrying cost to the extent it had been reflected in those deferrals, in other words after years one and two, I think it was either year three or four that the phase-in was stopped, but whatever the carrying cost that came out of the original case that established the phase-in, those deferrals received that carrying cost until the phase-in was stopped.

Q. But after the phase-in was stopped, the carrying costs changed, correct?

A. I would agree with that in the context of those deferrals were placed in rate base and they received the same overall return that any other part of rate base received.

Q. To the extent that that return was reduced at that point in time, year two or three, the amount of the deferral from then on would be less than the amount of the deferral that was originally calculated in the original rate case?

A. I think I'd have to do the math to give you a definitive answer, but in general I think that's true.

Q. Your phase-in scenario does not preclude either earnings complaints by Staff, Public Counsel or some other party or, for that matter, rate increases that the company may seek during the phase-in period, correct?

A. That's correct.

Q. And would you agree with me that simply because the Commission has approved the five-year phase-in or five-year phase-in period doesn't necessarily mean they can't change their minds after two or three years and revisit that phase-in, correct?

A. That's correct. But I mean, I think past history would show that, if that occurs, no amounts that have ever been deferred are lost to the company.

Q. Can you bind this Commission or guarantee that?

A. No, I can't. But as I say, history would show that once they've ordered such a situation, that whatever was deferred they have had built into the cost of service. And during both of those cases, both of those phase-ins, we had different commissioners from the time the phase-in took effect until it was ended. We had many different staff people.

Q. Would you also agree with me that the commission, this particular commission, can't necessarily bind future commissions?

A. It can't, but history would show that once a phase-in is put in place, that any amounts deferred are reflected in the cost of service even though commissioners change and staff people change.

Q. The history that you cite to is only in Missouri; is that correct?

A. That's the history that I know of.

Q. And you're aware of facts -- excuse me. You're aware of the fact that phase-ins in other states have not been --

MR. FRANSON: Your Honor, I'm going to have to object to the relevance of phase-ins in other states. I don't understand what the actions or inactions or any activities of the commissions in other states would have as relevance bearing on this case or the history of this commission.

JUDGE THOMPSON: Response, Mr. England?

MR. ENGLAND: Yes. It's relevant in that the accounting standards that we have debated are set on a nationwide basis, and they're based on perceptions of certainty, I believe, as to whether or not phase-ins will be recovered or not.

I don't think the Accounting Standard Board sets their policy on what the Missouri Commission has done, and I think it is relevant to find out that other commissions maybe have not been as good about seeing that deferrals are recovered as the Missouri Commission.

And that is the reason for the accounting standard, and that is the reason for the opinion that was evidenced by our witness, Mr. Hamilton.

MR. FRANSON: Your Honor, no, on the contrary. The context of the testimony of Mr. Hamilton was strictly on the accounting standard. There was absolutely nothing about the actions of other states.

And again, this question was posed, did this witness know about what other commissions do in other states? It was not placed in the accounting standards, your Honor, and again it would not be relevant to this proceeding, and I would renew my objection on that.

JUDGE THOMPSON: Thank you, Mr. Franson. The objection is overruled. Please proceed.

MR. ENGLAND: Thank you.

BY MR. ENGLAND:

Q. I'm not sure that I either completed the question or I remember it myself. So I'll try it again.

Are you aware of other states that have adopted phase-ins that have not been -- that have not allowed them to be completely recovered?

A. No.

MR. ENGLAND: Thank you, sir. No other questions.

JUDGE THOMPSON: Thank you, Mr. England.

Questions from the Bench, Chair Lumpe?

QUESTIONS BY CHAIR LUMPE:

Q. Mr. Rackers, the Staff is proposing a phase-in. Did the Staff look at the issue of a surcharge as well and decide it was more appropriate to use a phase-in?

A. To the best of my knowledge, Staff never considered a surcharge, but I think this has been kind of confusing throughout the proceeding. I don't think that anyone should view the surcharge as somehow an alternative to phase-in.

Under the surcharge, the company -- that the company's proposed, it's my understanding that they would recover the full amount of the rate increase that would come from this case. It would just be spread around a little bit differently. So you would still have customers who would be expected to pay very large increases in rates.

The phase-in is not a substitute for that. The phase-in would be a way to mitigate the large increases that would result from either single tariff pricing, district-specific pricing or this surcharge proposal that the company's come up with.

Q. Then can I assume, then, that Staff did not look at -- and I know the company's surcharge was simply to St. Joseph. If we were to be district-specific, would we not have each district's capital improvements paid by that specific district?

A. Yes. Under district-specific pricing, the district would be responsible for its cost of service. That's -- Staff's proposal is just a little bit different than that with regard to Brunswick in which we've shifted 175,000 to Joplin, but that's more of a mitigation proposal like phase-in.

Q. If you went to district-specific instead of a -- my understanding from the phase-in, all the capital improvements are included in the rate somewhere, they're not pulled out, so that the capital costs are in that phase-in, they're included in the total revenue requirement for that particular district somehow?

A. That's correct.

Q. And then Staff did not look at each district and say, Here is your revenue requirement and then here's your capital requirement as a surcharge for that particular district?

A. No. I don't believe Staff ever tried to design rates with some kind of a surcharge in place.

Q. Okay. And as I understand, the parties will be briefing whether that's -- whether we could actually do that sort of feature where each district had its own surcharge based on its capital improvements?

A. I think that's a proposal that's been made by the company, yes.

Q. All right. If there were an issue about a new commission not honoring the phase-in, would that difficulty not be the same on a surcharge that went over a period of years, and also wouldn't anything that was put in over a period of years have the same difficulty?

A. Yes.

Q. So that the commission could, if they -- if a new commission said, No, we don't want this phase-in anymore, a new commission could come in also and say, Stop the surcharge?

A. Yes.

CHAIR LUMPE: Okay. Thank you, Mr. Rackers.

JUDGE THOMPSON: Thank you, Chair Lumpe. Vice Chair Drainer?

QUESTIONS BY COMMISSIONER DRAINER:

Q. Good morning, Mr. Rackers.

A. Good morning.

Q. If you'll give me one moment. I want to look up a little information here.

Let me just ask you, your phase-in proposal mainly just mitigates the impact over, is it four years, five years?

A. Five years.

Q. Five years. What we end up with is the total revenue requirement being placed into rates, correct?

A. That's correct.

Q. Do you -- and it will be basically district-specific except for the one shift from Brunswick to Joplin?

A. That's Staff's proposal.

Q. Do you believe that just annually increasing rates will not be confusing to the ratepayers when they see an annual increase in their rates?

A. No. I don't think that will be confusing to the customer, no.

Q. Then do you also believe, as Mr. Hubbs does, that each customer should pay for the cost of their own service?

A. Yes.

Q. So if a ratepayer's rates increase 300 percent compared to someone else's rates increasing 20 percent, that's acceptable?

A. Well, maybe not all at once, but Staff's phase-in proposal --

Q. Suppose as you get older time seems to go more quickly, but, you know, I'm -- as a customer, I don't want to insult the customers' intellect. If their rates are going to go up 300 percent over five years, they're going to go up 300 percent. If they're going to go up 120 percent, they're going to go up 120 percent.

So I don't want the hoodwink them into thinking that just because I do it over a five-year period that it's not happening. It's happening. They'll get the bill.

A. Yeah, and I'm not --

Q. So my thing to you is, is it your belief that the increases should be that significant to one customer group when other customer groups are not that significant and that it should just be based on cost? That's a yes or no.

A. Personally, I believe they should be based on cost.

COMMISSIONER DRAINER: Thank you. I have no other questions for this witness.

JUDGE THOMPSON: Thank you, Vice Chair Drainer. We will take a ten-minute recess at this time.

(A recess was taken.)

JUDGE THOMPSON: I believe we're ready for recross based on questions from the Bench. Mr. Coffman?

MR. COFFMAN: Just a second. Yes.

RECROSS-EXAMINATION BY MR. COFFMAN:

Q. Mr. Rackers, would it be fair to say that your comments regarding who should pay the cost of service in this case referred to districts and not necessarily individual customers in response to Commissioner Drainer's question?

A. It probably flows through to customer classes rather than individual customers.

Q. So that's generally the recommendation of Staff is that generally that customer classes of each particular district of this water company should generally be paying the cost of service?

A. Yes.

MR. COFFMAN: Thank you.

JUDGE THOMPSON: Thank you, Mr. Coffman. Mr. Finnegan?

MR. FINNEGAN: No questions.

JUDGE THOMPSON: Mr. Deutsch?

MR. DEUTSCH: Just a couple, your Honor.

RECROSS-EXAMINATION BY MR. DEUTSCH:

Q. Following up, first of all, on Commissioner Lumpe's question, which I wanted to get some clarification, you -- I believe you testified -- she was asking you about a surcharge, and I think you stated that the surcharge proposal of the company and the phase-in proposal of the Staff are really not equal, they don't equate to each other, they're really not attempting to achieve the same thing?
A. That's correct. They shouldn't be looked at as a substitute for one another.
Q. And, in fact, the company -- the Staff is recommending that we move back to a district-specific pricing regimen; isn't that true?
A. Yes.
Q. And under the company's surcharge proposal we, in fact, don't move back to a district-specific pricing regimen at all; it continues the STP approach?
A. My understanding of it is that a portion of -- there were two proposals actually. One I think was 15 and one was 20 percent of a rate increase based on single tariff, and then the amount of unrecovered revenue requirement after that 15 to 20 percent rate increase was district-specific based on a surcharge. So it's a hybrid of district-specific and STP.
Q. Kind of a single tariff pricing light?

A. I'm not sure I understand your question.

Q. It's a variation that's not as extreme as sticking the other districts with all the costs of the Joplin plant, it just sticks them with some of the costs of the Joplin plant? Excuse me. The St. Joe plant. That's right. My friends are in Joplin.

A. I think the other districts would pay a portion of the St. Joe plant under the surcharge proposal.

Q. And that's really not what the substance of the Staff proposal is, which is to move back to district-specific pricing?

A. That's correct.

Q. Just wanted to get that clarified. Additionally, it's my understanding from your explanation to Commissioner Lumpe, maybe you can clarify this for me, you want to charge $175,000 per year in excess revenues not being paid by Brunswick to the Joplin district, and that is or is not a part of the phase-in?

A. It's not a part of dollars that are being phased in over five years. It is part of Staff's total mitigation strategy or position with regard to how to gradually soften the blow of district-specific pricing.

Q. So as I understand your proposal, then, four districts will be subject to the phase-in proposal, I think they're Parkville and Mexico and St. Joseph and Brunswick, and the other districts are supposed to return to district-specific pricing, except for Joplin which gets a permanent $175,000 charge above its district-specific costs?

A. Well, you refer to it as permanent. To the extent that in the future Brunswick can take on more of its total cost of service, it would be Staff's goal to move in that direction.

Q. Excellent. Are you saying that by the end of the five-year phase-in period, the $175,000 subsidy will end?

A. No. It could.

Q. How about in ten years?

A. I don't know at what point Brunswick will be able to accept its total cost of service. I can't pinpoint a year or a date for you.

Q. And correct me if I'm wrong. My understanding is that the obligations of Joplin under your plan to pay this money are really totally reliant upon things that happen in Brunswick as opposed to even circumstances in other proposals which would allow future increases in Joplin to kind of catch them up?

For instance, under the company's theory that what goes around comes around, eventually Joplin's going to get $54 million of investments that will put them equal with St. Joe. Yours doesn't really even address that question. It's just a free-standing obligation to pay $175,000 for an undetermined length of time per year?

A. That's correct.

Q. Commissioner Drainer asked you about, I think the way she phrased it was didn't you -- wouldn't annual increases be confusing to customers. Do you remember that question?

A. Yes.

Q. I think it was agreed from further questioning that the customers would be confused if they get a big increase or if they get smaller annual increases possibly because customers really don't like increases.

But what I wanted to know was, do you think that customers who are told that they're getting an annual increase in order to bring them to their own cost of service would be less confused than customers that are being told that they're getting annual increases to bring them to somebody else's cost of service?

A. I don't know that under either situation the customers would be confused. Personally, I think under the situation where it would be explained to them that they're getting an increase or annual increases to bring them to their cost of service, the costs that they're causing, I think to me that would be more palatable as a ratepayer than to find out I'm getting a rate increase because of the cost of service of somebody else.

MR. DEUTSCH: Thank you, Mr. Rackers. That's all the questions I have, Judge.

JUDGE THOMPSON: Thank you, Mr. Deutsch. Mr. Dority?

MR. DORITY: Yes, thank you, your Honor.

RECROSS-EXAMINATION BY MR. DORITY:

Q. Good morning, Mr. Rackers.

A. Good morning.

Q. Referring to Exhibit 105 which you went over in detail with with Mr. England, could you refer to that for me, please. The last page of that I believe pertains to St. Joseph.

A. I'm there.

Q. Okay. It's my understanding that column 6 down again around the middle of the page where we refer to the revenues prior to increase and the revenues after increase, column 6 that would reflect a negative 31 percent, you are simply reflecting in this column what I believe OPC witness Mr. Trippensee would be advocating, and this is not, in fact, what you as the Staff witness would be advocating in this proceeding; am I correct in that?

A. That's correct.

Q. And so you would still stand by your testimony that's contained in the surrebuttal, I believe that's been marked as Exhibit 54, the question on the bottom of page 6 and your answer on page 7 regarding that issue? That's still your position today; is that correct?

A. Yes.

Q. In response to some questions from Vice Chair Drainer regarding class cost of service and its impacts vis-a-vis the phase-ins we've been discussing, it's my understanding that, again on Exhibit 54 of your surrebuttal, you indicate that the phased-in revenue requirements to customer classes are discussed in the surrebuttal testimony of Staff witness Randy Hubbs and that the phase-in for the districts would help mitigate the rate shock to customers that result from significant plant additions and the adoption of district-specific pricing; is that correct?

A. Yes.

Q. It's my understanding from previous testimony that has been admitted into evidence and also testimony elicited in cross-examination of Staff witness Hubbs that the sale for resale class in St. Joseph would be getting a 268 percent increase in the revenue requirement for that specific class, and it's further my understanding based upon what I heard this morning that the five-year phase-in would be applicable to that percentage increase, and I -- let me back up for a second.

I understood in your dialog with Mr. England that, I think you stated that you weren't aware that a specific class was in excess of 200 percent, but I'm not going to ask you subject to check, but the record will speak for itself.

Hypothetically, if the sale for resale class was receiving a 268 percent increase, and I believe that's before any carrying charges would be applied to that class, then it's my understanding based on your testimony that that 268 percent increase would as well be applied on a five-year phase-in basis. Am I correct in that?

A. Your question -- the response to your question is yes. I think I may have -- I couldn't locate the schedule that I've got before me now with regard to the St. Joe district, but I may have misspoke when I responded to Mr. England earlier. I think the sale for resale class would have over 200 percent rate increase --

Q. You --

A. -- before phase-in.

Q. I'm sorry. I didn't mean to interrupt you. Are you finished?

A. Before phase-in.

Q. Before phase-in. Okay. Were you in the hearing room when witness Hubbs testified --

A. Yes.

Q. -- earlier in this proceeding?

And he responded to some questions regarding the rate shock, if you will, and the impact on different customer classes, and I believe he testified that he adhered to the policy of gradualism and, in fact, I think he referenced your phase-in requirement as a way to mitigate the rate shock in this proceeding.

But having said that, it's your position and Staff's position that the five-year phase-in would be applied to each customer class, for instance

St. Joseph the sale for resale, because to do otherwise, I think your words were, it would be unwieldy; is that correct?

A. I was speaking to having a phase-in for each specific class in all the company's districts. I think that would be unwieldy.

Q. And I'm assuming the same would flow through then to the customer classes in the St. Joseph district, for instance?

A. That's correct.

Q. Could we talk a second about the mechanics of how this is going to work if we have -- I think Chair Drainer was asking you about five annual rate increases. Can you tell me from a mechanical standpoint, tariff filings, will the company be filing tariffs on an annual basis that would result in these increases you're referring to?

A. I don't recall those questions coming from Commissioner Drainer.

Q. Well, I'm asking you just -- I think she was asking you in terms of the impact to the customer and the notices to the customer.

My question is, from a mechanical standpoint, how are we going to effectuate these five annual rate increases? Is the company going to file revised tariff sheets on an annual basis? Is there going to be one tariff sheet that will simply reflect that we're going to have increases appearing on X dates in the future? That's my question.

MR. FRANSON: Your Honor, my objection to this is improper recross-examination. I don't believe this is in response to any question that was raised from the Bench.

MR. DORITY: Your Honor, if I may respond, I think it's directly applicable. I think Vice Chair Drainer was concerned about the impact on a customer and how will that customer know when he or she is getting increases, what the amount of that increase will be, and I'm simply trying to elicit from the witness how mechanically this is going to happen.

JUDGE THOMPSON: The objection is overruled. Please proceed.

THE WITNESS: I don't know that I can tell you definitively how the mechanics would work. I think I responded to Mr. England earlier that I don't believe that you would necessarily have the tariffs already calculated, all five years' worth, that the Commission would approve.

You might do it from the standpoint of you're going to have five years' worth of 26 percent rate increases, and every year you would design the rates and they would be filed. But the idea that they would automatically be approved is something that Staff's recommending.

In terms of notice to the customer, I think this might get back to Commissioner Drainer's questions about confusing to the customer. I certainly think that when the first rate increase was approved and effectuated, that notice could be given and it would be explained to the customer that this -- this is the first of five rate increases.

It's not going to be some surprise, and Staff's proposal is not designed to try to hoodwink ratepayers into thinking they're just going to get a 26 percent rate increase and then they'll be surprised the next year.

BY MR. DORITY:

Q. Well, this Commission has shown sensitivity to public notice and making sure that ratepayers are informed of both anticipated and actual Commission decisions in this regard.

So I'm assuming that, for instance, the sale for resale customer class in St. Joseph, if they were, again hypothetically, getting a 50 percent plus or 55 percent plus increase for five successive years, the Staff would recommend that the Commission notify customers on an annual basis that, This is a reminder, your 50 percent increase is coming up effective next date?

A. Yes, I would suspect that Staff would insist on some notification to the customer of pending future increases.

MR. DORITY: Thank you, Mr. Rackers. That's all I have.

JUDGE THOMPSON: Thank you, Mr. Dority. Mr. England?

MR. ENGLAND: No questions, thank you.

JUDGE THOMPSON: Before I get to you, Mr. Franson, I have some further questions. Do you have any questions, Commissioner Simmons?

COMMISSIONER SIMMONS: No, thank you.

QUESTIONS BY JUDGE THOMPSON:

Q. I just want to clarify something for myself. What department do you work for at the PSC?

A. The accounting department.

Q. And so in the accounting department, do you deal with rate cases from more than one industry?

A. Yes.

Q. For example, the electric industry?

A. That's correct.

Q. Telephone?
A. Yes.
Q. Okay. And with respect to those other industries, is the type of pricing that has been referred to here as single tariff pricing, is that common or uncommon?
A. Are you speaking to with regard to across the spectrum of industries that the Commission deals with?
Q. Let's take them one by one. What about the electric industry?
A. I think it's common for the electric industry to have single tariffs. In other words, a residential customer, a commercial customer all over its service territory pays the same rate. But I think it's important to remember with an electric company, they're interconnected. In other words --
Q. Well, we'll get to interconnected.
A. Okay.
Q. How about in the telephone industry, referring to rate of return regulated corporations?
A. I'm aware of some companies that have operating districts throughout the state, and those districts don't have the same prices for all classes of customers.

Q. Okay. How about the gas industry?
A. The companies I'm familiar with, all customer classes pay the same rate.
Q. Okay.
A. And that's -- that's not -- that might be with regard to the base rates. There's also an adder for the gas cost that would vary based on which class you were.
Q. Okay. Now, you were telling me something about the interconnected nature of districts in the electrical industry. Why don't you proceed with that explanation?
A. Well, the electric industry, the flow of power is interconnected throughout the state. So power can be generated in Callaway County, for instance, and it can be used by ratepayers in St. Louis, in Jefferson City, all over the company's service territory, all over the state.
In the gas industry, at least with the companies I'm familiar with, the gas can flow through transmission pipes and, regardless of where it came from, theoretically that gas can serve other customers in other locations.
Q. So in other words, if the new plant in St. Joseph was an electric generating plant, then

Mr. Deutsch's friends in Joplin might be receiving power made at that plant?

A. That's correct.

Q. And within the electric industry, is there any sort of tracing that occurs where that is possible? In other words, do the officials at Union Electric, do they know where the power being generated at Callaway is actually being used?

A. No.

JUDGE THOMPSON: Thank you very much.

I will allow recross based on my questions, and we will start with Mr. Coffman.

MR. COFFMAN: Just one.

FURTHER RECROSS-EXAMINATION BY MR. COFFMAN:

Q. Mr. Rackers, you were asked about tariff design practices with regard to telephone companies. Is it your understanding that the interconnection of telephone networks is essential to telephone service?

A. Yes.

MR. COFFMAN: That's all I have. Thank you.

JUDGE THOMPSON: Thank you, Mr. Coffman. Mr. Finnegan?

MR. FINNEGAN: No questions.

JUDGE THOMPSON: Mr. Deutsch?

MR. DEUTSCH: Just one, your Honor.

FURTHER RECROSS-EXAMINATION BY MR. DEUTSCH:

Q. This interconnectedness that you mentioned, if, in fact, the City of Joplin had its own electrical energy generating plant, there's nothing about the regimen of regulation at the Public Service Commission that would prevent them from generating their own electricity and having their own rate, would it?

Just because you have everybody else under a single tariff pricing, they could have theoretically their own plant and their own pricing and be regulated like everybody else, couldn't they?

A. To the extent, I guess, that you could divvy up various locations within Union Electric's service territory, for example, and determine a cost of service for each one of those locations, I suppose you could have location or district-specific pricing. But to the best of my knowledge, that's never been attempted and, in fact, the connectivity would support not doing it that way.

Q. And in contradistinction to that particular scenario, water just generally throughout the state is local, separate and not interconnected as far as this company's concerned, isn't it?

A. That's correct.

Q. And it bears no resemblance whatsoever to the electric industry, the electric utilities?

A. I believe that's true.

Q. Similarly, it bears no resemblance to the regulated gas utilities?

A. I believe that's true.

Q. And certainly no resemblance to the telephone industry?

A. I agree.

Q. Among all of whom interconnectedness is rather important; is that right?

A. Yes.

Q. And interconnectedness, as we see from this case, appears not to be very important in the water industry; is that right?

MR. DORITY: Your Honor, I'm going to object. I think the objection has been termed cumulative in the past. We have two parties that are taking the same position on this issue that was thoroughly litigated a week ago. And if this is the path we're going down, so be it, but I would object, your Honor.

JUDGE THOMPSON: Mr. Deutsch?

MR. DEUTSCH: I don't view it as cumulative. It was a question that the Judge raised that I think bears just almost directly upon the issue of greatest importance to my friends in Joplin, which is single tariff pricing or district-specific pricing.

And to the extent that this witness has testified to at the request of the Judge and has information which is helpful to the Commission in determining whether principles which are applied to other utility industries are applicable here, I think he ought to be allowed to testify to that and I should be allowed to explore it on cross-examination.

JUDGE THOMPSON: The objection is overruled. Please proceed.

BY MR. DEUTSCH:

Q. Do you recall the question?

A. Yeah. My answer to your question is, the company's single tariff pricing rate design does not consider the fact that the water produced in St. Joseph, for example, cannot be used by customers in Joplin.

MR. DEUTSCH: Thank you, Mr. Rackers. That's all the questions I have, your Honor.

JUDGE THOMPSON: Thank you, Mr. Deutsch. Mr. Dority?

MR. DORITY: No questions, your Honor.

JUDGE THOMPSON: Thank you. Mr. England?

MR. ENGLAND: Thank you.

FURTHER RECROSS-EXAMINATION BY MR. ENGLAND:

Q. Mr. Rackers, your statement that the water company or water industry bears no resemblance to electric, gas and telephone industries is not entirely correct, is it, sir, in that all industries have investment in local distribution facilities?

A. They have investment in local distribution facilities, but that investment doesn't change the prices for those individual communities.

Q. On the contrary, sir, doesn't that local distribution plant drive in large measure the cost of providing service to the customer regardless of interconnection?

A. I don't believe the fact that there's varying costs of local distribution in communities causes there to be a different price for residential, commercial or any other class. It's part of the total cost.

Q. Are you aware of the wide disparity in the cost to provide service to telephone subscribers throughout the state just for the local loop portion that serves only that individual customer?

A. I'm somewhat familiar with that.

Q. And doesn't that disparity from customer to customer, isn't that as great as any disparity that

we've seen in the disparity between the costs of serving the districts in this case?
A. I don't think I'm -- I don't think I have the information that I could make that comparison.
Q. You're not saying that the cost to provide service, just the local distribution plant of a customer in Pineville, Missouri, down in the very extreme southwest part of the state, is the same as it is in St. Louis, are you?
A. Ask me that question again.
Q. Sure. You're not saying that the cost to provide service through the local distribution plant to a customer in Pineville, Missouri is the same as to provide someone in metropolitan St. Louis?
A. I don't know the answer to your question.
Q. To the extent that you're dealing with a rural, sparsely populated area, would you expect the distribution system to be more costly per customer served than in a metropolitan high-density area?
A. Well, I can't really answer your question. I think there's numerous factors that are going to influence that cost, not just density in population.
Q. Are you prepared to say that the cost of providing service to each and every electric customer is the same in the state? Is that your testimony?

A. No, I don't think that's true.

MR. ENGLAND: Okay. Thank you, sir. No other questions.

JUDGE THOMPSON: Thank you, Mr. England. Mr. Franson, redirect?

MR. FRANSON: No redirect, your Honor. However, at this time I would offer into evidence Exhibit 52, the direct testimony of Mr. Rackers; Exhibit 53, the rebuttal testimony of Mr. Rackers; and Exhibit 54, the surrebuttal testimony.

Your Honor, when Mr. Rackers testified before, I believe it was ruled at that time that the admission of these exhibits would be deferred until his testimony was, in fact, completed on all issues. I believe we've reached that point. So I would offer Exhibits 52, 53 and 54 at this time.

JUDGE THOMPSON: Thank you, Mr. Franson. Any objections to the receipt of Exhibits 52, 53 and 54?

MR. ENGLAND: No objection, your Honor.

JUDGE THOMPSON: Hearing no objections, Exhibits 52, 53 and 54 are received and made a part of the record of this proceeding.

(EXHIBIT NOS. 52, 53 AND 54 WERE RECEIVED INTO EVIDENCE.)

MR. ENGLAND: Your Honor, might I also ask that Exhibit 105 be received into evidence as well?
JUDGE THOMPSON: Any objections to the receipt of Exhibit 105?
(No response.)
Hearing no objections, Exhibits No. 105 is received and made a part of the record of this proceeding.
(EXHIBIT NO. 105 WAS RECEIVED INTO EVIDENCE.)
JUDGE THOMPSON: Is this Mr. Trippensee?
MR. COFFMAN: Yes, your Honor.
(Witness sworn.)
JUDGE THOMPSON: Please be seated and spell your name, if you would, for the recorder.
THE WITNESS: Russell, R-u-s-s-e-l-l, Trippensee, T-r-i-p-p-e-n-s-e-e.
JUDGE THOMPSON: Direct?
MR. COFFMAN: Thank you, your Honor.
RUSSELL TRIPPENSEE testified as follows:
DIRECT EXAMINATION BY MR. COFFMAN:
Q. Would you please state your name again and your title.
A. My name is Russell W. Trippensee. I'm employed by the Missouri Office of Public Counsel as a

Chief Utility Accountant.

Q. Are you the same Mr. Trippensee that's caused to be filed prepared testimonies in this case, direct, rebuttal and surrebuttal and marked as Exhibits 33, 34 and 35 respectively?

A. Yes, I am.

Q. Do you have any additions or corrections to those testimonies?

A. I have two things I wish to cover. First, inadvertently the cover page on the rebuttal testimony initially went out with the term direct testimony. It should be labeled rebuttal. Our office sent out corrected copies and I believe provided those to the Commission as corrected copies, but I just wanted to make sure everybody was aware of that.

MR. COFFMAN: Your Honor, I'm not sure. Some parties received the correct cover page. Some didn't. We sent out additional cover pages the next day to all the parties. For the purpose of anyone who might have it, it's -- the one with the yellow cover sheet is rebuttal.

JUDGE THOMPSON: Okay.

BY MR. COFFMAN:

Q. Is there another correction you need to note?

A. There's no other correction. I just would like to thank the Commission and the parties for their indulgence last week with the death in our family.

JUDGE THOMPSON: You're quite welcome.

BY MR. COFFMAN:

Q. With regard to the questions and answers contained in your direct, rebuttal and surrebuttal testimonies, if you were asked those questions today, would your answers be the same given your knowledge, information and belief?

A. Yes, they would.

MR. COFFMAN: At this time I would offer Mr. Trippensee for cross-examination and offer Exhibits 33, 34 and 35 into the record.

JUDGE THOMPSON: Thank you, Mr. Coffman. Do I hear any objections to the receipt of Exhibits 33, 34 or 35?

(No response.)

Hearing no objections, Exhibits 33, 34 and 35 are received and made a part of the record of this proceeding.

(EXHIBIT NOS. 33, 34 AND 35 WERE RECEIVED INTO EVIDENCE.)

JUDGE THOMPSON: Mr. Franson?

MR. FRANSON: If I could have just about one moment, your Honor.

JUDGE THOMPSON: You may.

MR. FRANSON: May I proceed, your Honor?

JUDGE THOMPSON: You may.

MR. FRANSON: Thank you.

CROSS-EXAMINATION BY MR. FRANSON:

Q. Mr. Trippensee, by far are the power generation costs for electric and the costs to transport and distribute gas, including the gas costs, the most expensive portion of the cost of service in those industries?

MR. ENGLAND: Objection.

JUDGE THOMPSON: Which is?

MR. ENGLAND: Outside the scope of the issue. We're here for phase-in. I'm not sure he addresses this in his testimony. Are we going to retry single tariff pricing that we did all last week?

MR. FRANSON: That's not my intention, your Honor. There's been extensive testimony about this issue.

MR. ENGLAND: Not from this witness.

MR. DORITY: Not this week.

JUDGE THOMPSON: Do you guys have tee-off times right after lunch, because I think it's raining outside. You might as well be here.

(Laughter.)

I'm going to permit the question. The objection's overruled. Please proceed.

THE WITNESS: Could you rephrase and possibly break it into industries, please?

BY MR. FRANSON:

Q. Okay. Let's start with the electric industry. Are the power generation costs for the electric industry, is their main cost the cost to transport and dis-- let me try that again.

In the electric industry, is it true the most expensive portion -- let's try the gas industry. In the gas industry, is the most expensive portion of the cost of service, is it the cost to distribute gas? Is that the most expensive portion of the cost of service in the gas industry?

A. The most expensive cost in the total cost of service or the overall revenue requirement, whichever phrase you wish to use, for the gas industry is the cost of gas, ranging anywhere from 50 to 80 percent of the total revenue requirement of the gas industry depending on the cost of gas at any point in time over -- and I'm using a 22-year history of my experience. The next probably largest cost is payroll.

Q. In the electric industry, is the most expensive portion of that the cost of power generation?

A. Power generation as an operating expense is a major cost. The return of and return on the power plant, the generating assets, is also another major cost. Again, the third largest is in payroll.

MR. FRANSON: I don't believe I have any further questions of this witness, your Honor.

JUDGE THOMPSON: Thank you, Mr. Franson. Mr. Finnegan?

MR. FINNEGAN: No questions.

JUDGE THOMPSON: Mr. Deutsch?

MR. DEUTSCH: No questions of this witness, your Honor.

JUDGE THOMPSON: Mr. Dority?

MR. DORITY: No questions, your Honor.

JUDGE THOMPSON: Thank you. Mr. England?

MR. ENGLAND: Yes.

CROSS-EXAMINATION BY MR. ENGLAND:

Q. Mr. Trippensee, we didn't talk about telephone. Isn't the largest cost driver on that is the local loop?

A. It's been a while since we've done a telephone cost of service study. As far as the cost, what has been phrased the local loop is the most, I believe, along with payroll, the two largest costs incurred by the telephone industry.

However, rates in the telephone industry aren't always driven by cost of service but by value of service.

Q. And rates in the telephone industry at least within companies are priced on a uniform basis, are they not?

A. No, they're not. They're priced on an exchange size basis often, which recognizes differences in the size of the exchange and the value of service in that exchange.

Q. And to the extent exchanges fall within that same rate category, they are priced the same whether it's a metropolitan exchange or a rural exchange, correct?

A. Well, metropolitan -- within a size of exchange. You would not expect a metropolitan exchange to be the same size numeric customers connected to the system as a rural exchange. That would be rare.

Q. Then whether that exchange is a high-cost exchange or a low-cost exchange, it is rated the same to the end user, correct?

A. As I -- whether it's a high-cost or low-cost exchange, the cost of the exchange is not -- is not a direct -- determination is the only word I can think of and that's not the right word.

The cost of serving the exchange is not the main consideration. It's the value of service, the number of customers you can connect to.

Q. That's not my question. The rates are the same among exchanges of the same size regardless of whether they're high-cost or low-cost, correct?

A. That would be correct, but that determination is not looked at.

Q. What is OPC's recommended total revenue deficiency in this case? Is that in your surrebuttal testimony, page 16?

A. I hope so.

Q. Line 19.

A. The revenue requirement deficiency, that is correct.

Q. And that number is $6,023,285; is that right?

A. Yes, it is.

Q. Okay. Now, that number was prepared or submitted before true-up. Do you have a true-up number?

A. No, I do not at this point in time.
Q. So for purposes of our examination, we can use the 6 million at this point in time?
A. That is correct.
Q. Would you agree with me that the total company revenues are approximately 30,500,000, as we discussed with Mr. Rackers earlier?
A. Mr. England, before we go to that question, you asked about true-up. Our case is based on a value of the property of providing service with regard to the St. Joseph plant. So the true-up will not affect our recommendation with regard to revenue requirement increase. Whether the plant costs 70 million, 75 million, we're saying that it should be put into rate base at, I believe Mr. Biddy yesterday discussed an amount not to exceed $40 million.
So to the extent we do, this reflects a $38 million. I will need to adjust it to reflect Mr. Biddy's 40 million. That would be the only thing.
Q. Okay. I think I understand, but let me ask a question or two. Is the 6 million revenue deficiency based on a value for the St. Joseph plant of 30 million or 40 million?
A. It's based on a value of approximately $36 million. I'd have to -- I believe it's contained

somewhere in my either rebuttal or surrebuttal testimony.

Q. But for purposes of our discussion, we can use the $6 million revenue deficiency?

A. That is correct. I just wanted to differentiate the difference between what Staff and I believe the company will be doing in a true-up where they're looking at the plant value of the construction costs of the St. Joseph plant.

Q. So it's your expectation that for purposes of true-up your number really won't change materially?

A. Not significantly. Just to reflect the changes in the valuation of the alternative that you and Mr. Biddy -- or Mr. Ciottone and Mr. Biddy discussed yesterday.

Q. Would you agree with me that current revenues are approximately 30,500,000?

A. That sounds correct.

Q. Okay. So as a raw increase, without any phase-in, if we divide 30 million into 6 million increase, that's roughly a 20 percent increase; is that right?

A. Approximately.

Q. Okay. Now, and I don't have the number. Hopefully you do. What is OPC's recommended first year phase-in amount?

A. It'll take me a second, sir.

Q. Is that in Mr. Busch's rebuttal testimony?

A. It may be. I would -- I would draw it from the phase-in schedule attached to my rebuttal testimony with regard to the three districts excluding St. Joe. The St. Joe number was updated and is attached to my surrebuttal testimony.

Q. Can you do a quick calculation as to what the first year phase-in would be, please? I'm sorry. Total company first year phase-in, all districts.

A. If you will give me a second, please.

Q. Sure. I assume you're going to sum numbers out of your schedules attached to your rebuttal testimony?

A. Yes, I will.

Q. Can you tell me the line that you're going to be taking it from, please?

A. I will step you through it if I can.

Q. Thank you.

A. Public Counsel's phase-in recommendation looks at both a cap on total district revenue requirement but then a secondary cap on any class shifts within that district.

Q. Can I interrupt you and ask you, is that the

15 percent cap?
A. Yes.
Q. That applies to both district-wide increases and customer-specific increases?
A. That is my understanding. Mr. Busch did the majority of work on the interclass shifts and the caps and then would supply me the information that I would roll into the phase-in calculation.
So this calculation is based up to go with either the phase-in maximum which is shown on line 13 or the class shift maximum revenue increase which is shown on line 16 of each schedule. In each instance, the class shift maximum is what the phase-in amount is because they both had a 15 percent cap.
We designed the schedule the way we did so that in the instance that someone says, Well, we can do a 15 percent class -- I mean district, but a 20 percent class, if you change those percentages, hopefully this schedule would be able to handle those changes in assumptions.
So to answer your question, the maximum increase is -- or the increase in the first year or any year for that matter is found on line 16, or at least for the years there's increase.
Q. Okay.

A. For the first year Brunswick would be $15,302, Mexico would be $208,005, Parkville would be $197,658, and St. Joseph would be $1,154,526.
Q. I'm sorry. What was that last number?
A. $1,154,526.
Q. Thanks.
A. That is from the schedule attached to my surrebuttal testimony because of the, quite frankly, the shift in -- or an error in the initial calculation attached to my rebuttal. I believe I explained those changes in the surrebuttal.
Q. Yeah.
A. And you wanted the total?
Q. What about Warrensburg, did you give me that?
A. Excuse me. I did not. Warrensburg would be $239,610.
Q. My rough calculation looks like a million-eight in the first year total company. Do you want to check me, please?
A. That looks approximately correct, sir.
JUDGE THOMPSON: Yes, Mr. Coffman, you may hand the calculator to Mr. Trippensee.
THE WITNESS: If we want it down to that level, I'd be happy to do so. $1,815,101, if

Mr. Robertson's calculator works.

BY MR. ENGLAND:

Q. I'm not sure I'm willing to accept a calculator from the Office of the Public Counsel, but that calculation comes close to the one I performed, so I will accept it. Thank you, sir.

And then taking that first year increase, dividing it roughly by the current revenues of 30 million, would you agree with me that what you've proposed in your first year increase is roughly a 6 percent overall increase in revenues?

A. I believe that's correct.

Q. So although you've got a 15 percent limiter on increases by district and then a subsequent 15 percent limiter on increases by class, because some classes and districts will not be increasing by 15 percent, that's why the overall increase is something less than 15 percent in the neighborhood of 6, right?

A. Hang on just a second. Let me check. To the 1,815,101 you would have to add our recommended increase for St. Charles of $376,913.

Q. Did I miss that on your rebuttal?

A. No. That is --

Q. That's a one-time increase?

A. That's a one-time increase. It's not a phase-in.

Q. Okay. Then let me have that number, please.

A. 376,913.

Q. So we're roughly at 2.2 million increase in the first year?

A. 2.192014.

Q. Okay. And as a percent of existing or current revenues, what would that be?

A. Let me just keep up with the paperwork. 7.3 percent using $30 million even on total revenue.

Q. Thank you. If I can remember my last question before that correction. Although you're proposing a 15 percent limiter on district-wide increases and a further 15 percent limiter on class increases, there are some districts that are not experiencing a full -- and some classes I guess that aren't experiencing a full 15 percent increase in the first year, and that would explain why the overall increase in revenues under your phase-in plan is something less than 15 percent or approximately 7.3 percent?

A. That is correct. As Joplin -- as I think Mr. Busch explained, hopefully, since I wasn't here to watch his testimony, Joplin is not receiving any increase. St. Charles is receiving what its cost of service would indicate it should increase, and then going back to the phase-in, the difference there between 15 percent and what they're receiving is that secondary cap of the class cap of 15 percent.

Q. In your rebuttal testimony, page 8, I believe it's lines 9 through 11, you indicate that you're proposing a five-year phase-in for the St. Joseph and Warrensburg districts and a seven-year phase-in for the Brunswick, is it Mexico and Parkville districts?

A. You're saying on page 8, which lines, please?

Q. 9 through 11, please.

A. I believe Brunswick, Mexico and Parkville have a five-year and then either one or two years in which decreases in the tariffs would be necessary to eliminate the effect on the cost of service of the carrying charges and the repayment of the amounts previously deferred.

St. Joe and Warrensburg were at three years plus either the one or two years necessary to bring the rates back to an ongoing level.

Q. That would be displayed in Mr. Busch's exhibits or schedules?

A. What would be displayed, sir?
Q. The actual amount of years --
A. The amount of years --
Q. Let me finish. The actual amount of years where rates would be increasing versus decreasing?
A. That would also be displayed on the phase-in schedules themselves. I showed an eighth year on each phase-in schedule, but I do not believe in reviewing them that it is used. But again, this schedule was developed to address several contingencies.
Q. Well, maybe it would be best if we just took as example your first, Brunswick.
A. Yes, sir.
Q. It appears that you're proposing increases for six years; is that right?
A. For Brunswick, no. It would be five years. If you look at -- no, I take that back. No. Five years, if you look at line 28.
Q. Okay.
A. Five years of increases and then two years of decreases that are necessary to eliminate the repayment of the deferred amounts and the repayment -- or the payment of carrying costs.
Q. Okay. I guess what had me confused was your line 7 where it appeared you had positive numbers in

year six under phase-in revenue increase, and I thought that was a further increase but you're telling me that's not?
A. No, that's not an increase. That's just an amount that has to be collected through rates to implement the phase-in. That is part of the amount that has to be eliminated from the ongoing rates so that the phase-in does not affect rates in a post-phase-in environment.
Q. Okay. Thank you.
Also in your rebuttal testimony, I believe it's at page 2, lines 17 through 20, you state, If the MPSC ultimately finds that a specific district should experience a rate increase in excess of 50 percent as recommended by the Public Counsel, I would anticipate that the 15 percent cap would have to be raised for that district. The reason the cap would need to be increased is to maintain a reasonable number of years in the phase-in. Do you see that, sir?
A. Yes, I do.
Q. Am I correct in gathering or getting from that statement that you are concerned that the longer the phase-in period, the more the carrying costs associated with the deferrals?
A. That would be a consideration would be

carrying costs. The carrying costs and the actual total costs to the body of ratepayers is shown on each phase-in down at the bottom, each phase-in schedule. But you do not want to extend it out so long that those carrying costs are allowed to get out of hand.

Q. That leads me to my next question. Assume, if you will, please, that the Commission awards the company a rate increase that exceeds the $6 million Public Counsel has proposed in this case, and in light of the testimony here on page 2 of your rebuttal testimony, would it be your proposal that you still recover that increase over a five-year phase-in or would the phase-in period be extended?

A. Well, hopefully the Commission won't do that, but in the event that they did --.

Q. Humor me, if you would, please.

A. I thought you might ask this. Public Counsel would recommend that the phase-in include increases in years not to exceed six years for any district. That would be consistent with -- and the reason I'm recommending six years, you would then have either a year or a second year of decreases. So you have a total of eight-year phase-in.

Six years was the same number that was used for increases in the Callaway case, the maximum number that was used there for increases. It also -- it's only one year longer than our recommendation with regard to the 15 percent cap.

Q. So your first proposal to accommodate a greater revenue deficiency would be to extend the phase-in period to no more than six years; is that right?

A. That would be -- if you're going to step it, that would probably be, yes.

Q. Now, to the extent you couldn't accommodate your 15 percent cap, would that have to give in order to accomplish a six-year recovery?

A. Yes, it could, depending on the numbers. You would have to put those numbers into the phase-in schedule, but my assumption is, if the number is large enough, the initial number, yes, the cap would have to give to maintain a six-year phase-in of increases and then the one or two years necessary to bring the rates back to what they would be absent any phase-in.

Q. I think you indicate in your rebuttal testimony that you propose to calculate carrying costs at the rate of return recommended by OPC witness Burdette; is that right?

A. The reasonable return, yes.

Q. Yes. Now, would you also agree that for purposes of a phase-in, if one was adopted by this Commission at the conclusion of the case, the appropriate rate of return, Mr. Burdette's recommendation notwithstanding, should be the one ordered by the Commission?

A. No question. That's why -- again, that's why the schedule was set up to ultimately reflect Commission decisions.

Q. And in line with your recommendation that there be automatic downward adjustments at the end of the phase-in period, I believe you state at page 2 of your rebuttal, lines 6 through 10, and I'm paraphrasing, that you're concerned that Staff's phase-in proposal as structured will result in excessive rates in the year immediately following the end of Staff's phase-in period, correct?

A. That's what I state there. Staff's Schedule -- or Exhibit 105 I think for St. Joseph now indicates that's 8.3. For Parkville, it's slightly over a million dollars.

All we can deal with today is the known and measurable factors of today, and the only thing -- using the assumption all things else remaining equal, which is a fairly standard term of art or phrase in regulation, we know that at the end of the phase-in, to bring the rates back into conformance or equal to the rates that would have been set absent the phase-in, that decrease has to occur.

Q. Okay. You understand that, however, that automatic decrease at the end of the phase-in is not part of Staff's proposal?

A. I understand that it's not part of Staff's proposal. It was part of the Commission's approved phase-ins in Callaway and Wolf Creek.

Q. And you talked about known and measurable or things as they exist today. Would you agree with me that it is very unlikely that the revenue requirement as it exists today will exist for this company in years two, three, four and five?

A. Well, there will be changes in the revenue requirement, rate base revenue, expense relationship. That is a possibility, yes.

Q. Not only a possibility, a very high likelihood, correct, sir?

A. I haven't looked at their future budgets, but I would assume that the company will be making subsequent investments that may not be equal to the average investment per customer today. That's fairly normal in the water industry.

Q. I'm not sure, did I get a yes to it is highly likely or no, it's not or I don't know?

A. I believe as I -- yes, I will say yes.

Q. Okay. Thank you. Does your proposed phase-in track with Staff's in that you propose that the phase-in rates be established now and automatically take effect on each anniversary date from the rate case?

A. I'm not sure in listening to Mr. Rackers today that we exactly track. We propose a series of tariffs are developed as a result of this case, and those tariffs, you have a series for each and every year, and that those are approved by this Commission with effective dates, the first series being the operation of law date, the second series being the operation of law date plus one year, that all necessary sets of tariffs -- all necessary sets of tariffs are developed, are approved by this Commission.

Q. At the conclusion of this case and the initiation of the phase-in plan?

A. That is correct.

Q. Okay. Do you agree with Mr. Rackers that that would not preclude parties from filing earnings investigations against the company or complaints or, for that matter, the company pursuing rate increases during the phase-in periods?

A. No, I do not disagree with Mr. Rackers on that.

Q. And if such an event were to occur, whether it's an earnings investigation or a rate increase request, isn't it likely that the phase-in rates from that point forward will probably be adjusted?

A. The actual rates would be adjusted assuming that the phase-in concept actually needs to be maintained. But at that point in time, Public Counsel would recommend to this Commission that they redo the process and approve a series of tariffs at that point in time that keep -- I might add that keep the original period together. We don't take, say, a six-year increase, we go three years into the period and say, Oh, we're going to go another six.

Q. So if you were three years into the process and either an earnings investigation or a rate increase were concluded at that point in time, you would envision perhaps changes in the phase-in tariffs but only in the last three years of the phase-in tariffs?

A. Unless -- yes, except if the -- in the case of a decrease, if the decrease was of such a magnitude that you could provide the company a return of any amount deferred and eliminate the phase-in, similar to what was done in the Callaway and Wolf Creek cases, in each case the company did not lose any money, lose any of the previous deferrals.

Q. Speaking of Union Electric and Callaway, the carrying costs were reduced, though, weren't they, during that phase-in period?

A. I don't quite frankly remember any discussion in that case about carrying costs. The primary factor in both cases was the plant availability rate of the two nuclear units that decreased the operating expenses very, very significantly.

Q. Again, assuming the hypothetical that we have a six-year phase-in plan, that we're into the third year, we've got an earnings investigation for a rate increase request, and as a result of that proceeding the phase-in tariffs have to be adjusted. Is it your testimony that, although they would be adjusted, they would still be designed to collect the same revenues that they were initially designed to collect in those respective years?

A. They should -- excuse me. They should be designed to collect any revenues deferred in prior years up until that point. If the Commission finds that ongoing deferrals should be at a different carrying cost rate, that could be built into the program.

Q. And that could affect the recovery of the deferred -- the amount of deferred revenues as initially determined by the Commission at the beginning of the phase-in plan, correct?

A. No, it could not. I said on a going-forward basis, and I also said that anything deferred up to that point which would have been deferred based on the original carrying cost, those amounts would be recovered in full at the original carrying cost.

Q. Well, let's take my example again. We're three years into the phase-in plan. The Commission conducts a rate proceeding and determines that the authorized rate of return is now 9 percent overall whereas before it was 10 percent --

A. Correct.

Q. -- in the initial case. So we've been deferring revenues for years one, two and three at a carrying cost of 10 percent, correct?

A. That is correct, sir.

Q. And we filed tariffs that would allow us to collect additional carrying costs for years four, five and six at 10 percent. Those were our initial tariffs, right?

A. That is correct.

Q. Now, if the Commission determines that the appropriate rate of return in year three is now 9 percent because of reductions in cost of equity or debt or what have you, is it your understanding that the carrying costs for years four, five and six will be reduced to 9 percent or remain at 10 percent?

A. In your assumption, they would be reduced to 9 percent.

Q. And, therefore, the total deferred revenues that were determined to be appropriate in year one have now been reduced by 1 percent for each year for those last three years, correct?

A. No, that is not correct. You're confusing carrying costs with deferred revenue.

Q. Okay. The deferred revenues do not carry a carrying cost with them?

A. That is in addition to the deferred revenues.

Q. Okay.

A. That is not the deferred revenue. The return of the deferred revenue is different than the return on the revenue. It's no different than a plant had investments that the Commission determines different rate of return for.

Q. Well, would you agree with me that we're talking about revenues, recovery of revenues?

A. Deferred revenues, yes, recovery of.

Q. In the initial year of the phase-in, the Commission determined the appropriate rate of return at 10 percent?

A. That is correct.

Q. And that's the carrying cost that would apply throughout the deferral unless, as I understand, changed by the Commission sometime during that deferral period?

A. That is correct.

Q. Okay. And would you agree with me that a reduction in that carrying cost would result in a reduction in the overall revenues collected by the company versus what the Commission determined in year one?

A. The only change would occur in the carrying cost recovered, not in the deferred, not in the revenue requirements that customers should pay.

Q. Okay. Would you agree -- I'm going to switch gears on you a little bit. Would you agree with me that that third year, if there's a new Commission, that they are free to change the recovery of the actual revenues, not just the carrying costs if they so choose?

A. Would I agree --

Q. It's kind of a reverse way of saying that what this Commission determines in year one doesn't necessarily bind the new Commission in year three?

A. It's my understanding from a legal standpoint --

MR. ENGLAND: Excuse me. I don't want the witness' legal opinion.

MR. COFFMAN: Your Honor, I mean, it is essentially a legal question. I think Mr. Trippensee --

JUDGE THOMPSON: The objection is sustained.

BY MR. ENGLAND:

Q. I just would like your opinion as an accountant and participant, a long-time participant in these proceedings.

A. Can the Commission change their position?

Q. Yes.

A. Yes.

Q. Thank you, sir. Again, switching gears, in your surrebuttal testimony, pages 3 through 10, you discuss at length Financial Accounting Standards 71 and 92, do you not?

A. Yes, I do.

Q. And you conclude that, in your opinion, neither of these standards require the company to write off any deferred revenues associated with the phase-in plan; is that a fair characterization?

A. No, because you're using the same terminology Mr. Hamilton mistakenly used. There is no write-off of revenues.

Q. All right. Would you agree with me that your conclusion, then, is that FAS 71 and 92 do not prohibit the company from booking those deferred revenues in its financial statements?

A. FASB 71 does not prohibit and, in fact, allows Generally Accepted Accounting Principles to recognize actions of this Commission. FASB 92 does not, in my opinion, is not applicable in my opinion to this situation.

Q. Okay. So you don't read FAS 71, regardless of 92, as a prohibition against the booking of deferred revenues?

A. No. In fact, FASB 71 is often cited as allowing the Commission to record what is often referred to as regulatory assets. Accounting Authority Orders are a prime example.

Q. Would you agree with me that if the PSC decides to disallow a portion of the St. Joseph plant as recommended by your office and as a result of a determination of imprudence, that Generally Accepted Accounting Principles will require the company to write off that disallowance in the year it occurs?

A. I would agree with you that they would be required to write off a plant that is not allowed to represent -- that is not intended by this Commission to represent a future flow of assets, the classic definition of an asset.

Q. Let me be more specific. Let's say the Commission accepts your valuation of $36 million for the treatment facilities in St. Joe.

A. Yes.

Q. And would you -- and assuming that the actual cost of those new facilities is 70 million, would you agree with me that we have a roughly $34 million differential there?

A. Your math is correct.

Q. Would you agree with me that, as a result of that determination by the Commission, the company would be required to write off that $34 million differential?

A. If I was your outside auditor, yes, you would.

Q. And to the extent that current year's earnings could not absorb that $34 million reduction, the company's retained earnings would have to be reduced accordingly, correct?

A. Most definitely.

Q. How about where the Commission orders a disallowance due to their determination that there is excess capacity, would you agree the same result with the write-off?

A. It would depend on how the Commission treats that excess capacity. If their finding was that that excess capacity was excess now and forever, then yes, you would have to write that off.

If they make the determination along the lines of what Mr. Biddy recommended and allowed the Commission -- or, excuse me, allowed the company to hold those assets with the promise of future revenues, then no, I would not necessarily agree with you that that would have to be written off.

Q. You're familiar with Missouri-American to some degree. You've participated in recent cases. Are you aware of any rate recovery element that we currently have, I say we, Missouri-American Water Company, that would allow them to recovery any of that excess capacity that Mr. Biddy has identified as being disallowed in this case?

A. That proposal has not been brought forth in a prior case, so we currently do not have anything.

Q. But let's just talk about a straight dis-- well, I'm sorry. You made a distinction. Let's talk about a temporary disallowance as opposed to a permanent disallowance for excess capacity.

A. Yes, sir.

Q. Is it your opinion that if it's a temporary disallowance, that the company is not required to write it off?

A. If you were -- you would be required to write off a portion, in my professional opinion, if you were not allowed carrying costs. You would have to write off the value of the carrying cost. If you were allowed some sort of recovery of carrying costs in the future, then no, you would not have to be written off.

Q. Would it be your recommendation that, to the extent we have to mothball a portion of the plant because of excess capacity temporarily, that we ought to earn carrying costs on that portion?

A. If you're mothballing it and it's not --

Q. Maybe that's a bad term.

A. It is, I believe, a bad term because that has a different connotation than I think what

Mr. Biddy's proposal was.

Q. Fair enough. Let me just say, we're talking about a temporary disallowance due to excess capacity?

A. Correct.

Q. So it won't be recovered currently in rates, but it may in the future?

A. That is correct.

Q. Is it your recommendation that we be allowed to earn carrying costs on that portion?

A. I believe that's what Mr. Biddy's recommendation entails, yes, sir.

Q. And is that the recommendation of the Office of Public Counsel, because some people have made a distinction between what their hired expert says and what the office says?

A. I have discussed that with Mr. Biddy and that is our recommendation.

Q. Thank you.

Getting back to your opinion that neither 71 nor 92 prohibits the company from recording deferred revenues resulting from a phase-in recording those revenues on its financial statements, is it fair to say that you've never issued any financial statements where you have had to take this opinion or sign to this opinion?

A. That would be fair to state, yes.
Q. Okay. And it's fair to say that you will not be the auditor for Missouri-American Water Company who has to certify compliance with Generally Accepted Accounting Principles as a result of a decision in this case?
A. I will not be paid by American Waterworks to do that, no.
Q. So using Mr. Conrad's golf analogy of earlier in these proceedings, is it also fair to say that, in rendering your professional opinion, you have no skin in the game?
A. I think I missed that one. That must have been while I was gone. I appreciate the terminology, however.
Q. Well, I thought it might be an analogy you would understand.
A. I'm not sure Commissioner Drainer will. She hates it when I use sports analogies.
With that levity, I've pretty much forgotten your question. Whether I have a skin in the game? That's also known as my own money.
COMMISSIONER DRAINER: Thank you for clarifying that.
THE WITNESS: We'll discuss it later. I

don't think it'll be expert.

I will not be paid to issue an opinion. Mr. Hamilton will be.

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

JUDGE THOMPSON: Questions from the Bench, Chair Lumpe?

CHAIR LUMPE: Very briefly.

QUESTIONS BY CHAIR LUMPE:

Q. Mr. Trippensee, just to see if I'm correct here, for two of the companies -- or for two of the districts there would be no phase-in? They would pay directly?

A. That is correct. Joplin, Public Counsel has no increase. So there's obviously no need to mitigate for Joplin.

For St. Charles, I'm not sure of the exact percentage for St. Charles. I believe it's in the 4 to 5 percent range, which is well below our 15 percent threshold where we believe the customer should have time to adjust to these increased rates that they can see coming.

Q. And then for two others you have a five-year phase-in, and for the last two years of that is that a decrease? Is it three years of increase and two years of decrease?

A. Let me look, Commissioner. For Warrensburg, it's a three-year increase and two years of decreases.

Q. Okay. And St. Joe, the five-year phase-in for St. Joe, is that also three years of increase and two years of decrease?

A. Under my surrebuttal testimony, St. Joseph was four years of increase and one year of decrease. The numbers fell out just right on the edges, which required only a one-year decrease.

Q. Okay. And then the seven-year phase-in, or is it now a six-year phase-in for the three remaining companies?

What I'm looking at is page 8 of your rebuttal where it says seven-year phase-in for Brunswick, Mexico and Parkville, but in your discussion I thought I heard no one would have longer than a six-year phase-in. Would that be four increase and two decrease or would it vary?

A. For Brunswick, Mexico and Parkville, based on Public Counsel's revenue requirements deficiency recommendation, each of those entities -- those districts would receive five years of increase and then two years of corrective decreases to bring the rates back to the level they would have been absent a phase-in.

I showed on my Schedule 8 eight columns because I wanted to demonstrate that the ongoing rates after the phase-in would be the same as if the phase-in had not occurred.

Q. So indeed for no one there would be more than -- will be less than a six-year increase phased-in increase? I'm not understanding. I see seven, and yet I heard conversation about --

A. Six?

Q. Yeah, six.

A. Well, the six was Mr. England's asking me to assume that the Commission does not adopt Public Counsel's recommendation on revenue requirements but, say, adopts Staff's or the company's, in which case the revenue requirement deficiency would be of such a magnitude that we would have to increase the number of years in the phase-in that allow for increase in rates.

And I stated to him that our first -- a two-step process to implement that higher revenue requirement would be first to extend the number of years in which there could be increases to six. Currently we have three, four and five. We'd increase that to six.

And then secondly, we would increase the cap on any individual year increase to something greater than 15 percent, and really it would be a fallout, the cap would be a fallout because the cap now becomes the six years.

Q. And I think I got enough of your discussion with Mr. England on the issue of the company's position on the phase-in and your disagreement on that about what would be written off or recorded, et cetera. So I'm not going to ask that further.

My last question would be on the surcharge. Did you look at the surcharge at all? Do you have -- would you give me your thoughts or if Public Counsel has any thoughts about the issue of a surcharge as opposed to phase-in?

A. First off, just kind of a general comment on this case, it's probably the most difficult rate design case I've ever been involved with. So we did discuss surcharge. We discussed everything we could think of.

The surcharge is more -- is not, as Mr. Rackers indicated, a substitute for the phase-in. The phase-in is simply a mitigation, or I like to describe it as a loan from the company to the ratepayer to allow the cash flow of the ratepayer to adjust to these increased rates.

The surcharge is somewhat similar, at least depending on how you implement it, to Public Counsel's phase-in -- I mean rate design proposal in which we look at district-specific pricing, DSP, as advocated by some of the parties, but we then modify it to try and obtain a reasonable rate for each and every district while considering their cost of service, looking at reasonableness also.

The surcharge is somewhat in that analogy. If you would just simply stick, say, a surcharge on top of a district or districts that have, say, large plant investment, it's somewhat of a compromise between district-specific and single tariff pricing, but it is not related to the phase-in. If you do a surcharge, you could still do a phase-in, or you couldn't. They're not -- they're not integrated.

Q. They're not mutually exclusive, but it is -- is that what you're saying?

A. No. They are. Phase-in and a -- phase-in is simply a way to mitigate the rate design that requires a large initial increase. It's a mitigation. Whether that rate design includes a surcharge, whether it's district-specific, whether it's single tariff, whether it's something like Public Counsel has proposed, which is a district-specific but then modified to recognize reasonableness, those are mutually exclusive from the phase-in.

Q. But in the phase-in, the capital costs are included in the revenue requirement for each district? The capital cost is not pulled out; is that correct?

A. In our proposal, the phase-in looks at the total revenue requirement which includes capital costs and everything else, that is correct. But you could do -- again, I go back to, if you wish to pull out capital costs, that's a rate design. You can do it there. It doesn't affect the phase-in.

Q. All right. And the reason I ask about that surcharge, again, I think it is an alternative way of a company receiving whatever the revenue requirement specified is?

A. I would agree with that, that it is an alternative, but it's a rate design alternative.

Q. Okay. And my last reason for being interested in that is, in listening to the public testimony, I heard again and again two comments. One, we want to -- we're willing to pay our own way, and what I gather from that was they were willing to pay their own capital costs. They didn't -- they weren't concerned about paying allocations of common costs, et cetera, but they wanted to pay their own way on capital costs.

A. Uh-huh.

Q. And the other issue that was raised quite frequently was, Well, if you put this all in the rates, we will pay for it forever. It'll never go away. And if you do a surcharge or something of that nature, you would pay for it and then it would be over and they would see an end, like a bond issue, once the bond is paid off. It doesn't continue on in the rates.

And those were two things I heard rather frequently, and that's why somehow the idea of a surcharge seemed to address some of those comments.

A. I guess if I could -- you had several thoughts there. The concept of the surcharge as a capital cost -- just a second, please -- as a capital cost, one of the largest drivers in a cost, in a water utility's cost of service is capital. And I think a district-specific pricing proposal addresses that to some degree or to a large degree.

The allocation of the common cost, that is done in district-specific, too. I mean, it is there. So I think that is putting -- drawing the surcharge out or doing the district and doing capital costs, I don't know how much difference you will get looking at surcharge versus district-specific, because the balance -- a lot of the balance of the cost, if you go to the Staff's revenue requirement run, I believe you'll see a large administrative and general expense that come from corporate.

Those are allocated costs, and they're based on customer accounts and things like that. So, I mean, whether you do it through a single tariff or through an allocation and call it district-specific, you're going to get the same result.

The other thing, though, is the concept of a surcharge going away. I'd have to look to be sure, but an electric -- I mean, electric. A water production plant has a very long life, 40, 50-years depreciation rates. My assumption would be the surcharge would be based on the return of, i.e. depreciation, of that plant and the return on that plant.

The surcharge is going to go on for 40 or 50 years. I don't know that you've really changed the format. You've put it on the bill differently, but I don't really think you'll change the result.

Q. Is it similar to -- see if this makes any sense. The PGA, which is the biggest cost?

A. Yes.
Q. And it flows through and the customer sees that that's what they're paying for gas and then they're paying all the rest for other?
A. Right, and that varies.
Q. And that would vary by district or company or whatever. In this case, if you had district-specific, the district would be paying those common costs, et cetera, but then for the biggest part, which is capital, they would be paying their own capital costs.
Now, did I hear you -- am I correct in interpreting what you said that since that is the biggest part, and when that's included, included in the revenue requirement for that district, that's basically the biggest part of it anyway and that's what they're paying, but in this sense they would be seeing the significance of the capital, the customer would see the significance of the capital cost if you pulled it out as a surcharge?
A. Essentially what you're doing is -- yes, and if I could maybe expand just a little bit. Essentially what you're doing is you're taking the customer charge that appears on the customer's bill and breaking out the capital cost components of it,

and you're also taking the commodity charge and breaking out the capital component of that.

So really your bill would now have three different components, and they would be able to see what the capital cost is of each of those prior what was two, commodity and customer. Each of those have a capital charge in it, and you're just simply breaking that out.

Q. So they would see that?

A. Right.

Q. If they really meant what they said, they really want to pay their own way and they don't want to pay anybody else's way, trying to decide if that is the way they can really see that they're paying their own way?

A. Well, they can -- Commissioner, they can -- on their bill, surcharge would be a line item, but you will get the same result. If that is truly what the customers have said at the public hearings, if that's what you-all find, district-specific rate design does the same thing. Really, the surcharge -- I'm not trying to downplay it, but it is more a form of rate design. It's not a substance of rate design.

CHAIR LUMPE: Okay. Thank you, Mr. Trippensee.

JUDGE THOMPSON: Thank you, Chair Lumpe. Vice Chair Drainer?

QUESTIONS BY COMMISSIONER DRAINER:

Q. Good morning.

A. Do we want to talk about skins now?

Q. I will say you have our sympathy for your personal loss.

A. Thank you.

Q. And most certainly we do understand that you could not be here last week.

I just have a couple questions based on your comments to Chair Lumpe. You mentioned that there were extensive conversations about the rate design for this case in your office?

A. Yes, there was.

Q. When you accepted the rate design and the phase-in proposal, did you have any meetings where you looked at printouts that showed the dollar impact that your rate design and phase-in proposal would have on the customers?

A. On the customer classes?

Q. Yes, on each customer?

A. Class?

Q. Class.

A. Yes. I believe Mr. Busch -- we had several people working on this because it was a very difficult rate design.

Q. But now, Mr. Trippensee, let me tell you, they had to do the work to present it in the hearing based on my request.

A. Correct. And I thought that was at a customer level.

Q. Right. I'd like to know if we had that at a customer level, not just the class, the total revenue impact. Did you have on the customer level how their bills will change in dollar amounts?

A. I have not prepared that, and I don't believe we looked -- we initially looked in our discussions at the class level.

Q. Revenue impact?

A. Revenue impact on the class and the class responsibility. I don't believe we filed direct testimony taking those class revenue requirement responsibilities and assigning them to the commodity or to the customer charge and bringing them down to a customer level. We have --

Q. Excuse me. You have not done that. Did you -- so, therefore, you would not have done an analysis of what the tariffs would look like by class and customer?

A. We have normally agreed -- the answer is no, because we normally agreed with Staff.

Q. Thank you. So you did not do that. And since you did not do that, then when you filed your testimony adopting the rate design and phase-in proposal, you did not have rates filed in this case, and you had not analyzed the rates per customer?

A. The tariff rates?

Q. Right. What the tariff rates would be for the customers in the different classes?

A. No. I believe our assumption would be simply that the percentages would follow the existing tariff rates. The percentage changes would follow.

Q. Had you looked at the percentage changes with the current tariff rates and calculated the dollar impacts?

A. The dollar impact per customer, no, we did not, to my knowledge.

Q. My final question, Mr. Trippensee, is how can one determine a reasonable -- that the rate is reasonable when one does not know what the rate, the actual rate is?

A. We knew the average rate for a standard customer bill. Our rate design on class shifts and district increases or district shifts would simply, in our view, affect those average bills by that percentage. So we did not feel it was necessary. So if the average customer bill was $18 and we proposed a 15 percent change, it would be -- the impact on the average customer would be the 15 percent of the $18.

Q. Okay. But you did not do it on the tariff rates and take that percent for all the tariff rates? So other than an average of one type of customer, you really can't tell me that you know that it was going to be a reasonable rate for all customers? If you had ran those numbers and looked at it and said, Yes, that looks reasonable, you did not do that?

A. And you're saying, like, stratifying the customer usages, column blocks, whatever, within say a five-eights meter for somebody that uses a thousand?

Q. You did not do that?

A. We did not do that.

COMMISSIONER DRAINER: Okay. Thank you. I have no other questions.

JUDGE THOMPSON: Thank you, Vice Chair Drainer. Commissioner Simmons?

COMMISSIONER SIMMONS: Just one question.

QUESTIONS BY COMMISSIONER SIMMONS:

Q. Good morning, Mr. Trippensee.

A. Good morning, sir. Nice to meet you.

Q. My question is concerning, I think, your direct testimony. I'm looking at page 11. There's a question here that talks about whether the Commission has allowed regulated utilities to defer costs from one accounting period to the next.

A. Yes, sir.

Q. Are you looking at that? Could you give me an example of when that has occurred in the past?

A. The Commission, one example I think has been a little bit discussed, I believe, in this case, is -- well, I guess let me use the classic one, is an ice storm. An ice storm, I believe one hit Kansas City a few years ago, and Kansas City Power & Light and Missouri Public Service incurred significant costs with bringing service back on line. But those costs did not -- and when I say costs, I'm not saying expense or capital. I'm just saying in general they had to pay out money.

The determination in that instance was most of those costs normally would have been expensed and flowed directly through to the income statement, reduced net income and thereby reduced earnings for the year.

The companies came to the Commission,

requested that those costs not be expensed but be deferred and capitalized and that they be allowed to flow them through to the income statement over a five-year period. It's usually a five-year period.

Q. Is that also something acceptable with General Accounting Principles?

A. That benefits, yes. They do allow that. The problem -- the concern I have is, in Mr. Hamilton's case he allows that when it benefits the company stockholders, but when there's a proposal that's the exact same and is detrimental, he says no.

Q. So when you gave the example earlier about the ice storm situation in Kansas City, is that, in your opinion, analogous to what we are talking about with the plant?

A. From an account -- well, our phase-in proposal is not just looking at the plant. We look at the entire cost of service and just simply say, They deserve this much revenue, but that would be too much of an impact on the customer. So we'll give them this much and then we'll allow them to collect the difference from the customer base over the future.

It's very analogous to a loan with regard to the phase-in. But as far as the accounting treatment between an expense deferral and this revenue deferral, accounting-wise they're the same, or they should be the same. Mr. Hamilton asserts they should.

COMMISSIONER SIMMONS: Okay. That's all the questions I have. Thank you.

JUDGE THOMPSON: Thank you, Commissioner Simmons. We are now ready for the lunch recess. We will return at 1:30 for recross based on questions from the Bench, unless you want to tell me that there are none. I'll see you at 1:30.

(A recess was taken.)