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BEFORE THE PUBLIC SERVICE COMMISSION

STATE OF MISSOURI

TRANSCRIPT OF PROCEEDINGS

HEARING

January 8, 2004

Jefferson City, Missouri

Volume 22

In the Matter of Missouri-American) Case No. WR-2003-0500
Water Company's Tariff to Revise Water) Tariff Nos.
and Sewer Rate Schedules.) YW-2003-2012
) YW-2003-2013
) YW-2003-2014
) YW-2003-2015

BEFORE: _____
KEVIN A. THOMPSON, Presiding
DEPUTY CHIEF REGULATORY LAW JUDGE.
CONNIE MURRAY,
COMMISSIONERS.

REPORTED BY:
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ASSOCIATED COURT REPORTERS

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1 JUDGE THOMPSON: Good morning. We're here
2 for the resumption of the hearing in Case WR-2003-0500 in
3 the matter of Missouri-American Water Company, a general
4 rate case.

5 I don't think I need to take a roll. I can
6 see who's here this morning. I believe we're ready to start
7 with Mr. Baryenbruch; is that correct?

8 MS. O'NEILL: Yes.

9 MR. CIOTTONE: Yes, sir.

10 JUDGE THOMPSON: You may inquire.

11 I think we have to swear you in, don't we?
12 Why don't you spell your last name for the court reporter?

13 THE WITNESS: B-a-r-y-e-n-b-r-u-c-h,
14 Baryenbruch.

15 (Witness sworn.)

16 JUDGE THOMPSON: Now you may inquire,
17 Mr. Ciottone. I was so caught up in electronic
18 arrangements.

19 MR. CIOTTONE: Thank you, your Honor.

20 PATRICK BARYENBRUCH testified as follows:

21 DIRECT EXAMINATION BY MR. CIOTTONE:

22 Q. Good morning, Mr. Baryenbruch.

23 A. Good morning.

24 Q. You prepared, did you not, Baryenbruch

25 Rebuttal Testimony, which is entitled Exhibit 44; is that

1 correct?

2 A. Yes.

3 Q. Do you have any additions or corrections to
4 that testimony?

5 A. I have corrections. Starting on page 4 in the
6 middle of the page, line 11, there's a table. And I need to
7 change the percentages in that. For 1999, the number should
8 be 21.7 percent. For 2000, the number should be 23.8
9 percent. For 2001, the number should be 18.1 percent. 2002
10 is okay, 23.9 percent. The 2003 number should be 16.09
11 percent.

12 Q. Could you explain to me why those changes were
13 made?

14 A. Yes. There was some confusion as to what
15 numbers I needed when I made a data request of the company.
16 And I used the wrong set of numbers to make -- to calculate
17 these percentages. And I used the number of samples rather
18 than number of tests.

19 My schedule is now in alignment with
20 Mr. Cassidy's schedule he has in his Surrebuttal, page 8,
21 line 18 through 25. I am in agreement with that and have no
22 qualms about it.

23 Q. Your numbers now match his?

24 A. Yes.

25 Q. Thank you.

1 A. Okay. On page 7, line 25, the first number
2 there should be 2000, not 2001. Page 7 again, line 27, the
3 20 percent should be 19 percent. Page 8, line 1, the 25
4 should be 24. And, finally, the 10 percent in that same
5 line should be 16 percent.

6 Q. Do you have any other additional corrections?

7 A. No.

8 MR. CIOTTONE: Your Honor, I'd like to ask
9 Mr. Baryenbruch one clarifying question. I discussed this
10 with Mr. Bates and if I do not follow through in what I
11 represented to him, I'm sure he can object, but with your
12 permission, may I ask a clarifying question?

13 JUDGE THOMPSON: Absolutely.

14 BY MR. CIOTTONE:

15 Q. Mr. Baryenbruch, there are three terms that
16 are being used in the discussion of laboratory analysis that
17 have definitions that appear to be differing. It gives the
18 appearance that we have a difference of opinion with Staff
19 when, in fact, we do not.

20 Would you please define for me the three
21 terms, the first term being "samples" as used in the number
22 of samples tested; the word "test" with respect to tests
23 supplied to those samples; and the word "analysis" or
24 plural, "analyses"? Would you define samples, tests and
25 analyses, how they're used in both yours and also

1 Mr. Cassidy's testimony?

2 A. Samples represent a vile of bottles that comes
3 into the Belleville lab to be subject to -- to later
4 analysis or tests. So, again, a sample is a bottle coming
5 from one of the operating companies.

6 Tests and analyses are the same thing. They
7 represent the procedure that is -- one procedure that is
8 carried out to detect contaminates in that sample, that
9 bottle that's come in. So tests and analyses are the very
10 same -- are the very same thing.

11 And throughout my testimony and Mr. Cassidy's
12 testimony, we've used the two words "tests" and "analyses"
13 and I just wanted to make sure it didn't -- everyone didn't
14 think it was two different things.

15 Q. So in this case the difference is the
16 utilization of customer accounts for allocations versus
17 utilization of tests or analyses, which are synonomous, and
18 nobody's arguing that the number of samples has any
19 usefulness?

20 A. No. That's correct.

21 Q. Thank you very much.

22 MR. CIOTTONE: I tender Mr. Baryenbruch.

23 JUDGE THOMPSON: Thank you, Mr. Ciottone.

24 I think we'll proceed to cross-examination.

25 Ms. O'Neill?

1 MS. O'NEILL: I no longer have any questions
2 at this point.

3 JUDGE THOMPSON: Thank you.

4 Mr. Bates?

5 MR. BATES: No thank you, your Honor.

6 JUDGE THOMPSON: Well, I don't have any
7 questions from the Bench at this time. How long is
8 Mr. Baryenbruch going to be available?

9 MR. CIOTTONE: He's got a flight at 8:30
10 tonight.

11 JUDGE THOMPSON: Okay. Commissioner Gaw and
12 Commissioner Murray will be here eventually and they may
13 have questions for him. So if he could linger this morning,
14 I think that that would be helpful. Is that possible?

15 MR. CIOTTONE: Sure. If you'll just let us
16 know when he may leave, he'll certainly stay around until
17 noon.

18 JUDGE THOMPSON: Well, if nobody has asked any
19 questions by lunchtime, you're free to go. And I apologize
20 for making you wait here this morning, but Commissioner
21 questions are very important to their decision-making
22 process and they're simply not here at the moment. Why
23 don't you step down for now, Mr. Baryenbruch.

24 Do you have any redirect based on your
25 clarifying questions?

1 MR. CIOTTONE: I don't feel it would be
2 appropriate, your Honor. I'd love to, but I don't think
3 it's appropriate.

4 JUDGE THOMPSON: Go ahead and step down for
5 now.

6 Who is your next witness?

7 MR. BATES: I believe it's Mr. Hagemeyer.

8 JUDGE THOMPSON: Mr. Hagemeyer. And what
9 issues will we be hearing from Mr. Hagemeyer on?

10 MR. BATES: Employee expense --

11 JUDGE THOMPSON: Employee expense. Also
12 transportation or just employee?

13 THE WITNESS: Employee expense and
14 compensation.

15 MR. CIOTTONE: Your Honor, forgive me, but I
16 forgot to offer Exhibit 44.

17 JUDGE THOMPSON: Any objections to Exhibit 44?
18 Hearing none, the same is received and made a
19 part of the record.

20 (Exhibit No. 44 was received into evidence.)

21 JUDGE THOMPSON: Incentive compensation, is
22 that still an issue in this case?

23 THE WITNESS: Yes, it is.

24 MR. COOPER: It's part of employee expense.

25 JUDGE THOMPSON: Right. Very good.

1 Why don't you spell your last name for the
2 reporter, please?

3 THE WITNESS: H-a-g-e-m-e-y-e-r.

4 (Witness sworn.)

5 JUDGE THOMPSON: Please take your seat. Now,
6 you're going to have to speak up so that are listeners in
7 Germany can hear you. Okay?

8 You may inquire.

9 MR. BATES: Thank you, your Honor.

10 JEREMY HAGEMEYER testified as follows:

11 DIRECT EXAMINATION BY MR. BATES:

12 Q. Would you state your full name?

13 A. Jeremy K. Hagemeyer.

14 Q. And what is your business address,

15 Mr. Hagemeyer?

16 A. 1845 Gorman Court, Suite 101, St. Louis,

17 Missouri 63146.

18 Q. And what is your position with the Commission?

19 A. Utility regulatory auditor.

20 Q. Mr. Hagemeyer, did you prepare and cause to be

21 filed in the matter Direct and Surrebuttal Testimony that

22 has been marked for purposes of identification as Exhibits

23 No. 17 and 67 respectively?

24 A. Yes. And I also caused to be filed Rebuttal

25 Testimony.

1 JUDGE THOMPSON: Marked as Exhibit 35.

2 MR. BATES: That is absolutely correct. I
3 thank you very much, Mr. Hagemeyer and your Honor.

4 BY MR. BATES:

5 Q. Are there any corrections, changes or
6 additions to that testimony which you would like to make at
7 this time?

8 A. Yes.

9 Q. Would you explain them, please?

10 A. Sure. On page 9 of my Rebuttal Testimony,
11 which I can't remember the exhibit number.

12 JUDGE THOMPSON: Exhibit 35.

13 THE WITNESS: Exhibit 35, line 4, I believe,
14 where it says approximately 12,700 --

15 MR. COOPER: What page was that again? I'm
16 sorry.

17 THE WITNESS: Page 9. It's the last page
18 right before the schedule. Should I proceed?

19 MR. COOPER: What was the change again? I'm
20 sorry.

21 THE WITNESS: The number 12,700 should be 391.
22 Also at the end of that sentence responded, and I'd like to
23 continue, to the entire survey. And then the word "three"
24 should be .09. And 400,000 should be 440,000.

25 BY MR. BATES:

1 Q. Do you have any further corrections?
2 A. Not to my knowledge, no.
3 Q. All right. If I asked you the same questions
4 today, would your answers be substantively the same?
5 A. Yes.
6 JUDGE THOMPSON: I think we stipulated we
7 don't need that.
8 What was your correction again?
9 THE WITNESS: Which one, sir? Well, on line 4
10 the 12,700 should be 391.
11 JUDGE THOMPSON: Okay. There was another
12 correction?
13 THE WITNESS: Yes, there were.
14 JUDGE THOMPSON: What was that?
15 THE WITNESS: There were several actually.
16 JUDGE THOMPSON: Give me them all.
17 THE WITNESS: At the end of responded there
18 should be an additional four words "to the entire survey."
19 JUDGE THOMPSON: Okay.
20 THE WITNESS: The word "three" should be .09.
21 And then the 400,000 should be 440,000.
22 JUDGE THOMPSON: Great.
23 THE WITNESS: And that's all.
24 JUDGE THOMPSON: Thank you. I was distracted
25 by an e-mail here.

1 MR. BATES: Your Honor, at this time I would
2 move that Exhibit Nos. 17, 35 and 67 be received into
3 evidence.

4 JUDGE THOMPSON: Do I hear any objections to
5 the receipt of Exhibits 17, 35 or 67?

6 MR. COOPER: No.

7 MS. O'NEILL: No.

8 JUDGE THOMPSON: Hearing no objections, the
9 same are received and made a part of the record of this
10 proceeding.

11 (Exhibit Nos. 17, 35 and 67 were received into
12 evidence.)

13 MR. BATES: Your Honor, I tender this witness
14 for cross-examination.

15 JUDGE THOMPSON: Thank you. Okay. Let's see.
16 That would be Ms. O'Neill to start.

17 MS. O'NEILL: No questions, your Honor.

18 JUDGE THOMPSON: Okay. Who's going to cross
19 for the company?

20 MR. COOPER: Well, maybe no one.

21 JUDGE THOMPSON: I was just going to say, is
22 anyone going to cross for the company?

23 MR. COOPER: I would like to ask one
24 clarifying question, if I could, based upon the change that
25 Mr. Hagemeyer just made.

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JUDGE THOMPSON: Okay.

CROSS-EXAMINATION BY MR. COOPER:

Q. Mr. Hagemeyer, you just made some changes on page 9 of your testimony changing a number of 12,700 to 391. Correct?

A. Yes, I did.

Q. And as a part of that, you also changed that sentence to read, Customers responded to the entire survey. I take it that some number of customers greater than 391 responded to some part of the survey. Correct?

A. That's my understanding.

Q. Okay. And is 12,700, the number you had there previously, the number of customers that had responded to question -- I believe it's three?

A. I don't remember which question it was, but it was for the -- it was the highest number of respondents to the entire company. And I asked for a data request -- or I'm sorry. I believe it was Ms. Bernsen had asked to see the survey results and she passed that along to me. And I believe it was Data Request 3921. You'd have to check with her on that.

Q. But let's back up. 12,700 was the number of responses that were received by the company. Correct?

A. By American Water, yes.

Q. Okay.

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

2 JUDGE THOMPSON: Okay. Well, I don't have any
3 questions for you right now, Mr. Hagemeyer. Again, as I
4 asked Mr. Baryenbruch, I'll ask you that you remain here
5 this morning for when the Commissioners arrive. Is that
6 acceptable?

7 THE WITNESS: Sure.

8 JUDGE THOMPSON: Any redirect based on those
9 clarifying questions, Mr. Bates?

10 MR. BATES: No thank you, your Honor.

11 JUDGE THOMPSON: Go ahead and step down.
12 Who's our next witness?

13 MR. COOPER: I believe it's Ms. Hanneken,
14 isn't it?

15 MR. BATES: I'll be glad to go get her.

16 JUDGE THOMPSON: Why don't we take five
17 minutes why you go look for Ms. Hanneken. Thank you.

18 (A recess was taken.)

19 JUDGE THOMPSON: Please spell your last name.

20 THE WITNESS: H-a-n-n-e-k-e-n.

21 JUDGE THOMPSON: And would you raise your
22 right hand?

23 (Witness sworn.)

24 JUDGE THOMPSON: You may inquire Mr. Schwarz.

25 LISA HANNEKEN testified as follows:

1 DIRECT EXAMINATION BY MR. SCHWARZ:

2 Q. Would you state your name and address for the
3 record?

4 A. Lisa K. Hanneken, 1845 Gorman Court, Suite
5 101, St. Louis, Missouri 63146.

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

7 A. I am a utility regularly auditor for the
8 Missouri Public Service Commission.

9 Q. And are you the same Lisa Hanneken who caused
10 to be pre-filed what has been marked Exhibit No. 18, your
11 Direct Testimony and Exhibit No. 68, your Surrebuttal
12 Testimony?

13 A. Yes, I am.

14 Q. And do you have any corrections or additions
15 to that testimony to make at this time?

16 A. No, I do not.

17 Q. You heard Mr. Lehman's testimony yesterday?

18 A. Yes, I did.

19 Q. And your testimony reflects, for instance, the
20 agreement to amortize the write-off of the Rainy Day Fund?

21 A. Yes.

22 Q. Okay. And -- never mind.

23 If I asked you the same questions today as are
24 asked in your pre-filed testimony, would your answers be the
25 same?

1 A. Yes, they would.

2 Q. And are your answers true and correct to the
3 best of your information, knowledge and belief?

4 A. Yes, they are.

5 MR. SCHWARZ: I offer Exhibits 18 and 68 into
6 the record and tender the witness for cross-examination.

7 JUDGE THOMPSON: Thank you, Mr. Schwarz.

8 Do I hear any objections to the receipt of
9 Exhibits 18 or 68?

10 Hearing no objections, Exhibits 18 and 68 are
11 received and made a part of the record of this proceeding.

12 (Exhibit Nos. 18 and 68 were received into
13 evidence.)

14 JUDGE THOMPSON: And I should note we've been
15 operating under a stipulation where we don't have to ask
16 those qualifying questions about the testimony. We're just
17 taking those as said. So all you need to do is just go
18 ahead and offer your exhibits from now on.

19 MR. SCHWARZ: If someone would just apprise me
20 of these things, life would perhaps go a little more
21 smoothly than it sometimes does.

22 JUDGE THOMPSON: That was my duty and I
23 apologize.

24 Now, do we have any cross for Ms. Hanneken?
25 Ms. O'Neill?

1 MS. O'NEILL: No questions.

2 JUDGE THOMPSON: Mr. Cooper?

3 MR. COOPER: No questions.

4 JUDGE THOMPSON: Very well. I'm going to make
5 the same arrangements with you that I made with the previous
6 two witnesses. I'm going to hold you for Commissioner
7 questions. I think the Governor had a prayer breakfast this
8 morning which probably has been on their calendar, so if you
9 would remain here this morning and when the Commissioners
10 get here, we'll see if they have any questions for you.
11 Okay?

12 THE WITNESS: Yes. Thank you.

13 JUDGE THOMPSON: You may step down. Who else
14 do we have? Do you guys just want to recess until the
15 prayer breakfast is over?

16 MR. COOPER: I'm going to have to recess for a
17 minute because Mr. Kartmann is next and I don't have him in
18 the building.

19 MR. SCHWARZ: Amen.

20 JUDGE THOMPSON: I see that improved your mood
21 a little bit. It's nine o'clock now. Why don't we recess
22 until 10:00 and see where we are at ten o'clock. Okay? I
23 apologize for the interruption, but there's just no point
24 running witnesses on and off the stand and corralling them
25 back to see if the Commissioners want to ask any questions.

1 Mr. Snodgrass?

2 MR. SNODGRASS: Yeah. Just for the record, I
3 talked with the company and I believe it's my understanding
4 that we do have a settlement on the issues of dues and
5 donations, advertising and lobbying. That's my
6 understanding at this point in time.

7 JUDGE THOMPSON: Mr. Cooper informed me of
8 that earlier and I'm overjoyed to hear that. I'm going to
9 put you both on my Christmas list for cards next year.
10 Don't feel that you can't settle anything else during this
11 recess. Great. We'll be in recess then until ten o'clock.

12 (A recess was taken.)

13 JUDGE THOMPSON: Mr. Baryenbruch and
14 Mr. Hagemeyer and Ms. Hanneken, we have no questions for you
15 on any of the issues that you've been tendered on thus far.
16 So, Mr. Baryenbruch, you're free to leave and return to your
17 home. And you other two -- I guess one of you at least is
18 coming back on some additional issues; is that right?

19 MS. HANNEKEN: Yes.

20 JUDGE THOMPSON: Are you done then,
21 Mr. Hagemeyer?

22 MR. HAGEMEYER: I believe so.

23 JUDGE THOMPSON: I would escape from the room
24 as quickly as you can in that case.

25 MR. HAGEMEYER: Thank you.

1 JUDGE THOMPSON: Before anybody thinks of
2 something to ask you.

3 So I think we'll be starting then with
4 Mr. Kartmann. Am I right?

5 MR. SNODGRASS: And I think Mr. Schwarz is
6 handling that, Judge. May I round him up quickly?

7 JUDGE THOMPSON: He was in a testy mood this
8 morning. Be gentle.

9 (A recess was taken.)

10 JUDGE THOMPSON: Could you please spell your
11 last name for the reporter?

12 THE WITNESS: Frank Kartmann, last name
13 K-a-r-t-m-a-n-n.

14 JUDGE THOMPSON: Thank you, Mr. Kartmann.

15 (Witness sworn.)

16 JUDGE THOMPSON: You may inquire, Mr. Cooper.

17 FRANK KARTMANN testified as follows:

18 DIRECT EXAMINATION BY MR. COOPER:

19 Q. Mr. Kartmann, you have before you what has
20 been marked as Exhibit 46 for identification?

21 A. Yes, I do.

22 Q. And is that your Rebuttal Testimony that has
23 been prepared for purposes of this hearing?

24 A. It is.

25 Q. Do you have any changes or corrections that

1 need to be made to that testimony?

2 A. Yes, I do.

3 Q. What are those?

4 A. On page 5, line 11, the number \$350,000 should
5 be changed to \$385,000.

6 Q. On page 5, line 11?

7 A. Yes.

8 Q. Are there any other changes that you need to
9 make?

10 A. Yes, there's two more. On page 17, line 15,
11 the street name is referred to as LaCance or LaChance. It
12 should be Lahacienda.

13 Q. Can you spell that for us?

14 A. L-a-h-a-c-i-e-n-d-a.

15 Q. And I think you said you had one more
16 correction that needed to be made?

17 A. Yes.

18 Q. On page 28, line 27, between the word "system"
19 and "capacity" should be inserted the word "firm." And 20.6
20 MGD should be deleted and replaced with the following:
21 20.86 MGD including in-plant use of 0.67 MGD.

22 MR. SCHWARZ: Would you repeat that again for
23 me, please, a little slower?

24 THE WITNESS: Sure. On line 27 between the
25 words "system" and "capacity," insert the word "firm." And

1 then delete 20.6 MGD and in its place insert 20.86 MGD
2 including in-plant use of 0.67 MGD.

3 BY MR. COOPER:

4 Q. Do you have any other changes that need to be
5 made?

6 A. No.

7 MR. COOPER: Your Honor, I would offer Exhibit
8 46 and tender the witness for cross-examination on the waste
9 disposal issues.

10 JUDGE THOMPSON: Very well. Do I hear any
11 objections to the receipt of Exhibit 46?

12 Hearing none, Exhibit 46 is received and made
13 a part of the record of this proceeding.

14 (Exhibit No. 46 was received into evidence.)

15 JUDGE THOMPSON: I think we'll start with
16 questions from the Bench and then do one round of
17 cross-examination after questions from the Bench have been
18 completed. Commissioner Murray?

19 COMMISSIONER MURRAY: Thank you.

20 QUESTIONS BY COMMISSIONER MURRAY:

21 Q. Good morning, Mr. Kartmann.

22 A. Good morning.

23 Q. Your testimony speaks about the disposal
24 expense in connection with an intergenerational equity
25 issue. Correct?

1 A. Yes.

2 Q. Under Staff's proposal, would the cost of
3 waste removal be -- or waste disposal be expensed at the
4 time of the actual disposal? Is that what Staff is
5 suggesting?

6 A. That's my understanding.

7 Q. And then it would be charged -- that expense
8 would be charged to ratepayers going forward. Is that how
9 it would be recovered?

10 A. Actually, I don't -- I don't know that. I
11 mean, if it's -- I don't know if it were captured in a test
12 year, perhaps in the next rate case it would be addressed
13 and perhaps in rates going forward there would be some
14 mechanism to account for it.

15 Q. So it's not even clear it would be recovered?

16 A. It's not clear to me it would be, no.

17 Q. But if it were recovered on a going-forward
18 basis, it would not be the ratepayers who were contributing
19 to the cost of the waste that was being collected that would
20 be paying for it; is that right?

21 A. That's correct. To me it's analogous to the
22 way depreciation is handled on an asset. An asset has a
23 value and it has a depreciable life and a little bit of that
24 value is recovered every year so that the ratepayers that
25 are gaining the benefit of that asset are paying for that

1 asset as it's being used.

2 The cost of waste disposal would be the same
3 way. It's occurring every day, day in and day out. And the
4 ratepayers or customers that gain benefit of the treated
5 water that produces that waste day in and day out it would
6 seem are most appropriately those who would pay for it.

7 Q. And how has waste disposal been treated by
8 this Commission in the past?

9 A. Well, in the St. Louis County operation, for
10 example, there's an accrual for waste disposal that is
11 matching the cost causing event with the recovery in rates
12 as it's occurring.

13 Q. And that's the method that you're suggesting
14 we apply here?

15 A. That is correct. That we collect -- we
16 recover the cost of waste handling as it's occurring, as the
17 cost causing event is occurring.

18 Q. And you said in St. Louis County that's what's
19 being done. What about any other?

20 A. In Mexico and Joplin and Brunswick there are
21 waste -- treatment waste residual issues there as well. And
22 those -- in those cases it's expensed, but it's recognized
23 in rates.

24 Q. And that is not the treatment that Staff is
25 suggesting here?

1 A. Well, my understanding from reading the
2 testimony is that they're suggesting no recovery for waste
3 handling expenses that we've incurred that are based on
4 known and measurable costs.

5 Q. Okay. I'm having trouble understanding the
6 notes that I made when I read this some time ago, but
7 perhaps it will make sense if I ask you the question that I
8 have written here.

9 A. Sure.

10 Q. If we went with the company's suggested
11 treatment on this issue, will there be a later adjustment
12 made to an account for any payments the company should
13 receive for its waste?

14 A. I'm sorry. Any --

15 Q. Any adjustment that the company would later
16 receive or could later receive for the waste?

17 A. I guess I'm -- I don't mean to speak for Staff
18 here, but in the way they addressed adjustments to the cost
19 of waste disposal in those other operations I mentioned,
20 St. Louis and so on, they looked at the cost over the past
21 several years, maybe five years, I'm not sure of the number,
22 and adjusted it for any variations from year to year, I
23 believe using an average value.

24 So my assumption is that if in subsequent rate
25 cases the cost of waste disposal changed, it would be

1 addressed at that time and either adjusted upward or
2 downward based on some trend. However, I don't anticipate
3 any opportunities for revenue being generated from the
4 disposal of this residue.

5 Q. Okay.

6 A. There just isn't -- we have not found any
7 opportunities. Sometimes power plants can make use of lime
8 residual waste from treatment processes, but the problem
9 with that is those facilities -- any place that might be
10 able to make use of such material need to be in close
11 proximity to your facility because otherwise the hauling
12 expense of transporting the material would become
13 outrageously expensive.

14 Q. And in terms of the savings that Staff is
15 suggesting that you recognize, as I read your testimony,
16 you're indicating that it's appropriate to balance the
17 savings with the expenses and that is not what Staff is
18 suggesting; is that right? Staff is suggesting that you
19 recognize chemical savings, but not that you recognize the
20 expenses associated with the waste removal?

21 A. That's correct. And -- I'm sorry. Was
22 there --

23 Q. No.

24 A. -- a question in there?

25 COMMISSIONER MURRAY: I apologize because I

1 didn't read your testimony closely enough to the time that
2 you were on the stand, but I think that's the questions I
3 had. Thank you.

4 THE WITNESS: Okay.

5 JUDGE THOMPSON: Thank you, Commissioner.

6 QUESTIONS BY JUDGE THOMPSON:

7 Q. Mr. Kartmann, can you tell me what is the
8 company position in dollars on this issue? In other words,
9 what is the amount of money the company wants in revenue
10 requirement for St. Joe chemicals and waste expense, if, in
11 fact, those are two related issues? If not, give me the
12 separate figures.

13 A. They're related issues. I know them as
14 separate figures.

15 Q. That would be fine.

16 A. The -- we estimated chemical savings that
17 would result from a change in treatment softening process
18 that would amount to about \$397,000. That's related to the
19 treatment --

20 Q. But that's the savings?

21 A. That's the savings in chemical cost.

22 Q. So there's still some amount that you want in
23 for chemicals. Right?

24 A. Yes. Yes.

25 Q. You're not foregoing the use of chemicals

1 completely?

2 A. No, no, no. Absolutely not.

3 Q. So what is the amount you want in revenue
4 requirement for chemical, or do you know that?

5 A. I believe the number is approximately
6 \$300,000.

7 Q. Okay. And so what is the amount that the
8 company wants in revenue requirement for St. Joseph waste
9 disposal?

10 A. If I may go back to the 397.

11 Q. Sure.

12 A. I just want to make something very clear, that
13 the net reduction or savings in chemical cost is
14 approximately \$385,000.

15 Q. Okay.

16 A. The 397 would be the savings from the change
17 in lime softening process --

18 Q. Okay.

19 A. -- absent any other minor chemical treatment
20 changes or changes in chemical costs that were occurring.
21 So the net is \$385,000 in chemical treatment savings.

22 Q. I understand. But what is the amount you want
23 in revenue requirement for waste treatment?

24 A. Yeah. For waste treatment we're requesting
25 \$165,452 annually.

1 Q. Okay. Thank you.

2 And do you know what the Staff position is on
3 those two points?

4 A. The Staff is agreeable to the estimated
5 savings, which --

6 Q. In other words, Staff is willing to see you
7 have 300,000 revenue requirement for chemicals?

8 A. Yeah.

9 Q. Which reflects the savings you described a
10 moment ago?

11 A. Reflects the estimated savings. It's not
12 known and measurable.

13 Q. I understand. And then Staff wants zero for
14 waste; is that right?

15 A. Right.

16 Q. Okay.

17 A. Which is known and measurable.

18 JUDGE THOMPSON: Thank you very much. I have
19 no other questions for you.

20 Commissioner Murray?

21 COMMISSIONER MURRAY: Yeah, just a follow-up
22 on that.

23 FURTHER QUESTIONS BY COMMISSIONER MURRAY:

24 Q. The chemical savings, that has a negative
25 effect on revenue requirement. Correct?

1 A. Correct.

2 Q. So Staff's willing to recognize the negative
3 revenue requirement that is not known and measurable, you're
4 saying?

5 A. No, it is not. It's an estimated value.
6 The -- it will take -- it will take I'd say about a year to
7 really fully understand and know what the actual savings
8 will be.

9 Q. But the waste treatment amount which is known
10 and measurable, the Staff does not want you to recognize any
11 of that for revenue requirement?

12 A. That's correct.

13 COMMISSIONER MURRAY: Okay. Thank you.

14 FURTHER QUESTIONS BY JUDGE THOMPSON:

15 Q. I have one additional question.

16 A. Yes.

17 Q. Since this is not known and measurable, what
18 was the company's test year chemical expense in the
19 St. Joseph district?

20 A. I believe it was on the order of 685,000.

21 Q. Essentially 300,000 plus 385?

22 A. (Witness nodded head.)

23 JUDGE THOMPSON: Very well. Mr. Cooper, if
24 you can correct that at some point so I have that exact
25 figure.

1 MR. COOPER: I think we can clear that up. I
2 think the numbers are in the record and we can point that
3 out to you.

4 JUDGE THOMPSON: Thank you.

5 Cross-examination we will begin with
6 Ms. O'Neill.

7 MS. O'NEILL: I have no questions on this
8 issue.

9 JUDGE THOMPSON: Thank you.

10 Mr. Schwarz?

11 CROSS-EXAMINATION BY MR. SCHWARZ:

12 Q. Good morning, sir.

13 A. Good morning.

14 Q. You indicated in your pre-filed testimony and
15 again now that Staff is accepting the reduction in the
16 chemical treatment expense; is that correct?

17 A. The estimated treatment expense, yes.

18 Q. Can you tell me when the lime softening system
19 became operational?

20 A. It became operational around mid-November.

21 Q. Of what year?

22 A. Of this -- of 2003.

23 Q. 2003?

24 A. Yes.

25 Q. In order to operate the system, the company

1 must purchase the lime related to this process; is that
2 correct?

3 A. Yes.

4 Q. Does the company have a contract in place for
5 the purchase of the lime?

6 A. Yes.

7 Q. So at least that portion of the expense would
8 be known and measurable. Would it not?

9 A. On a unit cost basis, on a per pound basis.
10 But how many pounds we have to use is still an unknown
11 quantity but -- and only estimated.

12 Q. But the company was able to quantify that
13 amount and include the amount in its direct case; isn't that
14 correct?

15 A. We estimated the amount that the change in
16 lime feed process would -- would result in, but it's not
17 known.

18 Q. But apparently there's no dispute between
19 Staff and the company on the amount that should be included
20 on a going-forward basis; isn't that correct?

21 A. That's correct. We realize it's a
22 significant --

23 Q. Thank you.

24 A. -- savings, but we --

25 Q. Thank you.

1 A. -- don't know how much.

2 Q. No. But the amount that the company has
3 included and the amount that the Staff has included in this
4 case is approximately the same. Correct?

5 A. Correct.

6 Q. Thank you.

7 Does the company have a contract for waste
8 disposal currently in place?

9 A. No. That would be contracted every time it
10 has to be done, as it was in the late summer of '03.

11 Q. Which was done on a partial basis,
12 experimental basis, as it were?

13 A. I wouldn't call it experimental. I mean, we
14 actually removed material from the pond so more could be
15 placed in it.

16 Q. Right. But you didn't remove it down to its
17 starting point, if you will?

18 A. No, we didn't.

19 Q. Okay.

20 A. Tried to remove a quantity to give us good
21 known and measurable cost for the process of removing that
22 material.

23 Q. And what will be the cost next year? Strike
24 that question.

25 What will be the cost in 2004 for waste

1 removal?

2 A. It would -- I would anticipate it would be on
3 the order of \$165,452.

4 Q. You will actually spend \$165,000 for waste
5 removal in 2004?

6 A. No. That's not likely. But that's the amount
7 of the cost-causing event.

8 Q. How much will the company spend in 2004 for
9 waste removal?

10 A. For lime residue removal, we probably won't
11 spend any.

12 Q. And in 2005 how much will the company spend
13 for waste removal?

14 A. At that point we would probably spend on the
15 order of 330 to 400,000 dollars.

16 Q. So you anticipate contracting for the removal
17 of the lime residue from both ponds in its entirety in 2005?

18 A. No. We'd remove it from one pond when it
19 becomes full, then we'd remove it from the second pond when
20 it becomes full.

21 Q. But the company hasn't made any commitment to
22 do so with a waste hauler, for instance?

23 A. No. We bid it at the time.

24 Q. So in your answer to a question from
25 Commissioner Murray, you indicated that the cost of

1 removal -- of waste removal is occurring day in and day out.
2 There's no actual expenditure of funds, you were simply
3 referring to the accrual of an expense; is that correct?

4 A. I was actually referring to the cost-causing
5 event and the accrual.

6 Q. You indicated that possible re-use of the
7 waste material was subject to hauling cost as a limiting
8 factor. Do you recall that answer?

9 A. Yes.

10 Q. Can you tell me what, for instance, electric
11 generation plants are located within 100 miles of the
12 St. Joseph treatment plant?

13 A. Hundred miles is a long distance, it would be
14 quite a hauling fee. But what I'm aware of is one in
15 Raytown, one in -- Aquila has one in -- I don't remember the
16 name of the road but in the St. Joe area. There's a plant
17 in Atchison, Kansas.

18 Q. Iatan?

19 A. Yeah.

20 Q. Jeffrey?

21 A. I'm aware of Iatan. Those are the only ones I
22 can think of --

23 Q. Sibley?

24 A. -- off the top of my head.

25 Q. Aquila's Sibley plant would be located within

1 100 miles, do you know?

2 A. I don't know.

3 Q. Hawthorn plant in Kansas City?

4 A. Yeah.

5 Q. And would, for instance, electric generation
6 plants that acquire such materials have hauling costs from
7 whatever source they obtained the needed material?

8 A. I'm sorry. Could you rephrase the question?

9 Q. There are competing sources with the St. Joe
10 waste lime. Wherever the electric generation plants would
11 acquire the competing substances, they'd have hauling costs
12 on those too, wouldn't they?

13 A. They may. Some of them soften their own
14 cooling timer water and generate their own lime sludge. And
15 they could use that for -- I guess what you're assuming is
16 for the removal of sulphur dioxide from high sulphur coal.

17 Q. If they acquire this material from some source
18 other than self-generated, they'd have hauling costs for it,
19 wouldn't they?

20 A. They would, but often --

21 Q. Thank you.

22 A. -- power plants are just --

23 JUDGE THOMPSON: Mr. Kartmann, these questions
24 are designed to be yes/no questions largely. And although
25 you may not like the answer, you must give a yes or no

1 answer. Your attorney will be able to elicit any necessary
2 explanation on redirect.

3 THE WITNESS: I apologize.

4 JUDGE THOMPSON: That's quite all right.

5 BY MR. SCHWARZ:

6 Q. In the St. Louis, Mexico and Joplin districts
7 Missouri-American is actually disposing of waste currently,
8 is it not?

9 A. That's correct.

10 Q. And isn't it true that the chemical savings
11 that is included in this rate case by both sides reflects
12 how the treatment plant is currently operating?

13 A. It reflects the direction in which it is
14 operating. It is not a change that occurs instantaneously.
15 It requires monitoring and adjustments. And whether or not
16 we actually realize those savings depends largely on the
17 unique treatment facility itself.

18 Q. But even the company has recognized, has it
19 not, that the old expense of \$685,000 is not appropriate for
20 this rate case?

21 A. That is correct.

22 MR. SCHWARZ: Thank you.

23 JUDGE THOMPSON: Thank you, Mr. Schwarz.

24 Redirect, Mr. Cooper?

25 MR. COOPER: Yes, your Honor.

1 REDIRECT EXAMINATION BY MR. COOPER:

2 Q. Let me follow-up on Mr. Schwarz last question.
3 He asked you -- or I think you agreed with him that the
4 company had recognized a savings in its filed case related
5 to St. Joseph chemical expenses. Why did the -- why did the
6 company attempt to recognize that savings?

7 A. Well, we attempted to recognize that savings
8 in the form of an estimate because we -- we know that the
9 revised lime softening process will produce significant
10 savings. And in good faith, we felt we had to reflect that
11 somehow in our filing.

12 Q. Did the company also reflect an accrual for
13 the waste disposal at the same time?

14 A. We did.

15 MR. COOPER: Okay. Your Honor, I want to
16 hand out a page here. I don't think I need to have it
17 marked because it's already a part of an exhibit in this
18 case, but it is a portion of Exhibit 10, which are the
19 company accounting schedules. And this particular page is
20 from Schedule CAS-15, page 7 of 26.

21 JUDGE THOMPSON: Why don't we go ahead and
22 have it marked because I think that will just make it easier
23 for everybody, if you don't mind. This will be Exhibit 130
24 and it is page --

25 MR. COOPER: Well, let's start with the

1 Schedule that I -- Schedule CAS-15, page 7.

2 JUDGE THOMPSON: Okay. From Exhibit 10,
3 company accounting schedules. Right?

4 MR. COOPER: Correct.

5 JUDGE THOMPSON: Very well.

6 MR. COOPER: And this will be 130, your Honor?

7 JUDGE THOMPSON: Yes, it will.

8 (Exhibit No. 130 was marked for
9 identification.)

10 BY MR. COOPER:

11 Q. Mr. Kartmann, do you have before you what's
12 now been marked as Exhibit 130?

13 A. I do.

14 Q. Do you recognize that page?

15 A. I do.

16 Q. What does it represent?

17 A. It represents the proforma adjustments in
18 chemical expense at the various operations in the state that
19 we operate.

20 Q. Okay. As included in the company's filed
21 case?

22 A. Yes. Yes.

23 Q. Okay. If you look about -- I don't know --
24 about midway down the page there's a title that says
25 Calculation of Proforma Adjustment of Chemical Expense. Do

1 you see that?

2 A. Yes.

3 Q. And if we go right below that to the right

4 side of the page, there's a column there that says

5 St. Joseph, S-j-o. Do you see that?

6 A. That's right.

7 Q. Would those be the St. Joseph chemical

8 expenses?

9 A. Yes.

10 Q. Okay. And that's all we're talking about in

11 this issue, correct, is the St. Joseph --

12 A. That's correct.

13 Q. -- chemical expenses?

14 A. That's correct.

15 Q. Now, there are three lines I think under

16 St. Joseph there on that sheet. The second line is the per

17 books amount. Do you see that?

18 A. Yes, I do.

19 Q. Okay. And what is the per books amount for

20 St. Joseph for chemical expenses?

21 A. 694,000 -- 694,777 dollars.

22 Q. So that would be the test year amount incurred

23 by the company; is that correct?

24 A. That's correct.

25 Q. Above that there's a line entitled proforma

1 amount. Do you see that?

2 A. Yes, I do.

3 Q. Okay. And if we go underneath St. Joseph --

4 well, let me back up.

5 The proforma amount is the amount that the

6 company originally filed in its case. Correct?

7 A. That's correct.

8 Q. And what is that amount for St. Joseph?

9 A. \$309,425.

10 Q. Okay. And the third line of that section

11 says, Proforma adjustment. Do you see that?

12 A. Yes, I do.

13 Q. And I think underneath St. Joseph there's a

14 negative \$385,352; is that correct?

15 A. That is correct.

16 Q. Okay. And is that \$385,352 the savings amount

17 that you referred to earlier when you were questioned by

18 Judge Thompson?

19 A. Yes.

20 Q. Now, on this same exhibit, if you look with me

21 at the top of that exhibit there's a section entitled

22 Narrative Discussion of Proposed Adjustment of Chemical

23 Expenses. Do you see that?

24 A. Yes.

25 Q. In the, let's see, second line at the very end

1 there's a sentence that starts Proforma -- and continues on
2 the next line -- The proforma adjustment also reflects
3 anticipated changes in the treatment process causing usage
4 to increase or decrease from 2002 usages. Do you see that?

5 A. Yes, I do.

6 Q. What is that sentence referring to?

7 A. It's referring to the \$385,000 of proforma
8 adjustment in the St. Joe operation for the savings
9 resulting from the revised lime softening process.

10 Q. Now, you were asked -- let me back up.

11 You described what the company is seeking in
12 regard to residue disposal expense to be an accrual; is that
13 correct?

14 A. That's right.

15 Q. What is your understanding for how that
16 accrual would be treated in regard to the actual expenses
17 incurred by the company for residue disposal in St. Joseph?

18 A. My understand-- my understanding of the
19 accrual is that we would try to match the cost of the
20 cost-causing event, which is the handling, removal, ultimate
21 disposition of the residue with rates so that we're
22 collecting in rates the cost of that process as it -- as the
23 process is occurring.

24 Q. So you mean there will eventually be a
25 matching of the amounts accrued to the actual expense; is

1 that correct?

2 A. Right. The idea is that when the removal of
3 the residue from the ponds occurs, the accrual is there and,
4 you know, they would net out against each other. The cost
5 of it versus the accrual would net each other out.

6 Q. And I believe Commissioner Murray asked you
7 whether there could be any adjustment in that process for
8 any revenues that might be received as a result of
9 agricultural uses or that sort of thing. Do you believe
10 that that could be a process of the true-up of the accrual
11 and the actual expense?

12 A. Yes.

13 Q. Okay. Now, let's talk for a moment about
14 that. In your experience what is I guess the market for
15 this residue in terms of agricultural uses?

16 A. Generally speaking -- or in most cases -- in
17 all cases I'm aware of farmers can benefit from lime waste
18 for the conditioning of their soil to achieve a -- you know,
19 a more optimal ph for the growing of crops, for example.

20 But the -- the market condition is that they
21 accept the material, they don't pay us for it. And so it
22 simply gives us a place to dispose of it. And that's the
23 manner in which we did this removal process back in the
24 August '03 time frame.

25 We removed it from the ponds and placed it on

1 an agricultural field, but there was -- we didn't get paid
2 for that, we simply had a place to put it that didn't cost
3 us any kind of tipping fee, if you will, that you would pay
4 if you took it to a landfill.

5 Q. Who paid for the hauling of that material?

6 A. We did.

7 Q. Now, Mr. Schwarz had asked you about the
8 possible use of this material at power plants. Do you
9 remember that?

10 A. Yes, I do.

11 Q. And I think there was a question as to whether
12 power plant operators would have to pay for the transport of
13 these type of materials if they didn't use, for example,
14 this sort of residue. And I think you started to explain
15 why transportation wouldn't necessarily be a part of their
16 use of lime. Could you finish that explanation for us?

17 A. Yes, I can. Just for an example, Aquila's
18 Lake Road plant in St. Joe and Raytown -- and another one --
19 another power plant in Raytown, they use softened water in
20 their cooling towers. They soften the water they receive
21 even further from how they receive it.

22 And they produce their own lime residual,
23 which if they had an issue with sulphur dioxide removal from
24 high sulphur coal, they could use that lime in their
25 scrubbers, as they're called, to remove that sulphur

1 dioxide, to neutralize it.

2 The irony of it is, however, that those plants
3 which are nearby and would -- that's important because being
4 nearby means that perhaps the hauling expense would be low
5 enough that that could be a cost effective alternative for
6 us. But the irony is that they use low sulphur coal, they
7 don't have scrubbers, so they have no need for our lime
8 waste.

9 Another -- another example, Topeka, Kansas is
10 a -- has a coal-fired electrical power plant and they use
11 high sulphur coal. So they have a need for lime as a
12 neutralizing agent, but there's a nearby water treatment
13 plant. Nearby being significant in that the haul distance
14 is very short.

15 So one has to understand that in order for
16 there to be some sort of offset to the cost, there needs to
17 be -- proximity is very important and there needs to be the
18 need. It's a rare link that occurs such that you can do
19 this any less expensive than we've done it -- than we did it
20 in '03.

21 Q. And in that answer you were talking about how
22 this proximity is very important. I think the question that
23 you got earlier was to identify sites within 100 miles.
24 Would you believe that 100 miles is close proximity?

25 A. Absolutely not.

1 Q. How close do you think a potential use would
2 have to be to have any practical opportunity?

3 A. I'd say 10 to 15 miles.

4 Q. Now, you had indicated in response to at least
5 a question from Commissioner Murray, if not from Mr. Schwarz
6 as well, that you would challenge whether chemical savings
7 were known and measurable. What variables are there that
8 will impact upon what the resulting chemical savings really
9 are?

10 MR. SCHWARZ: I'm going to object. It seems
11 to me he's impeaching his own testimony at this stage. The
12 company has put in its direct case that the expense that
13 they anticipate on a going-forward basis and to be used in
14 this case is \$310,000.

15 If Mr. Cooper is suggesting now that that
16 expense is something higher or that the company
17 under-estimated the cost, I think it's far too late in the
18 proceedings even in response to questions from testimony to
19 impeach the company's direct case.

20 JUDGE THOMPSON: Mr. Cooper?

21 MR. COOPER: I think we're entitled to
22 explain. And maybe I can get at it a little differently,
23 but obviously from the Exhibit 130 that we looked at a few
24 moments ago, these savings were identified as anticipated.
25 And there were questions of Mr. Kartmann as to why he did

1 not think that those were known and measurable. And I think
2 we ought to be able to explain what the meaning of
3 anticipated is, why that was used and continue with that
4 explanation here on redirect.

5 MR. SCHWARZ: I mean, the company has at its
6 own insistence -- instance stated that \$309,000 is an
7 appropriate expense, however they came to it. Clearly --
8 and I don't think it's -- I don't think it's a contested
9 issue. It's not material that they may have in the past
10 experienced some cost for these operations that was
11 different. That's not at issue in the case.

12 The company has stated that an appropriate
13 expense is \$310,000. And to the extent that they are making
14 suggestions now that maybe that's not a good number, maybe
15 our computations earlier were based on ephemera, I think
16 it's coming far too late.

17 JUDGE THOMPSON: Okay. 536.070, sub 2 states
18 that each party shall have the right to impeach any witness
19 regardless of what party first called him to testify.
20 Therefore, your objection will be overruled.

21 As to the second issue which you've raised,
22 which you really didn't make as an objection but which I'll
23 take as one, the Commission's duty is to set a just and
24 reasonable rate. And, consequently, I think the Commission
25 has the duty to inquire into how all of these numbers were

1 formulated in the process of doing that. So I'll overrule
2 that objection as well.

3 If you possibly remember the question, you may
4 answer it; otherwise, I'll ask the reporter to read it back.

5 THE WITNESS: I think I remember it.

6 BY MR. COOPER:

7 Q. Give it a shot.

8 A. Okay. I believe the question was what is it
9 that, you know, makes this number uncertain or --

10 Q. Anticipated.

11 A. -- anticipated. Well, first of all, it's
12 anticipated because it hasn't occurred yet, for one thing.
13 And other reasons why it's anticipated or the opportunity
14 for it to not be \$309,000 but something different has to do
15 with the treatment process itself and the physical treatment
16 facility.

17 No two water treatment facilities are
18 identical. They all have unique characteristics. They all
19 have different contact times. In other words, the time over
20 which the treatment chemical is in contact with the water
21 being treated varies, varies depending on rate, how fast are
22 you pushing the water through the basins, how big is the
23 basin, how long can the water stay in there?

24 And the longer it can stay in there, all other
25 things being equal, less chemical is required because

1 there's a longer time for the reactions to take place.
2 Small -- lower contact time means more chemical has to be
3 added in order to achieve the same final product.

4 The temperature of the water, generally
5 speaking, the first order of reactions and the higher the
6 temperature, the faster the reaction rate; the lower the
7 temperature, the longer it takes. And if you have to get
8 the water out the door in a certain amount of time and the
9 temperature needs to be lower, you made need to add more
10 chemical in order to achieve the same finished product you
11 would at a higher temperature.

12 Dispersion, mixing -- every mixer -- chemical
13 mixer -- think of a mixer you use at home to mix dough and
14 that sort of thing. They're all different and they don't
15 all have the same flow characteristics so they don't all get
16 the chemical in contact with the water at the same
17 efficiency. Those are some of the reasons that make this an
18 anticipated number.

19 Q. How long do you think it will take before you
20 are able to have enough experience to identify with
21 certainty what those savings are?

22 A. I think it would take a full cycle, which
23 would be a year because you have the seasonal changes to
24 consider. Rise and fall in the river changes, the hardness
25 of the water that's pulled in from the ground near the

1 river, the rates -- throughput rates of water through the
2 treatment process will vary based on demand in the system.

3 Q. And I think you mentioned in response to a
4 question from Mr. Schwarz that the change in the treatment
5 process that is driving the identified savings started in,
6 what, around Thanksgiving; is that --

7 A. A little bit before Thanksgiving.

8 Q. Of 2003?

9 A. Yeah. We began the revised process which, you
10 know, there's always bugs to work out and that takes time.
11 And, again, you have changes in raw water quality throughout
12 the year, so you need to go through a cycle to know what
13 those costs are going to be.

14 Q. You were asked whether there would be actual
15 expense in the year 2004 for residue removal in St. Joseph.
16 Do you remember that question?

17 A. Yes, I do.

18 Q. And I think you responded that there would not
19 be an out-of-pocket expense in 2004. Correct?

20 A. Not likely.

21 Q. Is residue gathering in those collection ponds
22 today?

23 A. Every day.

24 Q. And will it be gathering through the year
25 2004?

1 A. Yes.

2 Q. And what is that accumulation of residue
3 associated with it?

4 A. It's associated with -- primarily with the
5 softening process, the removal of calcium from the water and
6 converting it to a solid so that it precipitates out and can
7 be flushed out into these ponds.

8 Q. And the water being produced is being sent to
9 customers today and was sent there yesterday?

10 A. Absolutely.

11 Q. Now, I think you also responded in answer to a
12 question from Mr. Schwarz that there would be expense in the
13 year 2005 and you indicated that it would be at that time
14 that you would remove residue from the first pond. Do you
15 remember that?

16 A. That's correct.

17 Q. Why would you not wait until both these ponds
18 were full to remove the residue?

19 A. Well, there's a few reasons. Number one,
20 there's two ponds so that you have some redundancy in case
21 something goes wrong with the first pond or the drain line
22 to one pond that you -- the pond you're using becomes
23 clogged, you need another pond -- you would need the other
24 pond to use as a substitute until you corrected the problem
25 on the first one.

1 If you fill them both simultaneously, you can
2 get into detention time problems. And what I mean by that
3 is in these ponds is not only solid waste but also water
4 that's flushed out with it that's diluted. And that water
5 rises to the top of the pond referred to as supernatant.
6 And then that flows to a nearby swale that ultimately goes
7 back to the Missouri River.

8 Department of -- the EPA issues -- what are
9 called NPDES permits for suction activity -- it's National
10 Pollution -- National Pollution Discharge Elimination System
11 permit. And that has limits on it as to the chlorine
12 residual that can exist in that supernatant as it enters the
13 creek, the stream.

14 It can have -- it does have limitations on how
15 turbid that water can be that you're introducing to that
16 natural stream. And if the ponds -- as the ponds become --
17 as they fill, there is less available space for that
18 churned-up material to pass through the pond and settle out
19 the solids before the water goes over and into the creek.

20 And as you reduce the amount of detention time
21 in those ponds, you increase the risk of violating your
22 NPDES permit. It's happened. I've experienced it
23 personally as a water treatment plant superintendent and --
24 some years ago.

25 And, of course, you know, it's against the law

1 to violate your permit requirements. And so it's best if
2 you can fill one pond having the other one empty and as that
3 pond begins to fill or is filling and approaching full, if
4 there's a problem with -- you're getting close to your
5 limits on your consistents entering the stream, you can then
6 switch to the other pond and thereby increase the detention
7 time.

8 And -- and then you would take the first pond
9 out and clean it, meanwhile the second pond is filling but
10 the first one is back in service. And as the second one is
11 getting full, you may be getting close to your limits on
12 your permit and you can begin putting material in the first
13 pond again, so --

14 Q. Now, you were asked whether the company has a
15 contract in place for removal of residue in the year 2005.
16 Correct?

17 A. That's correct.

18 Q. And you said that the company does not have a
19 contract in place?

20 A. That's correct.

21 Q. Has the company contracted in the past for
22 removal of residue at St. Joseph?

23 A. Yes, we have.

24 Q. And could you describe for me the nature of
25 that contract?

1 A. Yeah. That contract was a time and materials
2 contract. The contractor kept track of the labor and
3 equipment costs associated with the removal of the material
4 and that's -- we kept track of those records as well and
5 sent us a bill and we paid it.

6 Q. Now, you have taken your experience in regard
7 to that contract I believe in your testimony and you have
8 then utilized that to come up with the cost of removal for I
9 guess 2005 or the unit cost of removal. Correct?

10 A. Yeah. The unit cost removal and expressed it
11 as an annual expense, annual amount.

12 Q. Have you taken any steps to address -- let me
13 back up.

14 I think you made the point or the point was
15 made that in regard to the residue removal expense that is
16 provided for the St. Louis, Joplin, Mexico districts, there
17 was a point made that those districts have removed residue
18 in the past. Correct?

19 A. Yes.

20 Q. Okay. Do those districts remove residue every
21 year?

22 A. Mexico does, Joplin does not, St. Louis County
23 does it every other year.

24 Q. So there are years as to those districts where
25 the company has an annualized amount of -- an annualized

1 amount of residue removal expense but no residue is actually
2 removed in a given year?

3 A. That's correct.

4 MR. COOPER: I believe that's all the
5 questions I have, your Honor. I guess I would go ahead and
6 ask for admission of Exhibit 130.

7 JUDGE THOMPSON: Any objections?

8 Hearing none, Exhibit 130 is received and made
9 a part of the record of this proceeding.

10 (Exhibit No. 130 was received into evidence.)

11 JUDGE THOMPSON: Thank you very much,
12 Mr. Kartmann. We're scheduled to hear from you again I
13 think on another issue. You may step down.

14 Who's the next witness? Was it Mr. Began?
15 Commissioner Murray has no questions for Mr. Began if that
16 makes any difference.

17 MS. O'NEILL: Public Counsel has no questions.

18 MR. COOPER: I think we can move past
19 Mr. Began as far as I'm concerned.

20 JUDGE THOMPSON: Works for me.

21 Well, Ms. Hanneken, come back up. Okay.
22 You're on the St. Joe chemical and waste issue now? Are we
23 still on that or have we slipped over to another issue?

24 THE WITNESS: No. It's St. Joe waste.

25 JUDGE THOMPSON: And I will remind you that

1 you're still under oath.

2 Let's see. Mr. Schwarz, whenever you're
3 ready.

4 MR. SCHWARZ: I think she's already been
5 tendered for cross on this issue.

6 JUDGE THOMPSON: On this issue.

7 MS. O'NEILL: No.

8 MR. COOPER: That was transportation.

9 MR. SCHWARZ: Transportation, I'm sorry.

10 JUDGE THOMPSON: We put her exhibits into the
11 record.

12 MR. SCHWARZ: Her exhibits are into the
13 record.

14 JUDGE THOMPSON: All you have to say is I
15 tender this witness.

16 MR. SCHWARZ: I tender this witness for
17 cross-examination on the issue of waste removal of the
18 St. Joe plant.

19 JUDGE THOMPSON: Very good. Thank you.
20 Commissioner Murray?

21 LISA HANNEKEN testified as follows:
22 QUESTIONS BY COMMISSIONER MURRAY:

23 Q. Okay. Ms. Hanneken, just briefly, you did not
24 attempt in any way, as I understand it, to apply the
25 matching principle to the waste disposal at the St. Joseph

1 treatment plant; is that right?

2 A. I don't believe that the matching principle
3 would actually apply in this instance. I mean, you can't
4 match something that's not there yet. There is no cost
5 known and measurable for the waste disposal of St. Joe. So
6 I mean, you can't --

7 Q. But isn't the matching principle that you are
8 to match the cause -- the cost causer to the cost payer and
9 isn't the customer that is causing the cost the one that is
10 contributing to the accumulation of the waste?

11 A. If you -- if you were able to know and measure
12 the amount of the expense on the costs that this -- the cost
13 causer was causing, then you would be able to match it at
14 this time. But given that we do not know what costs will be
15 for this, we cannot currently put into rates something that
16 has not yet occurred and we do not know what -- when or how
17 much it will cost when it does occur.

18 Q. So you're saying that unless you know with
19 absolute certainty what the final amount will be, you can't
20 accrue it and adjust for it later over time?

21 A. I mean, you're talking years, you know, in the
22 future. We don't know what the future may hold. The cost,
23 you know, could go up, could go down.

24 Q. There could be an adjustment made at that time
25 later also. Correct?

1 A. Well, for instance, if an agricultural avenue
2 was available that would practically eliminate all of the
3 cost, would you go back and, you know, try and -- I mean,
4 you've already collected all this money from the ratepayers
5 and now there will be no cost. What do you do then?

6 Q. Do you have any reason to believe that there
7 will be no cost?

8 A. I -- I cannot speculate into the future what
9 will or will not occur.

10 Q. Do you think it's more likely that there will
11 be a cost incurred?

12 A. There may be some, but I can't say if it's
13 going to be a little cost, a large cost or any cost.

14 COMMISSIONER MURRAY: I think that's all I
15 have. Thank you.

16 QUESTIONS BY JUDGE THOMPSON:

17 Q. Ms. Hanneken, the test year expense for
18 chemicals was 694,777; is that correct?

19 A. That was not my issue so I'm not certain of
20 the --

21 Q. You don't know?

22 A. I don't know.

23 Q. Okay. If I suggested to you that that's what
24 I was told by the last witness, would you have any reason to
25 disagree?

1 A. No, I would not.

2 Q. And what was the test year expense for waste
3 disposal?

4 A. Test year expense that they experienced during
5 the test year?

6 Q. Absolutely.

7 A. To my knowledge, I think they only had -- let
8 me get my -- they showed \$42,000; however, I'm not sure if
9 that was just simply an accrual or an actual expense that
10 was incurred. They had already switched over to the sludge
11 lagoons at that point and they had previously been paying
12 the city for removal.

13 Q. But if I understand your testimony, the
14 company accounting schedules showed \$42,000 for waste
15 removal test year actual expenses?

16 A. What I was told when I looked at the schedule,
17 was they could not tell me what was actually the expense or
18 if it was simply an accrual.

19 Q. Okay. Well, let's pretend it was zero.

20 A. Okay.

21 Q. So if you take a chemical expense of 694,777
22 and you add that to the zero, you get 694,777 for both
23 chemical and waste. And I know chemical wasn't your issue
24 but the two seem to be linked here. Now, the company's
25 position with respect to these two positions is 309,425 for

1 chemicals and 164,452 for waste; is that correct?

2 A. To the best of my knowledge, yes.

3 Q. So I add those together, I get 473,877. And
4 when I subtract that from the 694,777, I get 220,900. So,
5 in other words, the company is proposing a figure for these
6 two accounts together that's just over \$200,000 less than
7 their test year experience assuming waste removal was zero
8 in the test year; isn't that correct?

9 A. Using those calculations, yes.

10 Q. Okay. So in a sense, the company's taking a
11 chance here in order to pass these savings along, isn't it?
12 In other words, why couldn't they have just asked for their
13 test year chemical expense of 694?

14 A. Because they have presented that they are
15 actually realizing their savings and gave us an actual
16 number related to those savings as -- whereas, the waste
17 disposal the amount is not known and measurable and it has
18 not yet occurred.

19 Q. Well, I thought that the savings number was
20 also estimated.

21 A. I have a DR that shows that -- an exact number
22 on it and, you know, it shows what will be realized in
23 October of 2003 --

24 Q. Okay.

25 A. -- or when line -- system came on line. There

1 is nowhere on this DR that states an estimation.

2 Q. Okay. But it didn't come on line during the
3 test year, did it?

4 A. No, it did not.

5 Q. Okay. So the Commission would be justified in
6 using the test year chemical figure, would it not?

7 A. We usually -- if we have known and measurable
8 numbers, we will adjust for ongoing basis of what will be to
9 come, if we have solid numbers of expenses that have
10 occurred.

11 JUDGE THOMPSON: Thank you. I have no further
12 questions.

13 Commissioner Murray?

14 COMMISSIONER MURRAY: I don't think so.

15 JUDGE THOMPSON: Okay. Cross-examination,
16 Ms. O'Neill?

17 MS. O'NEILL: No questions on this issue, your
18 Honor.

19 JUDGE THOMPSON: Thank you.

20 Mr. Cooper?

21 MR. COOPER: No questions, your Honor.

22 JUDGE THOMPSON: Redirect, Mr. Schwarz?

23 REDIRECT EXAMINATION BY MR. SCHWARZ:

24 Q. Ms. Hanneken, is there any testimony by any
25 party in this case that \$694,000 per year would be an

1 appropriate amount for --

2 A. No.

3 Q. -- waste disposal?

4 A. I'm sorry. I believe both the company and

5 Staff feels that an adjustment for the chemical savings was

6 the appropriate measure.

7 Q. So there is no testimony that says \$694,000

8 would be appropriate?

9 A. No. Not to my knowledge.

10 Q. And if the Commission's record -- or decision

11 has to be based on testimony that's in the record, there is

12 no testimony to support a \$694,000 level in this case; is

13 that correct?

14 A. Yes.

15 Q. In your Surrebuttal Testimony -- hang on.

16 In response to a question from Commissioner

17 Murray, I think you agreed that if the accrual amount were

18 used, that adjustments could be made later on. Do you

19 recall that?

20 A. Yes.

21 Q. But wouldn't such adjustments also contribute

22 to an intergenerational inequity problem?

23 A. Yes, they would.

24 Q. And isn't it true that the real problem, both

25 from an intergenerational inequity standpoint and from the

1 standpoint of the matching principle, is that the costs that
2 are to be incurred simply aren't known?

3 A. Yes.

4 MR. SCHWARZ: I think that's all I have.

5 JUDGE THOMPSON: Thank you, Mr. Schwarz.

6 You may step down, Ms. Hanneken. Thank you
7 for your testimony.

8 Are we ready to move into property taxes with
9 Mr. Grubb?

10 MR. COOPER: We would be if I saw Mr. Grubb.

11 JUDGE THOMPSON: Well, let's take a recess for
12 10 minutes while everybody figures out who we're going to
13 hear from next. Thank you.

14 (A recess was taken.)

15 JUDGE THOMPSON: Mr. Grubb, nice to see you.
16 I'll remind you that you are still under oath.

17 THE WITNESS: Yes, sir.

18 JUDGE THOMPSON: And we are now doing the
19 property tax issue. Correct?

20 MR. COOPER: Correct.

21 And, your Honor, the company would tender
22 Mr. Grubb for cross-examination on the property tax issue.

23 JUDGE THOMPSON: Okay. Commissioner Murray?

24 EDWARD GRUBB testified as follows:

25 QUESTIONS BY COMMISSIONER MURRAY:

1 Q. First, a very basic question. Where is this
2 on the accounting schedule, do you know? On your accounting
3 schedule. And I guess that would be the one to ask you
4 about.

5 A. Do you have a copy of the accounting
6 schedules?

7 Q. I don't. I forgot to bring it.

8 JUDGE THOMPSON: I believe I do. I don't go
9 anywhere without my accounting schedules. See if I can pass
10 that to you without hurting anyone.

11 BY COMMISSIONER MURRAY:

12 Q. Thank you.

13 A. You're welcome.

14 Q. And as I understand your testimony, you're
15 saying that Staff did not appropriately match the utility
16 plant in service with the level of property taxes to be
17 recovered; is that right?

18 A. That is our position, yes.

19 Q. And are you saying that the utility property
20 in service as of November 2003 is the amount that should be
21 matched with the property tax?

22 A. That's correct. The company's property tax is
23 based upon that level of utility plant. Staff's property
24 tax would be the property tax associated with the plant at
25 the end of 2002.

1 Q. And when are the taxes due?

2 A. The property taxes due for plant in service at
3 November of 2003 would be December of 2004. And the
4 property taxes due for December 200-- well, in plant 2002
5 would be -- will have been paid at the end of 2003.

6 Q. I'm sorry?

7 A. So they're due every December.

8 Q. All right. And is it Staff's position that
9 because for property in service as of November 2003, the
10 taxes wouldn't be due until December 2004, that that is why
11 they're not recommending --

12 A. I think that's one of the reasons. They're
13 saying the actual property taxes does not meet their test of
14 known and measurable. And the company would disagree
15 with -- for rate-making purposes, the arrival of a proforma
16 level of property tax expense we feel there is a known and
17 measurable calculation that would -- that would produce
18 reasonable results similar to chemical expense adjustment.

19 Q. Okay. It seems that there's a disagreement
20 about what is known and measurable. How would you define
21 known and measurable?

22 A. Known and measurable would be -- in the
23 context of a calculation, that known would be we have
24 information available to us such as actual accounting data
25 or actual property tax rate data. That type of information

1 known today, we have it in our hand, we know it and it's
2 based on what's on the books of the company, what tax
3 payments have been made to the taxing authorities.

4 Measurable is simply -- I guess my definition
5 would be that you can apply it in such a fashion to arrive
6 at a reasonable result for a recovery in rates.

7 Q. Okay. And when you're talking about known,
8 you're talking about known for a test year period or known
9 for the next period?

10 A. Or known for the true-up period, that -- that
11 type. For example, in our proposal we would take the actual
12 property tax bills that we've paid in December of 2003, we
13 know that's a known number, and divide it by the utility
14 plant in service at the end of 2002 because it's that
15 property tax that applies to that, that plant.

16 And so when you take an actual number, divide
17 it by an actual, you come to an actual property tax rate.
18 And you multiply that actual property tax rate times the
19 actual trued-up plant at the end of November so you come up
20 with what I feel is a known and measurable level of property
21 tax expense to use for rate recovery.

22 Q. Okay. You know the amount of plant and you
23 know the rate of the tax --

24 A. Yeah.

25 Q. -- and, therefore, you know what the tax that

1 you will have to pay in December of 2004 will be?

2 A. Based upon the known facts that we have before
3 us. I don't see it any different than chemical expense. We
4 have a known cost per pound for chemicals, we have a known
5 number of pounds and we multiply the two together and get
6 the proforma cost for chemical expense.

7 COMMISSIONER MURRAY: Okay. I don't think I
8 have any other questions on this. Thank you.

9 THE WITNESS: You're welcome.

10 QUESTIONS BY JUDGE THOMPSON:

11 Q. Mr. Grubb, what is the amount that the company
12 would like for property tax expense revenue requirement
13 total?

14 A. Total property tax expense?

15 Q. Yes, sir.

16 A. 10,554,230.

17 Q. Okay. Do you know what Staff's recommended
18 figure is?

19 A. 9,961,270.

20 Q. And is the difference between those figures,
21 is that the total of the issue you're here testifying about
22 today?

23 A. Yes, it is.

24 Q. Okay. So if I understand the purpose of
25 trueing up the rate case, trueing up your test year, it is

1 to reduce as far as possible regulatory lag. Is that not
2 correct?

3 A. It is to set rates as best as we can on the
4 information that we have available at the time.

5 Q. In other words, you had a certain amount of
6 utility plant in service as of 12/31/02; is that correct?

7 A. That's correct.

8 Q. And as of the true-up date, which was some
9 time in November of '03, there had been additions to plant,
10 perhaps there had also been some retirements. Correct?

11 A. That is correct.

12 Q. And so that utility plant in service figure
13 was modified to reflect those changes; is that right?

14 A. That is correct.

15 Q. So by doing that, the company would begin
16 receiving a return on and a return of that additional plant
17 in service as of when the rates in this case go into effect
18 in April of '04. Correct?

19 A. That's correct.

20 Q. And assuming a three-year rate case cycle,
21 otherwise you'd have to wait until '07 to start getting
22 that. Right?

23 A. That's correct.

24 Q. Okay. So there are other things that go along
25 with plant in service -- additions to plant in service.

1 Correct?

2 A. Yeah. There would be depreciation expense,
3 deferred income tax expense. Those two come to mind right
4 now.

5 Q. And the property tax?

6 A. And property tax would be another one, yes.

7 Q. Okay. And do you know the reason that Staff
8 is reluctant to recognize the additional property tax?

9 A. The main reason, from reading Staff's
10 testimony, is that they don't believe that a known and
11 measurable calculation can be made, which obviously we
12 disagree with, and that the fact that the actual property
13 tax payments that will be made in 2004 are not known and
14 measurable and, therefore, do not fit their -- their
15 definition to include in the current rates.

16 JUDGE THOMPSON: I have no further questions.

17 COMMISSIONER MURRAY: May I ask one more?

18 JUDGE THOMPSON: Yes, ma'am.

19 FURTHER QUESTIONS BY COMMISSIONER MURRAY:

20 Q. Just a follow-up with the Judge's line of
21 questioning there. If you add more plant between now and
22 the next rate case, your property taxes will be even greater
23 than the amount that you are asking to be recognized here;
24 isn't that correct?

25 A. That's correct.

1 Q. Before the next rate case?

2 A. That's correct.

3 COMMISSIONER MURRAY: All right. Thank you.

4 JUDGE THOMPSON: Cross-examination,

5 Ms. O'Neill?

6 MS. O'NEILL: No questions on this issue.

7 JUDGE THOMPSON: Mr. Schwarz?

8 CROSS-EXAMINATION BY MR. SCHWARZ:

9 Q. Mr. Grubb, are you aware that Article 10,
10 Section 22 of the Missouri Constitution, which is part of
11 the Hancock Amendment, and Section 137.073, sub 2, require
12 political subdivisions to roll back their rates of levy when
13 there are increases in assessment levels?

14 A. No, I'm not.

15 Q. Are you aware that there are requirements that
16 certain political subdivisions roll back levy -- property
17 tax levy rates linked to sales tax increases?

18 A. I have -- as part of the -- when we deal with
19 sales tax on our customers, I've done some research and seen
20 that, I've heard that -- that to be true.

21 Q. So that property tax rates are set based on a
22 number of factors that have nothing to do with any
23 particular property owners' property including St. Louis
24 County Water -- or excuse me, Missouri-American Water; is
25 that correct?

1 A. There are a number of variables, I believe, as
2 there are a number of variables in almost anything we do in
3 setting of rates; in this case the setting of the property
4 tax rates by municipalities.

5 Q. And that's done every year, is it not? Every
6 year is a separate transaction?

7 A. We are billed every year as a separate
8 transaction.

9 Q. But the rates are calculated every year as a
10 separate transaction by each political subdivision; is that
11 correct?

12 A. That is true.

13 Q. And is it true also that property retirements
14 will have the effect of reducing the company's assessed
15 value in any particular tax year that is -- strike that.

16 Retirements in the preceding year will have
17 the effect of reducing the company's assessed value in any
18 particular tax year?

19 A. Any change in the company's property would
20 either increase or decrease depending on whether it's an
21 addition or whether it's a retirement.

22 Q. Right. But retirements -- you had mentioned
23 depreciation accruals as affecting the company's property
24 tax assessment?

25 A. Depreciation accrual affecting the property

1 tax assessment?

2 Q. Yes. The --

3 A. The company's accruals do not affect it. I
4 think built into the property tax calculation they have
5 their own, quote, depreciation accruals where they lower the
6 value of the property for five years and then it stays level
7 until that asset is retired. I believe that's the
8 methodology. The taxing authorities have their own
9 depreciation accruals. They do not use the same ones the
10 company uses.

11 Q. The company reports its property based on its
12 own books and records though, doesn't it?

13 A. Yeah. Gross plant, yes.

14 Q. Yes. And isn't it also true that additional
15 plant -- the property taxes on plant additions are an item
16 that can be recovered through the company's infrastructure
17 replacement -- infrastructure --

18 A. Replacement systems?

19 Q. Yes. ISRS.

20 A. ISRS.

21 Q. Is that correct? Property taxes are
22 recoverable through the ISRS?

23 A. They are recoverable as part of the ISRS
24 legislation, yes.

25 MR. SCHWARZ: Thank you. That's all.

1 JUDGE THOMPSON: Thank you.

2 Mr. Cooper?

3 REDIRECT EXAMINATION BY MR. COOPER:

4 Q. Mr. Grubb, you discussed in response to a
5 question when the property taxes would really be due.
6 Correct?

7 A. That's correct.

8 Q. Okay. How will property taxes be recorded by
9 the company on a going-forward basis?

10 A. We are recording today the property taxes as a
11 result on the plant that was in service at the end of
12 2003 -- 2003. We are recording them on the books today and
13 incurring the expense today.

14 Q. Okay. So when you say "incurring the expense
15 today," for the month of January, can you describe for me
16 how you'll come up with a property tax amount?

17 A. We are accruing a level of property tax based
18 upon the calculation that we do for the rate case. We take
19 the actual property taxes paid in 2003 and divide it by the
20 appropriate tax base and multiply it by the plant at the end
21 of '03 to get our accrual for '04 that we -- we will be
22 paying at the end of December 2004.

23 Q. So you take a one-twelfth of that?

24 A. Take one-twelfth, yes.

25 Q. And each month that will be reflected on your

1 books for this calendar year?

2 A. That's correct.

3 Q. Okay. Mr. Schwarz asked you a lot of
4 different questions about rollbacks and different taxing
5 authorities and that sort of thing and their implications on
6 the ultimate property taxes to be paid by the company.

7 In your Rebuttal Testimony have you taken the
8 opportunity to test the company's proposed methodology
9 against the Staff's proposed methodology in terms of
10 property taxes actually paid?

11 A. Yes, I have. I have an exhibit or a schedule
12 attached to my Rebuttal Testimony, it's Schedule EJG-5. And
13 we were able to look at the last six calendar years going
14 from 2002 back. We were only able to do that because we
15 didn't have the information available for Jefferson City
16 prior to that point in time.

17 And based upon that, under the Staff's
18 methodology versus the company's methodology, if we filed
19 rate cases annually -- and this is just a comparison of the
20 methodologies excluding all else. I know Staff mentioned in
21 there Surrebuttal Testimony that -- the property tax
22 surcharge and if Staff is suggesting that we have a property
23 tax surcharge on every rate case, that's fine with the
24 company for this next year of -- set of rates.

25 But in this example using the company's

1 methodology, the company would have, quote, under-collected
2 property tax using annual rate filings by about \$543,000.
3 In comparison to the Staff, the company would have
4 under-collected almost \$3.5 million in property taxes.

5 Q. Let's go through that schedule just for a
6 second so we understand what you've done there. Of course,
7 we've got the years listed that you mentioned, 1997 through
8 2002. Correct?

9 A. Correct.

10 Q. In the far left column. Next, to that a
11 column that says Actual Property Tax. What does that
12 represent?

13 A. That is the actual property taxes the company
14 paid in those calendar years.

15 Q. Okay. You then have a listing of utility
16 plant. What does that represent?

17 A. That is the actual level of total utility
18 plant on the company's books at the end of each of those
19 calendar years.

20 Q. Okay. You then have a column identified as
21 Property Tax Ratio. How is that developed?

22 A. That would take the -- I'll give an example of
23 one of the calculations. You take the 1999 property tax --
24 actual property tax of 6,922,028 and divide it by the
25 utility plant at the end of 1998 of 634,034,666 and that

1 would give you .010917 ratio factor.

2 Q. Okay. The next column is Proforma Property
3 Tax. I take it that that is the number that would be
4 created by utilizing the method that the company proposes in
5 this case?

6 A. That's correct.

7 Q. So to stay with 1999 then, you would take the
8 utility plant at the end of 1999, the 671 million and
9 change, times the property tax ratio just to the right of
10 it. Correct?

11 A. That's correct.

12 Q. And then that would derive your proforma
13 property tax amount?

14 A. For the next year.

15 Q. For the next year.

16 A. That's correct.

17 Q. Okay. Now, you mentioned that this assumes a
18 rate case every year. Correct?

19 A. That's correct.

20 Q. That means that for the purposes of
21 calculating these under-recoveries, you assume that every
22 year the company was in and got property taxes based upon
23 the Staff's method and based upon the company's method.
24 Correct?

25 A. That's correct.

1 Q. If we assumed rate cases every two years, what
2 would happen to these under-recovery numbers?

3 A. In that case you would have to look at
4 individual years. So, for example, if you looked at the
5 2001 year, after two years the company would have
6 under-collected by \$700,000 and the Staff's methodology
7 would have been \$2.8 million. It would have been two years
8 of under-collection because rates would have been set to
9 only collect a certain level of property tax expense.

10 Q. Would the under-collection under the Staff's
11 method actually be greater than the 3.4 million?

12 A. Well, I'm just looking at one year.

13 Q. Okay.

14 A. I'm looking at one year.

15 Q. What would it do to the totals, generally?

16 A. It would increase them.

17 Q. Now, again, I think you were asked about the
18 possibility of rollbacks and that sort of thing. In looking
19 at your -- the numbers for actual property tax for the years
20 1997 through 2002, could the actual property tax amount ever
21 go down over any two-year period?

22 A. No. They've gone up every year.

23 Q. How about utility plant? Has it decreased in
24 total between any of those years?

25 A. It's gone up every year.

1 Q. Okay. You were asked by Mr. Schwarz whether
2 property taxes were recoverable under the ISRS process.
3 Correct?

4 A. That's correct.

5 Q. Okay. If there is a future ISRS for the
6 company, will any of the property subject to that future
7 ISRS -- or is any of the property that would be subject to
8 that future ISRS in this rate case in service now?

9 A. It can't be the way the law is written. Any
10 property tax associated with the ISRS infrastructure cannot
11 be included in the last rate case's base rates. So it would
12 not be there. You'd always end up going beyond what was
13 included in the last rate case.

14 Q. And what you would get beyond the last rate
15 case would apply to property that was put into service after
16 that last rate case. Correct?

17 A. That's correct. And it would only be for ISRS
18 eligible property.

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

21 JUDGE THOMPSON: Thank you, Mr. Cooper.

22 You may step down, Mr. Grubb.

23 THE WITNESS: Thank you.

24 JUDGE THOMPSON: Thank you for your testimony.

25 I believe Ms. Hanneken is our next witness; is

1 that correct? I'll remind you that you're still under oath,
2 Ms. Hanneken.

3 MR. SCHWARZ: I would tender Ms. Hanneken for
4 cross-examination and questions from the Bench on the issue
5 of property taxes.

6 JUDGE THOMPSON: Thank you, Mr. Schwarz.
7 Commissioner Murray?

8 LISA HANNEKEN testified as follows:

9 QUESTIONS BY COMMISSIONER MURRAY:

10 Q. Hello again. How would Staff define known and
11 measurable?

12 A. I believe if you look on page 19 of my
13 Surrebuttal Testimony, I have that in there starting on
14 line 5. A known and measurable expense is an expense that
15 is, one, known, meaning that the amount did or definitely
16 will be an actually incurred cost; and two, it is
17 measurable, meaning that the rate impact of the change, for
18 example, property tax expense, can be calculated with a high
19 degree of accuracy.

20 Q. Okay. And in the first part you say that the
21 amount did or definitely will be an actually incurred cost,
22 seeming to say that it has to be an exact amount that
23 definitely will be actually incurred. Because then the
24 second one says can be calculated with a high degree of
25 accuracy. So are you requiring absolute or just that it be

1 able to be calculated with a high degree of accuracy?

2 A. I believe the first part is saying that it

3 exists, that it will occur.

4 Q. Okay. Let's stop there.

5 A. Okay.

6 Q. Property taxes --

7 A. Property taxes --

8 Q. -- do they exist?

9 A. -- we -- yes. Correct. They exist.

10 Q. Will they occur definitely?

11 A. Correct. But to try to calculate them on a

12 future basis there are just too many --

13 Q. Wait. Stop there. Just answer my questions,

14 please, and maybe --

15 A. If you can calculate it with a high degree of

16 accuracy --

17 Q. Please wait.

18 A. -- then it would be measurable.

19 Q. I just want to ask you questions and let you

20 answer them, if you would.

21 A. Okay.

22 Q. First, as to your item No. 1, property taxes,

23 will they definitely occur?

24 A. Yes, they will.

25 Q. Okay. And so they will be an actually

1 incurred cost; is that correct?

2 A. Correct.

3 Q. Then on No. 2, are they measurable?

4 A. Staff is measuring them on the last taxes paid
5 for December 2003. They've already been paid so they are
6 obviously measurable.

7 Q. But your No. 2 requires that they can be
8 calculated with a high degree of accuracy, which means to me
9 that there's something that you're calculating that has not
10 yet occurred based on whatever knowledge or information you
11 have.

12 A. I'm not calculating anything. The company's
13 already paid these taxes. We know how much they are.

14 Q. Okay. But your definition of known and
15 measurable -- your definition of measurable is that the rate
16 impact can be calculated with a high degree of accuracy.

17 A. Correct.

18 Q. So if you're calculating a great impact with a
19 high degree of accuracy, are you not basing it on something
20 that has not yet occurred?

21 A. No. We're basing our numbers on what has
22 already occurred and the actual amount that was paid in
23 December 2003.

24 Q. Okay. And as to property taxes, you were in
25 the room I think when Schedule EJG-5 was being discussed a

1 moment ago?

2 A. Yes.

3 Q. Is it not true from that -- looking at that
4 schedule, since 1997 that the actual property taxes have
5 exceeded, with the exception of two years in which the
6 numbers were -- the differences were pretty small -- in all
7 but two of those years the actual property taxes have
8 exceeded the proforma property tax based on the company's
9 calculation?

10 A. The actual versus the company's estimate, yes.
11 Two years the company actually over-estimated, but the rest
12 of the years the property taxes did exceed the company's
13 estimate of what the taxes would be.

14 Q. And if you're looking at the fact that you've
15 got a certain amount of utility plant in service and you
16 know if you're applying the property tax ratio based on the
17 current year and assuming it was going to be that ratio for
18 the next year, is that not calculating with a high degree of
19 accuracy what those taxes are going to be?

20 A. I think the key word in that question is
21 assuming that the tax ratio will remain the same. There are
22 several variables that can change each year. The taxes
23 authorities can change the rates, the assessments can
24 change. There -- there is just a large degree of variables
25 out there that would change that tax rate or ratio.

1 Q. And that's been the case since 1997, has it
2 not? I mean it's been the case for a long time, at least
3 since 1997, has it not?

4 A. That there are variables?

5 Q. Yes.

6 A. As far as I know, that has always been the
7 case.

8 Q. And in looking at the numbers since 1997, the
9 proforma property tax that the company showed was -- overall
10 if you averaged those, years was quite a bit below --

11 A. Well, I think if you look at the whole
12 picture, the piece of the puzzle that Mr. Grubb seems to
13 have left out of this schedule is the fact that they have
14 collected \$1.1 million, almost \$1.2 million to compensate
15 for year 2001 for St. Joe plant, so --

16 Q. Explain how that affects this.

17 A. Mr. Grubb has put in, like, for example, on
18 Staff's method that we under-calculate by 1.477997. That is
19 due to the St. Joe plant being put into service and
20 resulting taxes of that plant.

21 There was also a surcharge granted by this
22 Commission for recovery of that property tax. To date, I
23 can come -- I'm sorry. Let me make sure I know as of when
24 that was the case.

25 As of December 31st, 2002, that was a year

1 ago, over a year ago, the company had collected 1.171021 to
2 recover property taxes related to the St. Joe plant. So, I
3 mean, you're going to have to look at both pieces of the
4 puzzle to realize that even though Staff's column may look
5 quite large compared to company's, it needs to be
6 compensated by the fact that the surcharge is in place and
7 is, in fact, still in place and is still being collected by
8 the company to compensate them for that St. Joe plant.

9 Q. So what would Staff's number be for the year
10 2001?

11 A. I cannot give you a definite number because
12 part of that surcharge would relate to 2002, I believe. But
13 if you were to reduce the total by that amount, I think you
14 would get a more accurate picture.

15 Q. Reduce the total actual property tax?

16 A. No. The total in that column of the 3.4, if
17 you were to reduce that by 1.1.

18 Q. But it would come out of the year 2001 and
19 some out of 2002 is your position?

20 A. I would have to check my calculations, but I
21 think that's correct.

22 Q. Okay. Assuming that what you've told me is
23 accurate, that still leaves Staff at -- what is it --
24 2,275,000 over-cal-- or under-calculating?

25 A. I would -- I would assume that would be a

1 close figure, yes.

2 Q. And what would it do to the company's
3 calculation?

4 A. I don't know what they base their
5 calculation -- if they took that surcharge into
6 consideration for that calculation. I would assume not, so
7 it -- I'm going to assume that their number probably would
8 not change. I'm not sure.

9 Q. You would assume it would not change?

10 A. Right. Because they're basing theirs on -- we
11 based ours on actual taxes and they based theirs on -- on
12 their ratio calculation. So I'm not sure.

13 COMMISSIONER MURRAY: Okay. I think that's
14 all. Thank you.

15 JUDGE THOMPSON: Thank you, Commissioner.

16 QUESTIONS BY JUDGE THOMPSON:

17 Q. Ms. Hanneken, what has been the standard rate
18 case treatment of property taxes on plant added to UPIS in a
19 true-up? Is it the treatment Staff proposes here?

20 A. Yes. Typically we have always advocated for
21 the last known and measurable amount either paid or billed
22 to the company. For example, in the testimony I cite, for
23 example, the last --

24 Q. I see you cited some past cases in your
25 testimony.

1 A. Yes.

2 Q. And are you aware if the Commission has ever
3 done what the company is proposing here?

4 A. Not to my knowledge, no.

5 JUDGE THOMPSON: Okay. That's all the
6 questions I have for you. Thank you.

7 Ms. O'Neill?

8 MS. O'NEILL: No questions on this issue.

9 JUDGE THOMPSON: Mr. Cooper?

10 MR. COOPER: Yes, your Honor.

11 CROSS-EXAMINATION BY MR. COOPER:

12 Q. Ms. Hanneken, you went through -- or you
13 pointed out in response to questions from Commissioner
14 Murray that Mr. Grubb's schedule doesn't include any
15 surcharge amount. Correct?

16 A. Correct.

17 Q. Is the Staff proposing a surcharge in this
18 case?

19 A. No. I'm simply pointing out that in order to
20 see the true picture on this schedule, you would need to
21 include the surcharge.

22 Q. But isn't Mr. Grubb's schedule a comparison of
23 the methodology proposed by the company and proposed by the
24 Staff in this case?

25 A. That is my understanding.

1 Q. And there is no surcharge being proposed by
2 the Staff in this case. Correct?

3 A. No. Not that I'm aware of.

4 Q. And the surcharge that was implemented as a
5 result of I believe WR-2000-281, was that Staff's proposal?

6 A. I was not present for that case so I do not
7 know.

8 Q. Okay. So you don't know whether that was
9 Staff's proposal or not in 2000-281?

10 A. No, I do not.

11 Q. The property taxes to be paid by MAWC in
12 December of 2004, this year, won't equal the amount of
13 property tax you propose to include in the revenue
14 requirement, will they?

15 A. I do not know the amount that will be paid
16 because it's not yet been determined.

17 Q. Do you think those property taxes -- actual
18 property taxes will, in fact, be greater than the amount you
19 propose to include in revenue requirement?

20 MR. SCHWARZ: Objection, calls for
21 speculation.

22 JUDGE THOMPSON: Objection is sustained.

23 BY MR. COOPER:

24 Q. Ms. Hanneken, let's look at Mr. Grubb's
25 Schedule EJG-5. Do you have that?

1 A. Yes.

2 Q. On there the actual property tax amounts are
3 identified for the years 1997 to the year 2002. Correct?

4 A. Yes, they are.

5 Q. Now, you see on there, don't you, that those
6 actual property tax amounts increase each year from 1997 to
7 2002, don't you?

8 A. It appears they have done so in the past, yes.

9 Q. Okay. What about that would lead you to
10 believe that property tax to be paid in December of 2004
11 would be less than what was paid in December of 2003?

12 A. I don't think I said that it would be less. I
13 said I did not know if it would be more or less. I don't
14 think anyone can say exactly how much it would be.

15 Q. But you think there's a possibility it will be
16 less than what was paid in December of 2003?

17 A. I don't know.

18 Q. And the past history doesn't influence you at
19 all in that regard?

20 A. I mean, their plant can fluctuate up or down.
21 You know, I don't know what the current status of their
22 plant is, the utility plant in service, I don't know what
23 the tax rates will be, I don't know what the amounts will
24 be. There's just too many variables to speculate whether it
25 will go up or down.

1 Q. I think the first thing you grabbed onto was
2 the fact that you didn't know what their utility plant in
3 service would do. Again, looking at Mr. Grubb's schedule,
4 would you agree with me that utility plant has increased
5 each year from 1997 to 2002?

6 A. Yes.

7 Q. Would you agree with me that the utility plant
8 as of the true-up in this case is greater than 846 million
9 that was listed for the year 2002?

10 A. I do not know. I just received that
11 information last week from the company and have not had time
12 to look at it.

13 Q. I'm going to ask you to assume with me for a
14 minute that -- well, let me back up.

15 The Court of Appeals stated in -- and I can
16 give you a case -- give the Court a case here. It's State
17 ex rel Missouri Power and Light Company, which is 669 S.W.
18 2d, 941, the Western District Court of Appeals case from
19 1984.

20 MR. SCHWARZ: Could you give me the cite
21 again? I'm sorry.

22 MR. COOPER: Sure. 669 S.W. 2d, 941, it's a
23 Western District Court of Appeals case from 1984.

24 BY MR. COOPER:

25 Q. And in that case the court stated, The test

1 year is a period passed but is employed as a vehicle upon
2 which to project experience in a future period when the
3 rates to be determined in the case will be in effect.

4 Now, I want you to assume with me for a minute
5 that that's the definition of test year, that it's used as a
6 vehicle upon which to project experience in a future period.
7 Okay? Can we do that?

8 A. Okay.

9 Q. Do you believe that the use of the actual
10 property taxes paid in December of 2003 which were based on
11 utility plant that was in place as of the end of 2002 will
12 be an accurate projection of the company's property tax to
13 be paid this year?

14 A. It is the most known and measurable number
15 that we have. I don't know whether or not it will be an
16 exact number, but it's the closest known and measurable
17 number that we have.

18 Q. Let's work with that for a minute then. You
19 say it's the most -- your proposal is the most known and
20 measurable. Correct? And I think in response to
21 Commissioner Murray's questions you pointed us to page 19 of
22 your Surrebuttal Testimony where you have the definition of
23 known and measurable. Correct?

24 A. Correct.

25 Q. Okay. And step one was known, meaning that

1 the amount did or definitely will be an actually incurred
2 cost. And you'd agree with me, wouldn't you, that property
3 taxes will be paid at the end of 2004 by the company.

4 Correct?

5 A. They should be by the company. I assume they
6 will be paid by the company. It doesn't necessarily mean
7 they will be paid.

8 Q. They would have a problem if they didn't pay
9 those?

10 A. Correct.

11 Q. So we would say that property taxes are known.
12 Correct?

13 A. Known to occur, yes.

14 Q. Okay. So then we move to step two, which is
15 how do we measure those. Correct?

16 A. Correct.

17 Q. Okay. Which in your definition says that the
18 rate impact can be calculated with a high degree of
19 accuracy. Correct?

20 A. Correct.

21 Q. And you told me a moment ago that you believe
22 that the Staff's methodology is a better measure of property
23 taxes to be incurred or is more accurate or is the most
24 accurate? Which one was it? I'll let you tell me.

25 A. Can you rephrase the question?

1 Q. Yeah. I think a few moments ago you told me
2 that the Staff's method was known and measurable. Correct?

3 A. Uh-huh.

4 Q. And as a part of that, your definition of
5 measurable is that it can be calculated with a high degree
6 of accuracy. Correct?

7 A. Correct.

8 Q. If we go back to EJG-5 Mr. Grubb's schedule,
9 which compares the two methodologies, Staff's proposal in
10 this case to the company's proposal for the calculation of
11 property taxes --

12 A. Yes.

13 Q. -- looking at those numbers, do you really
14 believe that the Staff's proposal is a more accurate
15 approximation of property tax than the company's proposal?

16 A. I believe that it is the best method. I
17 believe that it is an accurate picture of what is known and
18 measurable. I believe that the company's method assumes a
19 lot of the variables and is somewhat speculative on their
20 part of what the taxes will be.

21 In fact, I think the Commission stated this in
22 their Report and Order from the last -- the company's last
23 case where this is an issue, that they too felt that while
24 the Staff's method was not perfect, it was the most accurate
25 method to use avoiding the speculation inherent in the

1 company's method.

2 Q. And that's in spite of the fact that the
3 evidence would show that the company's proposal is several
4 times closer to the mark than the Staff's proposal.

5 Correct?

6 A. Yes. Again, what the company does assumes a
7 lot of variables that can and probably will change.

8 Q. But, on the other hand, the Staff's method
9 assumes nothing. Correct? It does not try to determine a
10 reasonable approximation of property tax, does it?

11 A. It takes the last known and measurable amount.

12 Q. It merely -- yeah, it merely takes the last
13 amount paid by the company based upon a plant number that's
14 no longer the correct plant number and uses that instead of
15 attempting to approximate what the property tax would be.

16 Correct?

17 A. In order to avoid speculation, yes.

18 Q. In spite of the fact that there is apparently
19 a method available that even though it would be speculation,
20 would get very close to the mark in terms of actual property
21 taxes paid. Correct?

22 A. Like I said, we used the last known and
23 measurable amount. And we feel that to assume all the
24 variables involved through the taxing authority, taxing
25 rates, taxing assessments, the different statutes that are

1 involved and the company's plant in service itself, it's
2 just too many variables.

3 Q. But an examination of the company's method
4 would lead you to believe that in spite of all those
5 variables, you can get very close to the actual property tax
6 amount to be paid or much closer than the method utilized by
7 Staff. Correct?

8 A. It has been Staff's position that we always
9 use the last known and measurable amount. And to do
10 otherwise would be an assumption on our part that may or may
11 not pan out.

12 MR. COOPER: I'll leave it alone. That's all
13 the questions I have, your Honor.

14 JUDGE THOMPSON: Thank you, Mr. Cooper.

15 Mr. Schwarz, do you expect to be long?

16 MR. SCHWARZ: Perhaps as much as 15 or 20
17 minutes.

18 JUDGE THOMPSON: In that case, why don't we
19 interrupt this for the lunch break at this time. It's 20
20 minutes after 12:00. We'll come back at 1:30.

21 Let's talk about what we're going to do after
22 we finish with the examination of Ms. Hanneken. AFUDC, the
23 witnesses are Grubb, Hanneken and Bolin. They've all been
24 here today. Who are the attorneys on these issues?
25 Mr. Schwarz.

1 MR. COOPER: Mr. England.

2 JUDGE THOMPSON: So we're wondering whether
3 Mr. England can be lured down here. Is that --

4 MR. COOPER: Yeah. I think, your Honor, at
5 least from my perspective, I understand we need to figure
6 out where we're going, but I think we're going to need the
7 lunch break to confer with the company and the other
8 parties.

9 JUDGE THOMPSON: After that is Jefferson City
10 fire suppression. Is someone going to get ahold of
11 Mr. Comley?

12 MR. COOPER: We can do that.

13 JUDGE THOMPSON: And let's find out if we can
14 get Rennick and Horn in here. Mr. Kartmann is present. And
15 then security AAO, who are attorneys on that? Mr. Schwarz.
16 Ms. O'Neill, you're the attorney on everything for OPC,
17 aren't you?

18 MS. O'NEILL: Except for rate design, which
19 for some reason you're not going to have to take testimony
20 on. But that's a good thing.

21 JUDGE THOMPSON: You don't need to keep
22 raising your hand. Who's the company attorney?

23 MR. COOPER: I am, your Honor.

24 JUDGE THOMPSON: So you're going to be ready
25 to go. Right? Cool.

1 MR. COOPER: We'll see.

2 JUDGE THOMPSON: We can do that even if
3 Mr. England and Mr. Comley can't be found; is that right?

4 MR. COOPER: I don't know that that's the
5 case, your Honor.

6 JUDGE THOMPSON: Well, I'm determined to hear
7 testimony until around five o'clock today, so you guys get
8 your heads together and find some. Thank you. We are in
9 recess.

10 (A recess was taken.)

11 JUDGE THOMPSON: We're ready for redirect of
12 Ms. Hanneken on property tax. Mr. Schwarz?

13 REDIRECT EXAMINATION BY MR. SCHWARZ:

14 Q. Afternoon. I'd like to ask you something
15 about measurable changes. If the Postal Commission
16 announces that postage is going to go up by a penny
17 effective May 1st, would that be a known and measurable
18 change?

19 A. Yes, it would.

20 Q. If the company had a union contract which said
21 that union wagherates will increase to a given level on the
22 1st of August, would that be a known and measurable change?

23 A. Yes, it would.

24 Q. If the company had an insurance contract and
25 there was a specified increase of premium as of a date

1 certain, would that be a known and measurable change?
2 A. Yes, it would.
3 Q. Okay. What's the test year in this case?
4 A. It's the calendar year 2002.
5 Q. And did Staff propose the test year level of
6 expenses for property tax in this case?
7 A. No, they did not.
8 Q. So as far as test year expenses, Staff has,
9 with property taxes, gone beyond the test year in this case;
10 is that correct?
11 A. Correct. The expenses for the test year would
12 have been occurred in December of 2002. We are proposing to
13 take the actual expenses from December 2003.
14 Q. Okay. Is Missouri-American with respect to
15 its St. Louis County operations currently recovering
16 property tax expense in its ISRS?
17 A. Yes, it is.
18 Q. And is it possible that it will have
19 additional property tax expenses recovered under an ISRS in
20 2004?
21 A. Yes.
22 Q. And, again, in 2005 the company may have an
23 ISRS for additional property tax collections specifically
24 attributable to new plant. Correct?
25 A. Yes.

1 Q. So with respect to Mr. Grubb's schedule, any
2 increases in property taxes at least with respect to the
3 St. Louis County operations may, in fact, be recovered to a
4 significant degree through an ISRS surcharge; is that
5 correct?

6 A. Yes.

7 Q. Commissioner Murray asked you about
8 Mr. Grubb's schedule and noted that property taxes increased
9 every year; is that correct?

10 A. Yes.

11 Q. Would you agree that not only plant but a
12 number of other items may increase in 2004?

13 A. Yes.

14 Q. To your knowledge, has the Staff or the
15 company sought to include 2004 plant in the cost of service
16 in this case?

17 A. No.

18 Q. You had pointed out that Mr. Grubb didn't
19 include the St. Joe property tax surcharge. Do you remember
20 that --

21 A. Yes.

22 Q. -- line of questions?

23 Is it true that no one is proposing a
24 surcharge in this case?

25 A. That is correct.

1 Q. And would that be because the St. Joseph plant
2 is now reflected as far as property tax is concerned in the
3 amounts that Staff is proposing?

4 A. Yes.

5 MR. SCHWARZ: I think that's all I have.

6 JUDGE THOMPSON: Thank you, Mr. Schwarz. You
7 may step down, Ms. Hanneken.

8 So our next witness will be Mr. Grubb, is that
9 correct, on the AFUDC?

10 MR. COOPER: It will be, your Honor. And I
11 need to get Mr. England here for the company.

12 JUDGE THOMPSON: Okay. Why don't you see what
13 you can do in that direction. Mr. Grubb, come on up.

14 Mr. England.

15 MR. ENGLAND: Thank you, your Honor.

16 JUDGE THOMPSON: That's quite all right.

17 Mr. Grubb, I'll remind you you're still under
18 oath.

19 THE WITNESS: Yes, sir.

20 EDWARD GRUBB testified as follows:

21 JUDGE THOMPSON: Perhaps while Mr. England is
22 getting ready, you could just remind me what your testimony
23 on the AFUDC was, a summary?

24 THE WITNESS: Brief summary is, is that the
25 company is in disagreement with the Staff's proposal to

1 change the methodology for calculating AFUDC even though we
2 have submitted a counterproposal within my Rebuttal
3 Testimony if the Commission so chooses to change.

4 And the main reason for the company's
5 disagreement is that it would result in a \$481,000 asset
6 write-off if the Commission should adopt the change on a
7 retroactive basis.

8 JUDGE THOMPSON: Thank you, Mr. Grubb.
9 Mr. England.

10 DIRECT EXAMINATION BY MR. ENGLAND:

11 Q. Thank you, Mr. Grubb. And I think Mr. Grubb's
12 Direct, Rebuttal, Surrebuttal Testimony have been marked,
13 offered and received. And do you have any corrections to
14 that testimony at least insofar as it relates to this issue?

15 A. I do not.

16 MR. ENGLAND: Then I would tender him for
17 cross-examination

18 JUDGE THOMPSON: Thank you, Mr. England.
19 Commissioner Murray?

20 COMMISSIONER MURRAY: Thank you.

21 QUESTIONS BY COMMISSIONER MURRAY:

22 Q. Good afternoon, again, Mr. Grubb.

23 A. Good afternoon.

24 Q. I just want to make sure I'm understanding
25 what the different parties are saying here. Is Staff saying

1 that, first of all, all of the short-term debt should be
2 considered in the calculation of AFUDC?

3 A. That's correct. And if CWIP exceeds that,
4 then they would use the overall cost of capital.

5 Q. They would use I thought the rate of return
6 from the last rate case; is that --

7 A. Correct.

8 Q. Okay. Whereas, the company is saying that
9 first the short-term debt level should be reduced by the
10 cash working capital?

11 A. That's correct.

12 Q. And then to the extent that there is -- cash
13 working capital is not the entire amount, then short-term
14 debt rates should be used; is that right?

15 A. That's correct.

16 Q. And I believe you say, and it appears that way
17 to me from reading Staff's testimony, that Staff is saying
18 that the Commission adjust the method of calculation
19 retroactively. Is that your position that Staff is taking?

20 A. Well, I think Staff has used the Commission's
21 decision in the last Missouri-American rate case as a basis
22 for their adjustment in this case.

23 Q. And in that case was that adjustment only made
24 to one item, one isolated --

25 A. Yes. When we went about continuing to do our

1 AFUDC calculation on our company's books since that last
2 rate case, the company used a sentence from the Commission's
3 order that was on page 47. And the sentence read, The AFUDC
4 at issue here is pre-in-service AFUDC related to the new
5 St. Joseph treatment plant.

6 So based upon the Commission's order, we
7 believe that the adjustment for AFUDC was specific to the
8 St. Joe treatment plant project and not considered to be an
9 ongoing method for calculating AFUDC.

10 Q. All right. And how has AFUDC been treated in
11 the past other than in the case related to the new
12 St. Joseph treatment plant?

13 A. The company would calculate the allowance for
14 funds used during construction based on the last allowed
15 rate of return authorized by the Commission.

16 Q. What about short-term debt?

17 A. To the extent there was some short-term debt
18 in the capital structure authorized, then that would have
19 been included as part of that calculation.

20 Q. How does that differ from what you're
21 suggesting here?

22 A. What Staff is suggesting -- proposing and
23 we're sort of proposing in a modified approach --

24 Q. No. I'm sorry. Your original proposal.

25 A. Our original proposal?

1 Q. Here.

2 A. The original proposal the company would like
3 to maintain is the original methodology of booking AFUDC
4 based upon the authorized rate of return.

5 Q. So you're not suggesting -- your first
6 proposal is no change in the methodology?

7 A. No change.

8 Q. All right. And I'm sorry. Go ahead with your
9 alternate --

10 A. If the Commission would make a change or felt
11 a change was necessary, first of all, we should be on a
12 prospective basis and not force the company to write off any
13 assets as a result of the AFUDC calculated during the test
14 year.

15 And the future change for the AFUDC rate would
16 be, one, reduce the short-term debt amount by the level of
17 working capital since working capital is normally funded by
18 short-term debt. And to the extent that short-term debt
19 exceeds working capital from the last allowed rate case, to
20 apply that to the AFUDC or apply that to the CWIP. And if
21 CWIP should exceed that level, then use the weighted cost of
22 common equity because any new infusion of capital into the
23 business after short-term debt would be internally generated
24 funds, which is common equity.

25 Q. And that is the method that I asked you about

1 first?

2 A. Yes.

3 Q. And in terms of applying this retroactively,
4 how would the Commission have the authority to do that?

5 A. I guess if they apply it retroactively, they
6 would do it through an issuance of an order similar to what
7 was done in the last rate case.

8 Q. And I take no ownership in the last rate case
9 since I dissented from it, but can you tell me, was the
10 AFUDC portion -- was that applied retroactively in the last
11 rate case?

12 A. Possibly some of the AFUDC was recorded on the
13 asset. And after the asset went into service, the
14 Commission's order disallowed approximately 1.2 or 1.3
15 million dollars and the company had to go back and reverse
16 that AFUDC and write the asset related to that part of the
17 treatment plant off.

18 Q. Okay. So it was a similar retroactive
19 treatment to what Staff is proposing here?

20 A. Yes.

21 COMMISSIONER MURRAY: I don't think I have
22 anything else for you on this issue. Thank you.

23 THE WITNESS: You're welcome.

24 QUESTIONS BY JUDGE THOMPSON:

25 Q. This is a rate base issue, Mr. Grubb?

1 A. Yes, it is, Judge.

2 Q. Okay. And what is the amount that the company
3 wants in rate base to represent AFUDC?

4 A. \$481,699.

5 Q. And what does Staff want in rate base?

6 A. Zero.

7 Q. Zero. Okay. And the company proposes to put
8 this amount in rate base and then it would earn a return on
9 it at the overall rate of return. Correct?

10 A. That's correct.

11 Q. And Staff is proposing nothing in rate base
12 and no return?

13 A. That's why it's basically an asset write-off.
14 We'd have to do an entry and write those assets off.

15 Q. In the last case, talking about \$35 million in
16 short-term debt, the Commission simply stated that the
17 actual carrying costs should be reflected in rates?

18 A. That's correct.

19 Q. Okay. Does that mean there is no short-term
20 debt now?

21 A. There is, but it's significantly less today
22 than it was during the construction of the St. Joe treatment
23 plant.

24 Q. How much short-term debt is there now?

25 A. At the end of the true-up period there was

1 zero.

2 Q. I see.

3 A. I know that. But during the test year there
4 was -- I'm trying to remember the amount -- anywhere from a
5 couple million up to 8 or 9 million dollars during the
6 course of the test year.

7 Q. So it varied?

8 A. It varies, yes.

9 Q. And as of the last day of the test year, it
10 was zero?

11 A. The last day of the true-up period, November.

12 Q. What was it at the end of the test year?

13 A. Judge, I don't have that number. I'm sorry.

14 JUDGE THOMPSON: Okay. I have no further
15 questions.

16 Ms. O'Neill?

17 CROSS-EXAMINATION BY MS. O'NEILL:

18 Q. Mr. Grubb, going back to an earlier issue in
19 this hearing, one of the issues in this case earlier on and
20 which the Commission's going to decide is whether or not
21 short-term debt should be considered part of the capital
22 structure of Missouri-American Water; is that correct?

23 A. I believe that was the positions of some of
24 the witnesses, yes.

25 Q. And is it your understanding of your company's

1 position that your company does not believe short-term debt
2 should be included in the capital structure?

3 A. In this case there was no and there is no
4 short-term debt, so -- as of the end of the true-up period,
5 so there would not be any.

6 Q. And could you explain your understanding of
7 Staff's recommendation regarding how short-term debt relates
8 to AFUDC?

9 A. Short-term debt is a -- the company uses
10 short-term debt on a -- on a basis to fund construction.
11 And then from time to time that short-term debt is converted
12 to permanent capital either long-term debt, preferred stock
13 or common equity.

14 Q. Okay. Now, AFUDC is an allowance your company
15 is given for funds used during construction. That's what
16 the acronym means?

17 A. Yes.

18 Q. So you've testified regarding what you're
19 considering this proposal to be a retroactive effect of the
20 Staff's proposal that Ms. Bolin has also briefly addressed
21 in her testimony. Is that your testimony?

22 A. It's a change in policy. And I believe any
23 time there's a change in policy, you must go prospective,
24 going forward in time and not going back in time.

25 Q. But nobody's asking the company to refund any

1 money that it's obtained from customers regarding AFUDC
2 capitalization in the past? No refunds are being requested
3 by anyone in this case; is that correct?

4 A. I don't understand why they would.

5 Q. And they're not, are they?

6 A. No. There wouldn't be any.

7 Q. Okay.

8 A. What the Staff is proposing is to write off
9 almost \$500,000 of an asset that is on the books of the
10 company.

11 Q. So when you are using the term "retroactive"
12 in your testimony, you are not talking about refunding rates
13 already paid to the company? You're talking about the
14 possibility that there may be, as a result of this decision,
15 some write-off of some amount of money?

16 A. That's correct.

17 Q. Because rates are set on a going-forward
18 basis, they don't look backwards here in Missouri?

19 A. That's correct.

20 Q. Okay. Now, you do acknowledge that the
21 Commission did adjust the AFUDC in the last
22 Missouri-American case, the 2000-281 case, to reflect
23 carrying costs of short-term debt; is that right?

24 A. Associated with the St. Joe treatment plant,
25 yes.

1 Q. And in that case the St. Joe treatment plant
2 was the most significant construction that was addressed by
3 the Commission as far as plant in service?

4 A. Well, there was quite a bit of other plant in
5 service in that case. I believe some of the other districts
6 had some amounts of plant placed in service for that rate
7 case.

8 Q. There was some amount placed, but the St. Joe
9 treatment plant was the primary part of plant that was
10 discussed in that case. Would you agree?

11 A. Yes, I would.

12 Q. And the proposal that Staff is making is
13 consistent with that order in 2000-281, isn't it?

14 A. My opinion is no. When the Commission issued
15 that order, they identified their adjustment on one project.
16 Staff now is a change from that order stating that it's on
17 all projects.

18 Q. So what Staff is proposing is to make the
19 adjustment from the 2000-281 case consistent throughout the
20 company instead of just on the one individual project; is
21 that true?

22 A. That -- that's a true statement, yes.

23 Q. So this isn't a completely new proposal, this
24 is just an expansion of an existing procedure the
25 Commission's already approved?

1 A. Well, for Missouri-American it is a -- an
2 additional type of adjustment because it's looking at
3 everything. What's interesting -- and I don't understand,
4 maybe we should have asked a data request of the Staff --
5 why they didn't propose it in the St. Louis County case
6 which came after the last Missouri-American case. So it's a
7 little -- little intriguing why it was done on
8 Missouri-American and not St. Louis County.

9 Q. Okay. So --

10 A. I thought they were just being inconsistent in
11 their recommendation.

12 Q. You would agree, however, that it is the
13 Commission's obligation to look at all relevant factors in a
14 rate case to determine what the appropriate rates should be
15 going forward? You'd agree with that?

16 A. I agree with that.

17 Q. And isn't it also true that as a part of the
18 process -- the rate-setting process, the Commission reviews
19 evidence -- both proposals by the company regarding rate
20 base and revenue requirement as well as evidence from other
21 parties that disagree with some of those proposals or make
22 adjustments to some of those proposals?

23 A. I would agree, yes.

24 Q. In fact, we've been here for weeks. Right?

25 A. Longer than I think I care to remember.

1 Q. And is it also your understanding of the
2 process that resulting orders in rate cases sometimes
3 include adjustments to what the company would want and
4 sometimes those adjustments even include some sort of
5 write-off?

6 A. I believe from time to time those things do
7 occur in the regulatory environment, yes.

8 Q. And the fact that the Commission issues an
9 order in which it doesn't adopt all of a company's proposals
10 doesn't necessarily mean the Commission has any intent to
11 gouge the company; is that true?

12 A. Well, the term "gouge" I guess is depending on
13 how you feel after an order is issued.

14 Q. "Gouge" is the word you used in your Rebuttal
15 Testimony, however?

16 A. I used it in reference to what I thought the
17 Staff was attempting to do again.

18 Q. You used the word, so evidently under your
19 definition of gouge --

20 A. It hurt. It hurt and it's still hurting now,
21 yes.

22 Q. Okay.

23 A. We don't like to have asset write-offs.

24 Q. Okay. But by the same token, you may not like
25 them, but the fact that the Commission accepts a position

1 other than the one the company proposes doesn't mean that
2 they're doing it because they want to punish a company. It
3 just may be based on all the evidence, that's the most
4 appropriate decision; isn't that correct?

5 A. I would hope the Commission makes the right
6 decisions.

7 Q. And sometimes those decisions you may not like
8 them, but may -- in reviewing all the evidence, may not be
9 exactly what the company wants?

10 A. That has happened from time to time, yes.

11 Q. And that doesn't necessarily mean the
12 Commission thinks it's a bad company that needs to be
13 punished?

14 A. I -- I don't know. I don't know what goes
15 behind -- the decision-making process.

16 MS. O'NEILL: I don't have any further
17 questions.

18 JUDGE THOMPSON: Thank you, Ms. O'Neill.

19 FURTHER QUESTIONS BY JUDGE THOMPSON:

20 Q. I'm afraid I'm going to have to ask some more
21 questions on this issue. I realize this is going to delay
22 the parade, but Mr. Grubb, AFUDC, allowance for funds used
23 during construction. Correct?

24 A. Correct.

25 Q. And you're telling me Staff wants to write off

1 roughly a half-million dollar asset?

2 A. They -- they have recommended through their
3 accounting adjustment the reduction of utility plant in
4 service related to their AFUDC adjustment. So as a result
5 of that, if the company does not receive a return of and
6 return on the asset, we are required to write that asset off
7 the books.

8 Q. Okay. So what exactly is that asset?

9 A. It's the -- it's the cost associated with the
10 construction of assets during the test year.

11 Q. So, in other words, it's what you paid to
12 borrow the money to build the assets?

13 A. That's correct.

14 Q. Okay. Okay. Step one. So why wouldn't we
15 just give you that interest expense as an expense? I mean,
16 in other words, if you borrow money, right, to build an
17 asset, you're going to make payments on that loan. Right?
18 Just like I occasionally make payments on my loans.

19 A. That's correct.

20 Q. And you're going to pay back the principal and
21 pay interest on it too; isn't that right?

22 A. Well, I think the difference is it's not after
23 the asset is built. It's during the construction. If you
24 had a construction loan --

25 Q. Yeah.

1 A. -- okay, and you were incurring interest
2 expense, part of the cost of building that home would be the
3 interest that you're paying to the bank during the
4 construction of the house.

5 Q. Just the interest?

6 A. Just the interest.

7 Q. And that's what the AFUDC represents, just the
8 interest?

9 A. Well, it's -- it's the capital carrying
10 charges. In our case during the test year we were using the
11 last allowed rate of return, which is interest and equity
12 portion or an equity piece of that rate of return component.

13 Q. So why is it capitalized rather than expensed?

14 A. It's generally accepted accounting principles
15 that you match the cost of the asset to construct the asset.
16 It's a cost of building the asset when you have those funds.
17 That's why they refer to it as allowance for funds used
18 during construction.

19 Q. Okay. I know all the accountants in the room
20 are snickering at me, but -- so it's an asset that
21 represents the price you pay for the use of the money to
22 build plant?

23 A. That's correct.

24 Q. Okay. Would I be correct in understanding
25 essentially the investors have fronted this money, have

1 incurred this expense and that's why they're getting a
2 return of it on?

3 A. The investors have supplied the capital and
4 there's a cost of that capital during the construction of
5 the asset.

6 Q. So part of that might be interest, part of
7 it -- does it reflect the fact it's not being used somewhere
8 else, lost opportunity cost?

9 A. Well, it would be the cost of capital that --
10 that -- those funds, whether it's interest or whether it's
11 an equity portion.

12 Q. So I guess what I'm trying to understand is,
13 was there no construction? I mean, Staff's taking the
14 position that this should be set to zero. Company's taking
15 the position this should be almost half a million dollars.
16 That's a significant disparity.

17 A. Well, I think it's really what they've done is
18 they've -- during the year -- I'm going to throw a number
19 out. A million five -- we have a million five in AFUDC that
20 we calculated and we recorded as costs of constructing
21 assets.

22 Staff went back and redid the calculation
23 using their methodology and said it's a million -- or the
24 number should be a million. So you have a difference of
25 \$500,000. In this case, it's 481 that I gave you earlier.

1 Q. So that's the difference?

2 A. That's the difference. It's a difference. So
3 what they have done, they've reduced our utility plant in
4 service by the 481,699. And that's why I said our number is
5 481,699 and theirs is 0.

6 JUDGE THOMPSON: All right. I don't know if
7 that's advanced my understanding much, but I'll stop there.
8 Ms. O'Neill do you have any additional recross?

9 MS. O'NEILL: Yes.

10 FURTHER CROSS-EXAMINATION BY MS. O'NEILL:

11 Q. Mr. Grubb, the 481,000 whatever, that's the
12 rate base addition that you're seeking, you want for AFUDC.
13 That's not the -- that goes into rate base?

14 A. It's a -- it's a cost of constructing an asset
15 which gets transferred to utility plant in service.

16 Q. Okay. As far as revenue requirement, the
17 difference between you and Staff is significantly less than
18 that?

19 A. Yes. It's, you know, return of and return on,
20 which would be 55,383.

21 Q. Okay. And that reflects -- never mind.

22 MS. O'NEILL: I don't have any further
23 questions.

24 JUDGE THOMPSON: Thank you.

25 Mr. Schwarz?

1 CROSS-EXAMINATION BY MR. SCHWARZ:

2 Q. Mr. Grubb, Staff is not eliminating all of the
3 AFUDC from rate base in this case, is it?

4 A. No. It's simply -- they're eliminating the
5 difference between their methodology and what the company
6 has previously used for calculating its AFUDC. It's a net
7 difference between the two methodologies.

8 Q. In the last MAWC case, isn't it true that what
9 the parties referred to as the AFUDC adjustment for the
10 St. Joseph treatment plant actually included all of the
11 other construction of MAWC; that is, the St. Joe plant was
12 simply a shorthand for all of the company's construction
13 projects; isn't that true?

14 A. I'm not sure what you mean "shorthand." I
15 don't understand. I mean, we calculated AFUDC by what we
16 refer to as a work order. And there was multiple work
17 orders on the St. Joe treatment plant. And reading the
18 Commission's order, it was those work orders that the
19 company believed that the write-off existed or was applied
20 to.

21 Q. But my question is, did the amount that both
22 the company and the Staff used in the last MAWC case and
23 referred to as the St. Joe treatment plant adjustment in
24 fact reflected all of the construction projects of the
25 company; isn't that correct?

1 A. I don't know that.

2 Q. You don't know?

3 A. I was not part of that case.

4 Q. That's fine. I don't know is a good answer.

5 MR. SCHWARZ: I'd like to have an exhibit

6 marked, if I might.

7 JUDGE THOMPSON: Absolutely.

8 MR. SCHWARZ: This is 131?

9 JUDGE THOMPSON: I think so. This is 131. I

10 had to add a couple pages to my list of exhibits.

11 (Exhibit No. 131 was marked for

12 identification.)

13 BY MR. SCHWARZ:

14 Q. I'd ask you to read what has now been marked

15 as Exhibit 131.

16 A. Read the whole question and response?

17 Q. No, no. Just --

18 A. Just read through it?

19 Q. Read the --

20 A. Okay.

21 Q. Do you know who Jennifer Madsen is?

22 A. Yes. She's one of my employees.

23 Q. And I suggest to you that this is St. Louis

24 County Water DR response to Staff from Case WR-2000-844.

25 Does this look like company DR response?

1 A. Yes, it is.

2 Q. And this indicates that St. Louis County Water
3 had not had any short-term interest during the period of the
4 last -- its last rate case; is that correct?

5 A. Well, during my preparation for this issue, I
6 asked someone to go back and look at the balance of the
7 short-term debt on the books of the company. And during the
8 first six months of the year of 1999 the company has a
9 short-term debt balance on its books.

10 Q. Well --

11 A. So I -- you know, that's why I responded the
12 way I did earlier.

13 Q. But this is the information that the company
14 provided to the Staff at the time it would have been
15 relevant to make an inquiry. Is that not correct?

16 A. I don't know. I was not part of that rate
17 case, Mr. Schwarz.

18 Q. But you have identified it as a rate case
19 response from St. Louis County Water to the Staff; is that
20 correct?

21 A. It is, yes.

22 Q. Okay. If the company had no short-term debt
23 or at least the company had represented to Staff that it had
24 no short-term debt, might that be a reason why Staff didn't
25 include short-term debt as part of AFUDC?

1 A. I also have to believe that Staff was given
2 monthly financial statements.

3 Q. I'm entitled to a yes or no answer, sir.

4 A. What was the question again?

5 Q. The question was, if the company had
6 represented to Staff that it had no short-term debt, might
7 that be an explanation for Staff not making short-term debt
8 part of AFUDC in that case?

9 A. If someone read this, yes, they could -- they
10 could read that, yes.

11 Q. Thank you.

12 The accounting treatment that the company used
13 to book the amount in dispute here, that was not done
14 pursuant to a request of the Staff, was it?

15 A. The amount that was booked during the test
16 year?

17 Q. Yeah.

18 A. I don't know the answer to that. I -- I
19 mean --

20 Q. I'll inquire -- if you don't know, that's
21 fine.

22 Did the Staff send a memorandum or letter to
23 the company?

24 A. I don't recall ever getting anything from the
25 Staff to book the AFUDC the way the company booked it during

1 the test year.

2 Q. Thank you.

3 And similarly you don't have such a directive
4 from the Commission either, do you?

5 A. There may have been a directive some years ago
6 on using the authorized rate of return. And then subsequent
7 to the Missouri-American case and as part of the acquisition
8 with -- and merger of St. Louis County, the company began
9 using the actual capital structure each month along with the
10 authorized return on equity to calculate the AFUDC.

11 Q. The question is, you don't have a direct order
12 from the Commission saying, This is how you will book AFUDC
13 in the year 2002?

14 A. I'd have to go back through time, but I don't
15 have anything specific.

16 Q. So it's bas-- the company's election how to
17 book those amounts; is that correct?

18 A. It was based upon prior booking of AFUDC. And
19 those booking of AFUDCs through the years was reviewed by
20 Commissions and Staff.

21 Q. But it is true that at least for what has been
22 identified as the St. Joe treatment plant issue in the last
23 MAWC case, that the short-term debt was used; is that
24 correct?

25 A. I believe that's correct.

1 Q. Are you aware of an MGE rate case in which MGE
2 had booked carrying costs in excess of 10 percent pursuant
3 to a Commission order and then recovered only at a rate of
4 about 6 percent, which was their AFUDC?

5 A. I'm not aware of that.

6 MR. SCHWARZ: I would offer Exhibit 131.

7 JUDGE THOMPSON: Do I hear any objections to
8 the receipt of Exhibit 131?

9 MR. ENGLAND: I don't believe I've got an
10 objection, but just to clarify, is Mr. David Murray listed
11 on this data request the same David Murray that was a
12 witness in this case?

13 MR. SCHWARZ: Yes, it is.

14 MR. ENGLAND: Thank you. No objection.

15 JUDGE THOMPSON: Exhibit 131 is received and
16 made a part of the record of this proceeding.

17 (Exhibit No. 131 was received into evidence.)

18 JUDGE THOMPSON: Mr. England --

19 MR. ENGLAND: Thank you.

20 JUDGE THOMPSON: -- redirect?

21 REDIRECT EXAMINATION BY MR. ENGLAND:

22 Q. Mr. Grubb, let's work our way backwards
23 through the cross-examination and then perhaps to questions
24 from the Bench or jumping around, whatever comes to mind.

25 A. Okay.

1 Q. With respect to Data Request 3803, Exhibit
2 131, I'm not sure you were able to complete an answer that I
3 believe you were trying to give to Mr. Schwarz about that.
4 Was there something else that you wanted to qualify with
5 regard to your answer?

6 A. Well, basically, Mr. England, in preparing for
7 this -- this hearing, I did not review obviously this --
8 this response. What I did do is I asked a Staff person to
9 go back and give me a report of the actual short-term debt
10 monthly balances for St. Louis County during the test year
11 1999.

12 And I tried to continue by stating that I know
13 the Staff does an exhaustive audit during the course of the
14 rate case. In this case we'd given them financial data by
15 month that I have to believe would have shown the balances
16 of the short-term debt on the financial statements. I'm not
17 going to address this here and make any assumptions because
18 that wouldn't be fair to anybody.

19 Q. Okay.

20 A. So that's all I can say right now.

21 Q. Generally speaking -- let's just talk about
22 AFUDC generally for a second. As I understand your answers
23 earlier, you said that it is calculated on each construction
24 project as you go through the construction process; is that
25 right?

1 A. That's correct.

2 Q. And does AFUDC stop at the time plant is
3 placed into service or does it continue on for some period
4 of time?

5 A. It stops at the time you place it into
6 service.

7 Q. Okay. When a utility comes in for a rate
8 case, like we have in this particular case, and you have new
9 construction since your last rate case, does the AFUDC
10 included on that construction only include AFUDC during the
11 test period or for the entire period of time that new
12 construction has occurred? And if it's been three years
13 between a rate case, say for a three-year period of time?
14 And if that's a complicated question, I'll restate it -- or
15 confusing.

16 A. Please do.

17 Q. Okay. I guess getting back to this data
18 request, it only deals with short-term interest during the
19 test period, which is the 12 months calendar year 1999?

20 A. That is correct.

21 Q. Would there have been other construction
22 projects completed prior to 1999 that would have been
23 included in the rate filing of St. Louis County Water in
24 Case No. WR-2000-844, for example, construction projects
25 completed in 1998 and 1997?

1 A. Absolutely, yes.

2 Q. Okay. And would those construction projects
3 have AFUDC associated with them?

4 A. Yes, they would have.

5 Q. Okay. And if St. Louis County Water had
6 short-term debt outstanding during the years 1997 and 1998,
7 would that be relevant to the calculation of AFUDC at least
8 as the way you understand Staff does it now?

9 A. Yes.

10 Q. Okay. Does this data request tell you
11 anything about 1997 or 1998 interest --

12 A. No.

13 Q. -- short-term interest?

14 A. It just refers to the year '99.

15 Q. Okay. The other thing that's of interest to
16 me in this data request is the fact there's a reference to
17 American Water Works Capital Corporation. Do you see that?

18 A. It says, In reference to American Water Works
19 stand-alone American Water Works Company --

20 Q. No, I'm sorry. In the answer.

21 A. In the answer. It says, Short-term debt --
22 short-term credit facilities are provided through American
23 Water Capital Corp, yes.

24 Q. Is that the same American Water Works Capital
25 Corporation that has been the focus of some portion of this

1 hearing, principally return on equity and capital structure?

2 A. It is, yes.

3 Q. So, in fact, the American Water Works Capital
4 Corporation existed at the time of the last St. Louis County
5 Water rate case?

6 A. Yes, it did.

7 Q. Is that what you surmise from this?

8 A. Yes.

9 Q. So there has not been a change in the funding
10 sources for St. Louis County Water and Missouri-American
11 since the last rate case insofar as American Water Works
12 Capital Corporation is concerned?

13 A. That's correct.

14 Q. Okay. And it appears Mr. David Murray, the
15 rate of return witness, knew that or at least he was advised
16 of that back in the old rate case; is that right?

17 A. Yes, it is.

18 Q. Okay. Thanks.

19 When the Commission ordered the adjustment to
20 Missouri-American's AFUDC calculation, if you will, in the
21 last rate case, did you believe that to be a one-time
22 targeted adjustment?

23 A. Based on the Commission's order, yes.

24 Q. And were there other reasons why you thought
25 it was a one-time adjustment?

1 A. I think I just relied upon the Commission's
2 order in the one paragraph.

3 Q. What about the Commission Staff's position in
4 the St. Louis County -- or the intervening St. Louis County
5 Water rate case?

6 A. Well, I'm just talking about the
7 Missouri-American case. If you take into consideration the
8 St. Louis County case, that adjustment was not made.

9 Q. And in the order that came out in the old
10 Missouri-American Water rate case, 2000-281, I believe, did
11 you see any direction or requirement in that order that the
12 company was to change the way in which it was to calculate
13 AFUDC on a prospective basis?

14 A. I saw no specific language.

15 Q. I can't recall if it was in response to
16 questioning from Ms. O'Neill or Commissioner Murray, but you
17 talked about the use of short-term debt to fund the
18 day-to-day operating needs of the company. Do you recall --

19 A. That's correct.

20 Q. Okay. Generally speaking, what are the
21 sources of funds for the company to fund its operation?

22 A. There's -- one is pre-- well, there's
23 internally generated funds.

24 Q. Now, let me stop you there. Would that
25 generally be the revenues that the company receives from its

1 customers?

2 A. Yeah, revenues after they pay expenses --

3 Q. Okay.

4 A. -- funds from operations. Next, if those are
5 not sufficient to handle the day-to-day operations or the
6 construction, then we go to short-term debt.

7 Q. And would that be an external source of fund?

8 A. External -- external for Missouri-American.
9 In this case American Water Capital Corp. At intervals when
10 the company believes it is appropriate to do so, it will go
11 outside and issue long-term debt and/or common equity or at
12 times preferred stock to pay down the short-term debt.

13 Q. Okay. If the company is unable to pay on a
14 short-term basis its day-to-day operating expenses, how does
15 it fund that shortfall, if you will?

16 A. It has to go short-term debt.

17 Q. And would day-to-day operating expenses
18 include things like payroll, payroll taxes, things of that
19 nature?

20 A. Chemical expense, benefits, materials, things
21 of that nature for maintenance.

22 Q. If the company finds itself in a position
23 where it's internally generated funds are not sufficient to
24 pay day-to-day operating expenses and it has payroll and
25 chemical costs that need to be paid and in addition it has

1 outside contractors who have been working on construction
2 projects that need to be paid, who generally gets paid
3 first?

4 A. If we have no other sources, then internal
5 purposes are done first and either contractors are not paid
6 or we stop doing contract work.

7 Q. I'm sorry. I didn't add a further assumption
8 that assuming you have to go borrow short term.

9 A. Okay. The first one is you pay through
10 internally generated funds or short-term debt goes to
11 internal sources first. Then after that, it goes to
12 construction, which is normally the short-term debt.

13 Q. Under Staff's AFUDC method, does it assume the
14 company's payroll gets paid first where internally generated
15 funds are not sufficient or does it assume that contractors
16 and construction material suppliers will be paid first?

17 MR. SCHWARZ: I'm going to object to the
18 question. I don't think Staff's testimony in any way, shape
19 or form suggests or speculates any particular order of
20 payment of the company's creditors.

21 MR. ENGLAND: I'm just saying their
22 calculation, what does it assume?

23 JUDGE THOMPSON: I was trying to understand
24 the objection. Mischaracterization?

25 MR. SCHWARZ: Yes.

1 JUDGE THOMPSON: Okay. Overruled.

2 You may answer the question.

3 THE WITNESS: Can you repeat the question
4 maybe?

5 BY MR. ENGLAND:

6 Q. Sure. I'm not sure I did it very artfully the
7 first time and I'm not sure I'm going to do it very artfully
8 the second time.

9 Staff's calculation or method or calculating
10 AFUDC, does it assume that when the company is in a position
11 that it has to borrow short-term funds because it can't meet
12 operating day-to-day expenses, can't pay for construction
13 work in progress, that the construction work in progress
14 gets paid first or the payroll and chemical expenses of the
15 company get paid first?

16 A. Their calculation assumes the very first
17 dollar of short-term debt is applied to construction. And
18 by the nature of their calculation, all CWIP is funded by
19 short-term debt without any regard for is there any
20 short-term debt there that's paying for working capital at
21 the time.

22 MR. ENGLAND: Okay. Thank you, your Honor. I
23 have no other questions for redirect.

24 JUDGE THOMPSON: Thank you, Mr. England.

25 You may step down, Mr. Grubb.

1 Ms. Hanneken, it's your turn again.

2 Mr. Schwarz?

3 MR. SCHWARZ: I will tender the witness for
4 cross-examination on the issue of allowance for funds used
5 during construction, mindful that she's already been sworn
6 and remains under oath.

7 JUDGE THOMPSON: Thank you, Mr. Schwarz. I
8 appreciate that.

9 Commissioner Murray?

10 COMMISSIONER MURRAY: Thank you.

11 LISA HANNEKEN testified as follows:

12 QUESTIONS BY COMMISSIONER MURRAY:

13 Q. Good afternoon again.

14 A. Good afternoon.

15 Q. Is it Staff's position that all construction
16 is financed through short-term debt or just that
17 construction is financed through short-term debt insofar as
18 short-term debt is actually incurred?

19 A. Through our calculations we have used all
20 short-term debt for the funding of construction.

21 Q. So it's your position that all construction is
22 financed through short-term debt?

23 A. That is going to generally accepted principles
24 in the calculation of AFUDC.

25 Q. And has that always been the position taken by

1 Staff related to AFUDC?

2 A. In this particular -- with this company or in
3 any case?

4 Q. Generally, in rate-making.

5 A. Generally, electric and gas utilities are
6 regulated under FERC. And FERC lines out the method that we
7 used. So they generally use this method. Water companies,
8 on the other hand -- as far as I'm aware, Missouri-American
9 is the only one that -- or St. Louis County calculates
10 AFUDC.

11 Q. Okay. And up until the last rate case, how
12 did Staff recommend AFUDC be calculated for the water
13 companies?

14 A. For this particular company, I believe it was
15 done with their cost of capital.

16 Q. Until the last rate case?

17 A. Correct.

18 Q. And do you know what stimulated that change in
19 Staff's position?

20 A. I was not here at that time. I do not know
21 the specific reason for the position.

22 COMMISSIONER MURRAY: All right. I think
23 that's all. Thank you.

24 QUESTIONS BY JUDGE THOMPSON:

25 Q. Do you know anybody who would know the answer

1 to that question?

2 A. I know the AFUDC in the last case was the
3 issue of Mr. Steve Rackers. I do not know if he would know
4 the answer or not.

5 Q. I see him right back there.

6 JUDGE THOMPSON: Would you like a chance to
7 ask him that question, Commissioner?

8 COMMISSIONER MURRAY: Yes. Thank you.

9 JUDGE THOMPSON: Ms. Hanneken, why don't you
10 step down for a moment. We'll bring Mr. Rackers up. Don't
11 worry. Everybody will get a chance to cross everybody.
12 It's going to be wonderful.

13 I'll remind you you're still under oath.
14 Commissioner Murray?

15 STEPHEN RACKERS testified as follows:

16 QUESTIONS BY COMMISSIONER MURRAY:

17 Q. Good afternoon, Mr. Rackers.

18 A. Good afternoon.

19 Q. We figured you needed a change of pace for the
20 afternoon.

21 A. Thank you.

22 Q. Can you tell me what was the reason that Staff
23 changed its methodology for treatment of AFUDC in the last
24 Missouri-American Water case?

25 A. Well, I can't really speak to the two or three

1 cases before the last case. I didn't work on those cases.
2 But in the last case, Staff examined the company's
3 calculation of AFUDC.

4 And as part of that examination, we found that
5 the company had a significant amount of short-term debt
6 outstanding during the test year and we thought that it was
7 appropriate that that level of short-term debt be reflected
8 first with regard to construction.

9 Q. And was that the case during the true-up
10 period as well, that there was significant outstanding
11 short-term debt?

12 A. I believe that's the case. I'd have to look
13 at the work papers from the last case to know for sure.

14 Q. And how does that compare to the actual
15 situation here today with short-term debt, the amount of
16 outstanding short-term debt?

17 A. Well, it -- in the period -- I believe in the
18 period that Ms. Hanneken examined, there was a significant
19 amount of short-term debt outstanding.

20 Q. Through the true-up period?

21 A. I don't know that.

22 Q. Okay. I guess to get that I'd have to ask
23 Ms. Hanneken.

24 COMMISSIONER MURRAY: All right. Thank you.

25 JUDGE THOMPSON: Thank you, Commissioner.

1 Why don't we go ahead and do cross with Mr.
2 Rackers and then we'll put Ms. Hanneken back. So let's see.
3 That would be Ms. O'Neill.

4 MS. O'NEILL: No questions.

5 JUDGE THOMPSON: Mr. England?

6 CROSS-EXAMINATION BY MR. ENGLAND:

7 Q. At the risk of asking a number of questions I
8 don't know the answer to --

9 JUDGE THOMPSON: They say you shouldn't do
10 that.

11 MR. ENGLAND: I know it. But as you probably
12 know, I never do what I'm supposed to do.

13 BY MR. ENGLAND:

14 Q. Mr. Rackers, you, I think, indicated that you
15 thought that there was a significant amount of debt
16 outstanding for purposes of this rate case similar to what
17 existed in the old Missouri-American?

18 A. Well, I don't know how the two numbers compare
19 in magnitude, but yes.

20 MR. ENGLAND: Never mind. I won't go any
21 further. Thank you.

22 JUDGE THOMPSON: Thank you, Mr. England.

23 Mr. Schwarz?

24 MR. SCHWARZ: How do you do redirect when you
25 haven't done direct?

1 JUDGE THOMPSON: It's part of the fun of this
2 case.

3 MR. SCHWARZ: I'm not going to ask anything.

4 JUDGE THOMPSON: Thank you. You may step
5 down, Mr. Rackers.

6 And Ms. Hanneken, we'll bring you back up. I
7 will remind you you're still under oath. I think,
8 Commissioner, you had some questions.

9 LISA HANNEKEN testified as follows:

10 FURTHER QUESTIONS BY COMMISSIONER MURRAY:

11 Q. Yes. Ms. Hanneken, was there a significant
12 amount of outstanding short-term debt during the test year
13 in this case?

14 A. Yes, there was.

15 Q. How about the true-up period?

16 A. I could not know. I just received that data
17 within the last two weeks from the company and have not had
18 a chance to look at it yet.

19 Q. Would that make a difference in your final
20 determination, if it has changed significantly?

21 A. I do not know. I mean, if there was no
22 short-term debt for almost the entire year of 2003,
23 obviously I would have to take a look at the calculations.

24 Q. Okay. So let me go back a minute. I think
25 when I asked you earlier whether Staff's position was that

1 all construction should be financed through short-term debt,
2 I believe you said that was Staff's position and not that it
3 was Staff's position that it should be financed through
4 short-term debt only -- where it should be treated as
5 finance through short-term debt only to the extent that it
6 actually had been. Do you want me to restate my question?

7 A. That might be helpful, yes.

8 Q. Did you tell me earlier that it was Staff's
9 position that all construction should be financed through
10 short-term debt?

11 A. No. That may not be possible. I mean, to the
12 extent that they have short-term debt available, that should
13 be the first thing that we look at when we look at the cost
14 of CWIP.

15 Q. All right. And, therefore, if the company is
16 using short-term debt for anything, you're saying that it
17 should be first applied to the treatment of AFUDC?

18 A. If you are calculating AFUDC, the first thing
19 you would take into consideration is short-term debt.

20 Q. Regardless of why the short-term debt was
21 actually incurred?

22 A. Generally it is accepted that short-term debt
23 is used to fund construction.

24 Q. And when you look at the information that
25 you've just received for the true-up period, did you tell me

1 that would or would not make a difference if the amount of
2 short-term debt has significantly changed?

3 A. If it has significantly changed, I would have
4 to look at all the factors involved to see if it would
5 change the amount that I have made my adjustment of.

6 COMMISSIONER MURRAY: All right. Thank you,
7 Judge. I believe that's all.

8 JUDGE THOMPSON: Thank you, Commissioner.
9 Ms. O'Neill?

10 MS. O'NEILL: No questions, your Honor.

11 JUDGE THOMPSON: Mr. England?

12 MR. ENGLAND: Thank you, your Honor.

13 CROSS-EXAMINATION BY MR. ENGLAND:

14 Q. Good afternoon, Ms. Hanneken.

15 A. Good afternoon.

16 Q. I think these questions are going to follow-up
17 a little bit on this last line of questioning you received
18 from Commissioner Murray. I apologize if I'm being
19 redundant, but I believe your calculation of AFUDC assumes
20 that construction work in progress is first financed by
21 short-term debt?

22 A. That is correct.

23 Q. Okay. Would you agree with Mr. Grubb's
24 assessment of the various sources of capital available to
25 the company, those being internally generated funds,

1 short-term debt, long-term debt and equity?

2 A. Yes.

3 Q. Okay. Would you also agree that from time to
4 time company's internally generated funds are not sufficient
5 to meet the day-to-day expenses of the company?

6 A. That may occur.

7 Q. Okay. Would you also agree with Mr. Grubb
8 that it would be more likely that if your internally
9 generated funds do not cover day-to-day operating expenses,
10 that priority of payment, if you have to go out and borrow
11 short-term, will be your own employees first before you pay
12 outside vendors for construction work?

13 A. Yes.

14 Q. I want to ask you a couple of questions about
15 the FERC method of calculating AFUDC. I think it's at
16 page 2 of your Surrebuttal. And you have the FERC
17 regulations there roughly in the middle of the page.
18 Correct?

19 A. Right.

20 Q. Would you agree with me the FERC only
21 regulates electric and gas companies?

22 A. That's correct.

23 Q. And they have no regulation or jurisdiction
24 over water companies?

25 A. That is correct.

1 Q. Okay. And I think later on you do cite the
2 relevant provision as far as water companies is concerned.
3 And that would be the NARUC Uniform System of Accounts?

4 A. Right. That was my starting point.

5 Q. Okay. I want to look at the definition at the
6 very bottom of page 2. And I think it's just the first
7 sentence of the definition or the provision, if you will,
8 beginning at line 29.

9 A. Uh-huh.

10 Q. It says, Allowance for funds used during
11 construction includes the net cost for the period of -- for
12 the period of construction, excuse me, of borrowed funds
13 used for construction purposes and a reasonable rate on
14 other funds when so used.

15 Do you see that?

16 A. Correct.

17 Q. Okay.

18 A. Yes.

19 Q. Would you agree with me that when the Uniform
20 System of Accounts talks about borrowed funds in this
21 context, it does not make any distinction between short- or
22 long-term debt?

23 A. No, it does not. It's just a generally
24 accepted accounting standard.

25 Q. Okay. So the Uniform System of Accounts for

1 purposes of borrowed funds makes no distinctions between
2 short-term and long-term debt?

3 A. Not specifically.

4 Q. Okay. And I want to follow up on your second
5 part of your answer, something about generally accepted
6 accounting principles.

7 A. Not generally accepted accounting principles.
8 Generally accepted accounting idea that CWIP is generally
9 funded by short-term debt first.

10 Q. Okay. Despite the notion that maybe it's best
11 to pay payroll first if you don't have sufficient internally
12 generated funds?

13 A. If you do not have the internally generated
14 funds, then you may look to short-term debt or other funding
15 for your payroll needs.

16 Q. And that would probably -- as we mentioned a
17 minute ago, that would probably be a higher priority than
18 outside vendors?

19 A. Yes.

20 Q. Okay. The Uniform System of Accounts also
21 talks about a reasonable rate on other funds when so used.
22 Do you see that?

23 A. Yes.

24 Q. Am I correct in understanding that's probably
25 equity funds?

1 A. Yes.

2 Q. Would you agree with me that the Uniform
3 System of Accounts, at least the quote you have in your
4 testimony, seems to contemplate a mix of funds, debt and
5 equity, with no specific apportionment or assignment of one
6 form of capital over another?

7 A. That is why I looked to the FERC method for
8 further guidance. Since there was such a small amount of
9 information from the NARUC, generally we kind of rely on
10 FERC to give us a little bit of additional information.

11 Q. I guess you'd agree there's a -- if you just
12 confine to the NARUC System of Accounts, there appears to be
13 a lot of leeway in how you construct or calculate your AFUDC
14 rate. Right?

15 A. Again, I think it -- it's ambiguous to the
16 extent I think it doesn't actually specify the various items
17 and in which order they should be used. But, like I said,
18 it's generally accepted idea that equipment is funded by
19 short-term debt.

20 Q. At least for FERC purposes. Right?

21 A. In all purposes. For example, I was -- during
22 my college days, we were taught that in a couple of
23 different textbooks.

24 Q. And I think you also agreed with me earlier
25 that it's also -- short-term debt can also generally be used

1 to fund working capital needs where internally generated
2 funds are insufficient?

3 A. Yes. But when you do that, you'd also look at
4 the capital structure piece of the puzzle and adjust your
5 capital structure accordingly. You would remove any
6 positive cash working capital from your rate base and then
7 adjust your capital structure to include short-term debt.

8 Q. Well, let's take that example where you have
9 positive working capital. In other words, internally
10 generated funds exceed your operating needs internally --
11 internal operating needs, if you will. You also have
12 construction going on at the same time.

13 It's likely that those -- that surplus, if you
14 will, of internally generated funds or that positive working
15 capital will be used to fund construction work, will it not?
16 In other words, there's no sense in borrowing money if you
17 don't have to?

18 A. No. Because apparently during the test year
19 that wasn't the case. There was always short-term debt on
20 the books.

21 Q. Apparently not through the true-up period
22 though. Right?

23 A. I do not know. I just only recently was given
24 that information.

25 Q. Let's assume that's the case from time to

1 time, where internally generated funds are sufficient to
2 cover day-to-day operations and there is a positive working
3 capital, as we've talked about. Isn't it fair or reasonable
4 to assume that those funds are available and will be used
5 for any construction costs at that point in time?

6 A. As I say, if you do that, then you would --
7 you would remove that positive cash working capital from
8 rate base and book a short-term debt into your capital
9 structure if it's not going to be funding equipment.

10 Q. My question is, if you have positive working
11 capital, that excess of internally generated funds over
12 day-to-day expense requirements can and is available for use
13 to pay for construction. Right?

14 A. And then you would also -- if you're saying
15 you're not going to be using the short-term debt for CWIP --

16 Q. Correct.

17 A. -- then you would need to put that into your
18 capital structure.

19 Q. Put what in my capital structure?

20 A. The short-term debt.

21 Q. But I have no short-term debt. I was --

22 A. You did during the test year.

23 Q. You're looking at a 12-month period. I'm
24 looking at a month period. Correct?

25 A. Every month -- I believe every month had

1 short-term debt during the test year.

2 Q. But I'm asking you to assume some months may
3 not.

4 MR. SCHWARZ: Excuse me. Is counsel asking
5 the witness to assume facts not in evidence?

6 MR. ENGLAND: No. The evidence is there. It
7 came in in the return on equity and rate of return issue.

8 MR. SCHWARZ: I think the witness has said in
9 every month that she looked at there was short-term debt.

10 MR. ENGLAND: I understand her knowledge is
11 limited to the test period and not the true-up period.
12 Public Counsel Witness Burdette has looked at the true-up
13 period for purposes of rate of return and has testified that
14 there is no short-term debt in some of those months from
15 July, the end of the test period through the true-up. So
16 there are facts in evidence to support my hypothetical.

17 MR. SCHWARZ: I will withdraw my objection. I
18 wasn't here for Mr. Burdette's testimony.

19 JUDGE THOMPSON: Please proceed.

20 THE WITNESS: I'm not aware of Mr. Burdette's
21 testimony, so --

22 BY MR. ENGLAND:

23 Q. And I bet you don't remember my question?

24 A. No.

25 Q. It's a hypothetical for you, because I

1 understand it's not within your realm of personal knowledge.
2 But assume, if you will, that in a particular month there is
3 no short-term debt, internally generated funds are
4 sufficient to pay for day-to-day operations and to pay for
5 construction work in progress. Do you have that
6 hypothetical in your mind?

7 A. All right.

8 Q. Okay. In those circumstances, construction
9 work in progress would not be funded by short-term debt.
10 Correct?

11 A. If you do not have any short-term debt, I
12 would assume that would be the case. And then you would
13 look towards long-term debt, common equity and preferred
14 stock to determine your AFUDC.

15 Q. Okay. Essentially the overall mix of your
16 capital?

17 A. Right. If there is no short-term debt
18 present, then yes, you would look at your cost of capital.

19 Q. Okay. I want to get back to my original
20 question, which was, as far as the NARUC System of Accounts
21 is concerned, it contemplates a mix of funds with no
22 particular apportionment between or among those funds, no
23 preference as to debt versus equity, short-term versus
24 long-term debt. Correct?

25 A. It doesn't specifically list the different

1 components.

2 Q. And as a result, the way in which you
3 calculate AFUDC would come well within the definition of the
4 Uniform System of Accounts. Correct?

5 A. The way that I calculated the NARUC System of
6 Accounts?

7 Q. The way you calculated AFUDC for purposes of
8 this case would fit within the boundaries of the provision
9 of the Uniform System of Accounts?

10 A. Yes.

11 Q. And the way in which the company has done it
12 would also fit within those boundaries. Correct?

13 A. Yes. That is why I looked to FERC for further
14 guidance.

15 Q. Also in your Surrebuttal at page 3, lines 23
16 through 26, you state in response to company testimony that
17 it was the company's belief that the AFUDC rate used in the
18 old case was only to be applied against the St. Joe plant.

19 Your response is, quote, here on line 23,
20 Neither of these statements accurately reflect Staff's
21 calculation nor the Staff's proposal in that case. The
22 company is well aware that Staff's calculations in the prior
23 case included not only the St. Joseph treatment plant, but
24 the rest of the company's construction projects as well.

25 Do you see that?

1 A. Yes.

2 Q. Now, do you agree with Mr. Grubb's testimony
3 that the Report and Order issued in the last case only
4 addresses AFUDC as it impacts the St. Joseph plant?

5 A. I believe you're referring to the St. Joe
6 plant, because that is where the AFUDC adjustment was made.
7 It was applied to the St. Joseph plant in the last case,
8 however, included calculations for all construction
9 projects.

10 Q. I understand.

11 A. Just like in this case, I applied the AFUDC
12 calculation to just the mains that count because it would
13 have been too cumbersome to go back and figure out exactly
14 what piece of the AFUDC -- how much of it should go to what
15 project and, you know, what account and everything.

16 So to make it simple for everyone concerned,
17 in the last case they simply applied -- took the company's
18 AFUDC adjustment to the St. Joseph plant; whereas, in this
19 case I applied it strictly to the mains account.

20 Q. I understand that's what you did. Now, can I
21 have an answer to my question?

22 A. Do I agree that the Commission Order stated it
23 was for the St. Joseph plant?

24 Q. Correct.

25 A. Can you direct me to --

1 Q. Sure can.

2 MR. ENGLAND: May I have a minute?

3 JUDGE THOMPSON: You may.

4 MR. ENGLAND: May I approach the witness?

5 JUDGE THOMPSON: You may.

6 MR. ENGLAND: Your Honor, I'm handing the
7 witness an excerpt from the Report and Order issued in Case
8 WR-2000-281 on the issue of capitalization rate for AFUDC.
9 And I've highlighted the relevant portion, but she's
10 certainly free to look at the rest of it.

11 BY MR. ENGLAND:

12 Q. Ms. Hanneken, take your time and look at what
13 the Commission had to see because I do have some questions
14 about that.

15 A. All right.

16 Okay.

17 Q. Would you take a look and read for the record,
18 if you would, please, the very last sentence of the very
19 first paragraph under the issue Capitalization Rate for
20 AFUDC?

21 A. The AFUDC at issue here is pre-in-service
22 AFUDC relating to the new St. Joseph plant.

23 Q. Would you agree with me that a reading of that
24 sentence would lead the reader to believe that it only
25 applied to the new St. Joseph plant?

1 A. Reading just that sentence and having no
2 knowledge of the case, that may be the case.

3 Q. Is there any other statement here in the
4 Commission's order that would reflect the way in which Staff
5 made its calculation as you testified here to a few moments
6 ago?

7 A. I do not see anywhere that specifically says
8 it for total company.

9 Q. Thank you.

10 MR. ENGLAND: May I have an exhibit marked,
11 your Honor?

12 JUDGE THOMPSON: You may.

13 MR. ENGLAND: This is an excerpt from the
14 reply brief of Staff in that same case.

15 JUDGE THOMPSON: This will be 132.

16 (Exhibit No. 132 was marked for
17 identification.)

18 MR. ENGLAND: Your Honor, I'm going to ask the
19 witness some questions about this so I'd ask that she be
20 given the opportunity to review that.

21 JUDGE THOMPSON: Well why don't you give that
22 to the witness and we'll take a 10-minute recess and she can
23 look it over. We'll be in recess now.

24 (A recess was taken.)

25 JUDGE THOMPSON: Please proceed.

1 MR. ENGLAND: Thank you, your Honor.

2 BY MR. ENGLAND:

3 Q. Ms. Hanneken, have you had an opportunity to
4 review Staff's reply brief at least insofar as it relates to
5 this AFUDC in the last American case?

6 A. Yes, I have.

7 Q. Would you be kind enough to read the first two
8 sentences of that brief that appear on page 4 and carry over
9 to the very top of page 5?

10 A. The company contends that the AFUDC on the
11 SJTP, for the pre-in-service period, that ought to be
12 included in the company's rate base should be a fictitious
13 amount that is determined by applying the rate of return
14 from the company's last previous rate case to the
15 outstanding balances of the CWIP.

16 Though Staff, on the other hand, contends the
17 AFUDC should be determined, to the extent possible, by
18 determining the actual carrying costs -- charges that the
19 company incurred in constructing the SJTP.

20 Q. And the SJTP is the St. Joseph treatment
21 plant. Right?

22 A. That's my understanding, yes.

23 Q. Would it appear from a reading of that brief
24 again that this issue was limited to the St. Joseph
25 treatment plant?

1 A. From those two sentences, yes.

2 Q. Is there any reflection in the rest of the
3 brief on this issue that it was applying to any of the other
4 construction projects of the company at that time?

5 A. Well, the rest of the brief seems to be pretty
6 general in speaking about CWIP and the AFUDC calculated on
7 it. And I believe on page 6 it actually uses plural
8 construction projects.

9 Q. Where's that, please?

10 A. It is the third paragraph -- complete
11 paragraph on the page.

12 Q. But that's the company's position, right, or
13 the company's belief?

14 A. I don't know if that's the company's belief
15 the way that it's stated, but it's referring to construction
16 projects.

17 Q. You also state on page 5 of your Surrebuttal
18 at lines 10 through 13 -- do you have it?

19 A. Yes.

20 Q. Staff's position has not changed from the last
21 MAWC rate case, Case No. WR-2000-281, maintaining that not
22 only should an adjustment be made to the test year, but that
23 the company should follow this methodology on a
24 going-forward basis. Do you see that?

25 A. Yes.

1 Q. And, again, in looking at Staff's brief, I
2 didn't see any request that the company adjust its AFUDC
3 rate -- excuse me, looking at the Staff's brief that we just
4 talked about.

5 A. Looking at the Staff's brief I don't recall
6 there being any language to that effect.

7 Q. And with respect to the Commission's order in
8 that last rate case, would you agree with me that there was
9 no directive or requirement from the Commission's order that
10 the company prospectively adjust its AFUDC rate accordingly?

11 A. There was no specific language to that effect.

12 Q. Would you agree with me then that a plain
13 reading of that order would lead a reasonable person to
14 conclude that they were not required to change their AFUDC
15 rate?

16 A. Just reading it on a stand-alone basis, I
17 don't believe there was any specific language directly
18 ongoing calculation using this method.

19 Q. And a reasonable reading of that would be that
20 there was no requirement then. Right?

21 A. None specifically put into the Report and
22 Order, no.

23 Q. Thank you.

24 MR. ENGLAND: No other questions.

25 JUDGE THOMPSON: Thank you, Mr. England.

1 Mr. Schwarz?

2 MS. O'NEILL: Your Honor, I may have missed
3 something. Was 132 offered?

4 MR. ENGLAND: I was just going to do that,
5 actually ask that official notice be taken of it.

6 JUDGE THOMPSON: Do I hear any objections to
7 receiving Exhibit 132?

8 MS. O'NEILL: Your Honor, I don't object to
9 receiving what's in 132, but I do have -- I am kind of
10 curious because that page 6 appears to end in the middle and
11 that doesn't appear to be the structure of the brief to end
12 at the end of a topic. And I don't know whether or not
13 page 6 really ends there. If not, maybe we can just
14 designate that.

15 MR. ENGLAND: No, actually it -- there's a lot
16 of damning language in there to my position and I've just
17 arbitrarily eliminated it. I'm sorry. I'm being facetious.

18 The brief I've got -- at least my copy --
19 appears to end right there.

20 THE WITNESS: For that particular issue it
21 picks up with Issue No. 4. I have a different copy that --
22 this is the end of that issue for the brief.

23 MS. O'NEILL: Okay. Then I don't have an
24 objection. I just wasn't sure because I hadn't seen the
25 brief for about a year.

1 JUDGE THOMPSON: Hearing no objection,
2 Exhibit 132 is received and made a part of the record of
3 this proceeding.

4 (Exhibit No. 132 was received into evidence.)

5 JUDGE THOMPSON: You may inquire, Mr. Schwarz.

6 REDIRECT EXAMINATION BY MR. SCHWARZ:

7 Q. Ms. Hanneken, I understand from your
8 Surrebuttal Testimony that you reviewed the work papers from
9 the last Missouri-American case where the AFUDC adjustment
10 was made; is that correct?

11 A. That is correct.

12 Q. And it's your representation in your testimony
13 that the Staff and the company treated St. Joseph plant
14 adjustment as comprehending more than just the AFUDC for the
15 St. Joe plant. Is that a correct understanding of your
16 testimony?

17 A. Yes. It is my understanding that the
18 calculations in the work papers reflect that all districts
19 were included in the calculation and that information was
20 shared with the company and should have been known by both
21 parties.

22 Q. And you were here when Mr. Grubb testified,
23 were you not?

24 A. Yes, I was.

25 Q. And is it your recollection that he couldn't

1 give an opinion on this particular aspect of the last
2 Missouri-American case?

3 A. I believe he stated that he was not part of
4 that case.

5 Q. Well, given that treatment by the parties, is
6 it surprising that the Commission would adopt the same
7 shorthand reference to the AFUDC adjustment that the parties
8 had used?

9 A. I would say that would be a correct
10 assumption.

11 Q. Do you still have Exhibit 132 in front of you?

12 A. Is that the reply brief?

13 Q. Yes.

14 A. Yes, I do.

15 Q. If you look at page 5 at the first full
16 paragraph, it talks about the company had approximately
17 35 million of short-term debt outstanding. Are you with me?

18 A. Yes, I see that.

19 Q. From your review of the work papers in that
20 case, that \$35 million would be company-wide and not just
21 for the St. Joseph plant?

22 A. Yes.

23 Q. And turning to page 6, the last line, Staff
24 recommends an adjustment of \$1,289,674. Your understanding
25 from reviewing those work papers is that that is for all

1 company plant including plant in addition to the news
2 St. Joseph treatment plant?

3 A. Correct. On work papers that specifically
4 says that those numbers were taken from I believe the DR124
5 in the last case. And that DR asked for all -- AFUDC
6 calculated on all construction projects.

7 Q. And do you still have a copy of the
8 Commission's Report and Order?

9 A. Yes.

10 Q. And if you look on page 48, the second line
11 above the Accounting Authority Order, the Commission ordered
12 an adjustment of \$1,289,674, did they not?

13 A. Yes, they did.

14 Q. And that would be in reference to more than
15 the St. Joseph plant alone, would it not?

16 A. Yes.

17 Q. And you would -- strike that.

18 And would you read -- in that last paragraph
19 on page 48 under the AFUDC issue would you read the second
20 sentence of that last paragraph into the record, please?

21 A. The one that starts with, The use?

22 Q. Yes.

23 A. The use of the actual costs of any item is
24 preferred where known.

25 Q. And that statement can be applied to the facts

1 of this case as well, can it not?

2 A. Yes.

3 Q. I believe there were some questions regarding
4 to the effect of changes in short-term debt as might be
5 applied to the true-up. Do you recall there were questions
6 along those lines?

7 A. Yes.

8 Q. Is it true that Staff's method won't change,
9 but only the rate applied to construction work in progress
10 after June of 2003 would be affected?

11 A. That's correct. Because Staff's method says
12 that if there is any short-term debt present, that it be
13 used first. If there is no short-term debt present, then
14 you would move onto the cost of capital to calculate your
15 AFUDC. So whether or not there is short-term debt on the
16 books for a specific period really has no bearing on the
17 method other than you would move on to cost of capital.

18 Q. And that is something that Staff will address
19 at true-up?

20 A. Yes. I will take a look at it at true-up and
21 it will be analyzed at that time.

22 Q. Are you aware of any Missouri utility that has
23 to go to short-term debt to pay for things like payroll or
24 postage or insurance, day-to-day routine items?

25 A. I'm not aware of any.

1 Q. In fact, wouldn't that be cause for concern?

2 A. In -- in general accounting terms you would
3 want to raise some concern at that.

4 MR. SCHWARZ: I think that's all I have.

5 JUDGE THOMPSON: Thank you. You may step down
6 again, Ms. Hanneken.

7 I believe, Ms. Bolin, we've come to you.
8 Let's see. You've been up before during this proceeding
9 haven't you?

10 THE WITNESS: Yes, I have.

11 JUDGE THOMPSON: I'll remind you you're still
12 under oath.

13 Ms. O'Neill?

14 MS. O'NEILL: Your Honor, I would tender
15 Ms. Bolin for cross-examination on this issue.

16 JUDGE THOMPSON: Thank you.

17 Commissioner Murray?

18 COMMISSIONER MURRAY: Very briefly, Judge.

19 KIMBERLY BOLIN testified as follows:

20 QUESTIONS BY COMMISSIONER MURRAY:

21 Q. Good afternoon, Ms. Bolin.

22 A. Good afternoon.

23 Q. Do you know if there were any months in the
24 true-up period where there was not a short-term debt?

25 A. I'm not certain on every month if there was

1 any in every month of the true-up period.

2 Q. Have you not examined the true-up period yet?

3 A. I didn't look at the short-term debt in the
4 true-up period, no, I haven't.

5 COMMISSIONER MURRAY: I really don't think I
6 have any other questions for you. Thank you.

7 THE WITNESS: Thanks.

8 QUESTIONS BY JUDGE THOMPSON:

9 Q. Okay. Commissioner Gaw told me I need to
10 forage ahead with trying to understand this AFUDC so I'm
11 going to pick on you now.

12 The capitalized amount representing the funds
13 the company -- the costs the company incurs while building
14 new projects; is that accurate?

15 A. That's accurate.

16 Q. A capitalization of their costs?

17 A. Right.

18 Q. Why are they capitalized and not expensed?

19 A. Any time you have a construction project, you
20 capitalize certain items like the payroll associated with
21 building of a construction project. And this is one of
22 those items that you also capitalize.

23 Q. Okay. Now, the company payroll is normally an
24 operating expense. Right?

25 A. Yes. But a portion of it is capitalized to

1 construction projects.

2 Q. And is there underlying reason for that that
3 you could tell me or is that just something that accountants
4 say, Oh, that's just what we do?

5 A. It shows the true cost of building the
6 construction project.

7 Q. It shows true cost?

8 A. It shows the whole cost.

9 Q. In other words, the true cost is not just the
10 amount that's been spent but some sort of extra?

11 A. Sometimes, yes.

12 Q. And what does that extra represent?

13 A. It represents cost that you don't -- not
14 necessarily the cost of the construction project itself,
15 that actual physical part, but the true cost of doing the
16 construction project. Like, it takes certain amount of
17 payroll --

18 Q. Let's say I'm a utility company.

19 A. Okay.

20 Q. Very, very small one. And I decide I want to
21 build a new facility. Okay? And so I've got to shell out
22 to the capital to do that. Now, let's say I'm a well-funded
23 yet small utility company and I'm able to just go to my bank
24 account and I take out whatever it is I need. Let's say
25 it's a million dollars to build this new facility.

1 Now, what am I going to get in the way of
2 AFUDC to represent this million dollars that I have supplied
3 to permit this facility to be built?

4 A. You're not using any short-term debt?

5 Q. I haven't borrowed a penny.

6 A. I guess you would use your equity, your equity
7 cost.

8 Q. So, in other words, I would capitalize this
9 amount?

10 A. Uh-huh.

11 Q. And I would get my ROE, my return on equity,
12 to reward me for having to decide to invest my money in
13 building a new facility?

14 A. That's correct.

15 Q. Okay. And now let's say that I'm the same
16 little utility and I'm building the same facility but
17 unfortunately, I can't go to my bank account and get that
18 million dollars. Instead, I've got to go to the bank and
19 convince them to loan it to me.

20 Okay. So I borrow a million dollars. And to
21 make this as easy as it can possibly be, let's say it's
22 5 percent per annum, that that's the rate that I borrow it
23 at. So what am I going to get in the way of AFUDC to
24 reflect the million dollars that I've now borrowed to
25 provide capital to build this construction project?

1 A. The cost of the debt.

2 Q. So I'd get 5 percent even if my return on
3 equity is, say, 6 percent?

4 A. If you did not use any equity, under what
5 Staff is proposing.

6 Q. If I use money that comes out of my bank
7 account, that's equity because it's money I own; is that
8 right?

9 A. That's right.

10 Q. And if I use money I borrow, I'm going to use
11 the discount rate that I paid to have access to that money?

12 A. Under Staff's calculations.

13 Q. What about under your calculations?

14 A. I'm supporting Staff in this.

15 Q. Okay. What about under company's calculation?

16 A. Company's a combination of debt and equity.

17 Q. Okay. So what if my capital is a combination
18 of debt and equity. Let's say I have half a million in my
19 bank account and I borrow half a million dollars. Then what
20 rate am I going to get?

21 A. Could you repeat that again?

22 Q. I'm just making this hypothetical a little bit
23 harder. Let's say half of the money is equity and half of
24 the money is borrowed. And the rate on the borrowed money
25 is 5 percent and my return on equity is 6 percent. So what

1 is the AFUDC going to be?

2 A. You would have to look at what the capital
3 structure --

4 Q. It would be a composite --

5 A. Yes.

6 Q. -- of some sort?

7 You've been very helpful but I don't feel any
8 more illuminated than I was before I started, I'm sorry to
9 say. I hope Commissioner Gaw listening up in his office has
10 been able to follow. I'll just end by saying I don't have a
11 million or half million dollars in my bank account.

12 A. Neither do I.

13 JUDGE THOMPSON: Other questions from the
14 Bench?

15 Cross-examination? Let's see, I believe that
16 that would be Mr. Schwarz.

17 MR. SCHWARZ: I have no questions.

18 JUDGE THOMPSON: Mr. England?

19 MR. ENGLAND: Always the one to try to help
20 out, your Honor.

21 JUDGE THOMPSON: I was going to ask you, are
22 you going to clear all this up for me?

23 MR. ENGLAND: I'm going to try because
24 otherwise I didn't have any questions of Ms. Bolin.

25 JUDGE THOMPSON: Bless you.

1 CROSS-EXAMINATION BY MR. ENGLAND:

2 Q. Let's take that example that Judge Thompson
3 was using.

4 A. Which one?

5 Q. Okay. Fair question. The million dollars
6 construction project.

7 A. Okay.

8 Q. And let's assume that under his first scenario
9 that he funds that entirely with his own funds, which as you
10 indicated, was equity?

11 A. Okay.

12 Q. Let's assume that his cost of equity is
13 10 percent. And let's also assume that those funds were --
14 in the construction progress they were borrowed on day one
15 and after exactly one year the project was brought to
16 completion and put in service.

17 A. Okay. These are his own funds?

18 Q. Yes.

19 A. Okay.

20 Q. And his cost, as I said, is a million. And I
21 guess to make it a little easier and perhaps less practical,
22 but he drew down or pulled that million out of his bank
23 account on day one, brought the projection -- or
24 construction project to completion on day 365.

25 A. Okay.

1 Q. And his cost is 10 percent. So his cost
2 during the construction period was \$100,000?

3 A. I don't have a calculator with me.

4 Q. I think that's 10 percent of a million.

5 A. Yeah. That's what I think too.

6 Q. Okay. And you would agree with Mr. Grubb that
7 at that point, when the plant is put into service, AFUDC
8 stops?

9 A. That is correct.

10 Q. Okay. So at that point in time, at the end of
11 the year, the construction project is complete, he's spent
12 \$100,000 on the project but he's incurred \$10,000 in cost to
13 himself to fund that project during that period of time --
14 I'm sorry, \$100,000.

15 A. I don't know if you would necessarily call it
16 cost to himself.

17 Q. Well, he could have taken that money and
18 invested it someplace else and --

19 A. That is true, but I don't know that it's
20 actual money that he has spent.

21 Q. Somebody had to pay for that plant.

22 A. But I don't know that the interest that you're
23 talking about is actual money that he's had to outlay,
24 forego.

25 Q. Well, if somebody takes a million dollars out

1 of your bank account and you can't put it in some sort of
2 interest-bearing or dividend-paying stock, aren't you losing
3 something for a year?

4 A. The opportunity.

5 Q. Right. So there's a cost there. Correct?

6 A. A cost of some sort.

7 Q. Right.

8 A. I don't know --

9 Q. We've assumed it's 10 percent.

10 A. This is a utility company?

11 Q. Right.

12 A. And you're assuming their ROE is 10 percent?

13 Q. That's right. So for that period of time
14 using equity funds on \$1 million project, at the end of the
15 project you've got \$1 million in actual costs and \$100,000
16 in essentially AFUDC. Right?

17 A. I assume so, yes.

18 Q. All right. So that plant -- the value of that
19 plant for rate-making purposes is actually \$1,100,000?

20 A. That is correct.

21 Q. And I don't know if you were here yesterday,
22 but the minute you put it into service you start accruing
23 depreciation on that plant. Right?

24 A. That is correct.

25 Q. Which begins to whittle its value down as you

1 take the depreciation expense of the reserve?

2 A. That's correct.

3 Q. Let's take the same example except I think

4 Judge Thompson's second scenario was he didn't have a penny

5 to his name and he was able to convince a bank to loan it to

6 him. So on day one he goes to the bank and borrows that

7 money at 5 percent. Same construction project, same cost

8 brought into service 365 days later, \$1 million construction

9 and in this case \$50,000 of cost or debt cost. Right?

10 A. That's correct.

11 Q. Okay. So the value of the plant the day after

12 it's put in service is a 1,050,000?

13 A. That would be correct.

14 Q. And then you begin depreciating it and so

15 forth?

16 A. Yes.

17 Q. Now, if Judge Thompson is fortunate enough to

18 be able to fund half of that construction with his own money

19 and the other half through a loan from the bank at

20 5 percent, his overall cost of capital is 7.5 percent.

21 Right?

22 A. Yes.

23 Q. 10 percent on 5--

24 A. On that construction project.

25 Q. Right.

1 A. 10 percent on \$500,000 for equity and
2 5 percent on 500,000 for debt. And the average of the two
3 since it's 50/50 is 7.5 percent?

4 A. Okay.

5 Q. So when the project is complete and placed
6 into service, now you have \$1 million plus \$75,000 plant in
7 service. Right?

8 A. That's correct.

9 Q. Okay. And for purposes of Staff's
10 calculation, they are assuming that at any point in time if
11 you have short-term debt outstanding, it is the first source
12 of funds used to fund construction work in progress?

13 A. That is available for construction purposes,
14 yes.

15 Q. Even though there may be long-term debt
16 available or equity funds available. Right?

17 A. I believe Staff uses short-term debt --

18 Q. First?

19 A. -- first.

20 Q. Right. I'm not --

21 JUDGE THOMPSON: Very good.

22 MR. ENGLAND: Then maybe I better stop.

23 FURTHER QUESTIONS BY JUDGE THOMPSON:

24 Q. Let me ask a clarifying question. So if you
25 didn't put this debt cost, let's say, going to scenario

1 No. 2, the \$1 million totally borrowed 5 percent, you didn't
2 put that into the value of the plant, then the company would
3 never get it back; is that right?

4 A. Would you repeat that again?

5 Q. Well --

6 MR. ENGLAND: I know the answer.

7 Go ahead. I'm sorry.

8 JUDGE THOMPSON: Stop. Remember My Cousin
9 Vinny? From the witness and only the witness.

10 BY JUDGE THOMPSON:

11 Q. The second hypothetical Mr. England used was
12 \$1 million plant, the entire amount is borrowed at 5 percent
13 per annum.

14 A. Uh-huh.

15 Q. The plant project lasts exactly a year and so
16 the debt cost is, in fact, \$50,000. Now, you agreed to that
17 when he was asking you those questions. And then you also
18 agreed -- and I'm following up on this -- then that 50,000
19 is added to the million when you put the plant in service,
20 so that the value of the plant when it first goes into
21 service is not the million dollars spent on materials and
22 payroll and what have you to build it, but rather 1 million
23 plus 50,000 being the debt cost of that money. Right?

24 A. Yes.

25 Q. Okay. So if you didn't add that 50,000 on the

1 top, would you agree with me then the company would never
2 recover that?

3 A. That is correct.

4 JUDGE THOMPSON: Okay. See? Thanks. Thanks.

5 MR. ENGLAND: Thank you.

6 JUDGE THOMPSON: Okay. Mr. Schwarz, you want
7 some recross based on my opening my mouth there?

8 MR. SCHWARZ: I don't think so.

9 JUDGE THOMPSON: Mr. England, recross?

10 MR. ENGLAND: No, thank you.

11 JUDGE THOMPSON: Ms. O'Neill?

12 MS. O'NEILL: Thank you.

13 REDIRECT EXAMINATION BY MS. O'NEILL:

14 Q. Ms. Bolin, when you were talking about
15 capitalizing the total cost of construction of a project,
16 the total costs of constructing a project are more -- that
17 would include the cost of the materials; is that correct?

18 A. That's correct.

19 Q. And the cost of the labor to perform the
20 construction?

21 A. That's correct.

22 Q. And cost related to equipment to, you know,
23 dig trenches, cover things up, that sort of thing if it's
24 mains --

25 A. Yes.

1 Q. -- or whatever?

2 And those are the things that are capitalized
3 in the total cost of the plant?

4 A. Of a construction project plant, yes.

5 Q. Okay. And so that's the information that you
6 were trying to clarify.

7 And AFUDC deals with the financing charges,
8 it's another component of that total cost?

9 A. Yes. That's correct.

10 Q. Okay. And actually in your testimony you
11 bas-- your testimony basically is in agreement with the
12 decision 2000-281 case where the Commission made some
13 rulings regarding AFUDC; is that correct?

14 A. Yes.

15 Q. And you believe that to the extent it should
16 not already be done by the company, that the company should
17 apply that methodology of calculating AFUDC to all of its
18 projects; is that right?

19 A. Yes. That's what I believe.

20 Q. Okay. And do you generally agree with
21 Ms. Hanneken's statement that -- regarding how CWIP is
22 generally financed?

23 A. Yes.

24 Q. And CWIP is construction work in progress?

25 A. Yes.

1 Q. And that's related to AFUDC how?
2 A. As part of AFUDC.
3 Q. So when we throw these acronyms around, just
4 to keep everything correct, this is a component of --
5 A. Yes.
6 Q. -- what we're talking about --
7 A. Yes.
8 Q. -- today?
9 MS. O'NEILL: Okay. No further questions.
10 JUDGE THOMPSON: Thank you. Thank you very
11 much, Ms. Bolin. You stay stop down.
12 I think Mr. Grubb is our next witness on the
13 security AAO.
14 MR. COOPER: Yes. He's out in the hall. Let
15 me go grab him, your Honor.
16 JUDGE THOMPSON: Thank you for your testimony,
17 Ms. Bolin.
18 Nice to see again, Mr. Grubb.
19 THE WITNESS: Thank you.
20 JUDGE THOMPSON: Once again, I'll remind you
21 you're still under oath.
22 Mr. Cooper, this is your issue?
23 MR. COOPER: It is, your Honor. And we would
24 tender Mr. Grubb for cross-examination on the security AAO
25 issue.

1 JUDGE THOMPSON: Thank you.

2 Commissioner Murray?

3 EDWARD GRUBB testified as follows:

4 COMMISSIONER MURRAY: Just a moment, Judge.

5 JUDGE THOMPSON: Take as long as you need.

6 QUESTIONS BY COMMISSIONER MURRAY:

7 Q. Mr. Grubb, the disagreements between the
8 company and the Staff on the security AAO deferral are based
9 upon the Staff not wanting to include attorney fees. That's
10 one area. Right?

11 A. Correct.

12 Q. And the deferred carrying costs, that's
13 related to the AFUDC issue that we just covered?

14 A. That's correct.

15 Q. And then the costs associated with the return
16 on the unamortized balance of the AAO cost. Right?

17 A. That's correct.

18 Q. And on the unamortized balance of the AAO
19 cost, practically speaking, if the company is not allowed a
20 return on that unamortized balance, is that equivalent to --
21 well, in this instance if it is recovered over a 10-year
22 period as Staff is recommending but you could not earn a
23 return on the unamortized balance, I've always thought of
24 that as being like the company extending a loan -- an
25 interest-free loan for that period of time.

1 A. That would be the exact characterization.

2 Q. Because company is not recovering immediately,
3 the company is taking 10 years to recover the amounts that
4 are rightfully recovered; is that correct?

5 A. That is correct, yes.

6 Q. And if you can't earn a return on the
7 unamortized amount, you're just losing that time value of
8 money completely; is that right?

9 A. Exactly. It is the time value of money.

10 Q. Do you have any calculation of what that time
11 value of money would be in this instance related to the
12 unamortized balance?

13 A. I'm sorry, I do not.

14 Q. And the company's position -- is the company
15 wanting to amortize it as well?

16 A. Yes. The amortization was actually ordered in
17 the Commission order in Case No. 2002-273, the AAO
18 proceeding in December of 2002. It was a 10-year
19 amortization.

20 Q. All right. So there's no dispute about that?

21 A. That's correct.

22 Q. And how is Staff proposing to recover the
23 unamortized balance -- I mean, not Staff, the company?

24 A. How is the company proposing to recover the
25 unamortized piece of the deferral?

1 Q. I don't mean recover. To earn a return on it.
2 A. By including it in rate base.
3 Q. And the attorney's fees --
4 A. They were about \$37,000.
5 Q. And that was for the AAO proceeding?
6 A. That's correct.
7 Q. And is the company ordinarily allowed to
8 recover attorney fees in association with proceedings before
9 this Commission?
10 A. My understanding rate cases for us now, the
11 company incurs attorney's fees and we include that as an
12 amortization over the estimated life of the new rates, which
13 we anticipate in this case to be three years. We incurred
14 about \$37,000 worth of legal fees associated with the AAO
15 proceedings and we are proposing to amortize that over the
16 same 10-year period that the AAO is being amortized over.
17 Q. And how have attorney fees in AAOs been
18 treated in the past?
19 A. It's my understanding they have not been
20 included in the amortization.
21 Q. Have not been allowed at all?
22 A. That I don't know. They may have been as part
23 of the -- a company's test year and recovered through rates
24 as part of the legal expense in the cost of service.
25 Q. Is there any other proposal for recovering

1 those in this case?

2 A. No. It's only as part of the AAO
3 amortization.

4 COMMISSIONER MURRAY: I think that's all I
5 have. Thank you.

6 THE WITNESS: Thank you.

7 JUDGE THOMPSON: I have no questions for you,
8 Mr. Grubb.

9 Ms. O'Neill?

10 MS. O'NEILL: Yes, your Honor. Just one
11 second.

12 CROSS-EXAMINATION BY MS. O'NEILL:

13 Q. Good afternoon, Mr. Grubb.

14 A. Hi.

15 Q. What's the company's current level of legal
16 expenses included in its cost of service?

17 A. I don't know that answer.

18 Q. Is it more than \$37,000 a year?

19 A. I think it is, yes.

20 Q. In fact, that legal service line item is
21 intended to cover things such as proceedings before this
22 Commission and other legal matters; is that correct?

23 A. It includes legal matters associated with
24 employee disputes, property disputes, a wide range. The
25 legal matters -- there may be from time to time a legal

1 matter before the Commission that would be included in the
2 company's legal expense such as I believe the ISRS, the
3 company included that as a legal expense.

4 Q. In fact, Missouri-American typically is before
5 the Commission in some regulatory matter where they require
6 legal representation a few times a year even when there's
7 not a rate case?

8 A. That may be, yes. I'll agree with that. From
9 time to time.

10 Q. And rate case legal expenses are handled
11 separately from that because that's considered to be not an
12 annual event?

13 A. That's right. It happens every three years so
14 we match the expense to the revenues from which they're
15 recovered.

16 Q. But there is a provision in your cost of
17 service for legal fees?

18 A. That's correct.

19 Q. And in the past when your company or one of
20 its predecessors has sought an AAO, legal fees have not been
21 included in the AAO; is that correct?

22 A. I don't know. This was the first AAO that I
23 was a part of. I'm not sure how the legal fees were
24 handled.

25 Q. You're not aware of them being included

1 though, are you?

2 A. No, I'm not.

3 Q. And when Missouri-American applied for this
4 security AAO, the company did not include legal expenses of
5 the AAO as a component of the security cost; is that
6 correct? Did not list them out as a component?

7 A. Did not list them out as a component, that's
8 correct.

9 Q. Did not put them in as some overhead
10 conglomeration figure? It's not included in there right
11 now?

12 A. No. This was brought up as part of this
13 proceeding to recover those costs.

14 Q. And in the order granting this security AAO,
15 the Commission did not state that it would include legal
16 fees in the AAO, did it?

17 A. Not specifically, no.

18 Q. Didn't address it at all, did it?

19 A. No, it did not.

20 Q. Company is also seeking rate base treatment
21 for the unamortized balance of the AAO in this case; is that
22 correct?

23 A. Yes, we are.

24 Q. And are you aware of whether or not in prior
25 rate cases rate base treatment has been given to unamortized

1 balances for this company?

2 A. I believe St. Louis County had an AAO and that
3 was referred to as AAO one and two. When that was first
4 authorized, rate base treatment was -- was allowed.

5 Q. Subsequently the amortization continued but
6 rate base treatment was not allowed. Is that your
7 recollection?

8 A. And that has confused me. I don't understand
9 why one Commission would allow rate base treatment of the
10 AAO and the next order, rate case two down the line, it's
11 denied.

12 Q. And as far as rate base treatment, capital
13 additions that were the result of the AAO have been
14 capitalized or included now in plant in service; is that
15 correct?

16 A. That is correct, yes.

17 Q. And the company will earn a return on those
18 capital items that are in service with all other plant or
19 whatever other capital account those go under; is that
20 correct?

21 A. That's correct.

22 Q. And isn't it also true Public Counsel has not
23 opposed including those capital items in your plant? We
24 have not opposed you getting a return on those items?

25 A. I think that is accurate.

1 Q. It's also true that any ongoing security
2 cost -- increases to levels of security costs as expenses
3 will be included in the cost of service going forward, if
4 you have any?

5 A. To the extent there were some in the test year
6 and have not been removed by anybody's proforma adjustment
7 or increased through a proforma adjustment, that's correct.

8 Q. So to the extent that they will continue to
9 incur them, they're going to be recognized in rates?

10 A. I believe that's correct. The expenditures
11 that are in the deferral were not considered to be ongoing
12 security-related expenses.

13 Q. But you would also agree that
14 Missouri-American has always had a duty to take reasonable
15 security measures that are necessary to assure that the
16 water it supplies its customers are safe?

17 A. Yes.

18 Q. And continues to have that duty even if that
19 duty has a different focus now?

20 A. Absolutely. Yes.

21 Q. And, in fact, even if the Commission had not
22 granted the security AAO, your company would still have the
23 same duty; is that correct?

24 A. That is correct, yes.

25 Q. And on a going-forward basis those expenses

1 are included in the cost of service?

2 A. Whatever -- yes, whatever is in the test year
3 is there.

4 MS. O'NEILL: No further questions.

5 JUDGE THOMPSON: Thank you, Ms. O'Neill.

6 Mr. Schwarz?

7 CROSS-EXAMINATION BY MR. SCHWARZ:

8 Q. The Accounting Authority Order permits the
9 company to defer to a holding account property taxes,
10 carrying costs and depreciation expense that will be charged
11 since the last rate case and prior to setting rates in this
12 case; is that correct?

13 A. You're talking about the security AAO?

14 Q. Yes.

15 A. That's correct, except for the property taxes
16 was not included as part of that request.

17 Q. Okay. But the company didn't request it, but
18 that's a frequently included item in AAOs, is it not?

19 A. I did not know that. And next time I think
20 I'll include it.

21 Q. In the absence of an AAO, how would the
22 company have treated those expenses?

23 A. They would have been expensed on the --
24 through the income statement.

25 Q. So by securing an Accounting Authority Order

1 from the Commission, the company is permitted to have the
2 ratepayers pay for those expenses even though under normal
3 regulatory practice the ratepayers wouldn't have to pay
4 those expenses; isn't that correct?

5 A. Not necessarily. For example, a good bit of
6 those expenditures were made -- expenses were incurred
7 during 2002 and our test year is 2002. Had we not gone for
8 an AAO, requested it, we'd be sitting here probably with
9 \$4 million more higher in expense.

10 Now, the Commission would have been faced with
11 a task of determining whether -- what to do with those
12 expenses during the test year. They could have deferred
13 them, given the company the authority to go ahead and defer
14 them and amortized them similar to an AAO. They have other
15 options.

16 Q. They might also have adjusted them out as
17 nonrecurring; isn't that correct?

18 A. That -- that is one of the other options, yes.

19 Q. But as to the non-test year items, let's --
20 the prior expenses, those would otherwise have been absorbed
21 by the company and not borne by the ratepayers; is that
22 fair?

23 A. That's a fair statement, yes.

24 Q. I know there was some discussion earlier about
25 your use of the word the company being gouged. Would you

1 say that the ratepayers are being gouged by having to pay
2 for these expenses that otherwise would have escaped a
3 payment?

4 A. No, I do not. Because those expenditures were
5 made for their benefit. As a -- as a customer of an
6 affiliated company, of Missouri-American, I knew that there
7 was security there after the 9/11 terrorist attacks. And I
8 felt comfortable with the service I was getting.

9 Q. But that wasn't really -- my question was that
10 you have expenses that because the Commission issued an
11 Accounting Authority Order and permitted the company to
12 defer these for subsequent recovery, the ratepayers will be
13 paying costs that otherwise they would not have to pay. And
14 we agree on that?

15 A. Assuming it's outside the test year, that's
16 correct.

17 Q. Correct. So is it then unreasonable for the
18 Commission to balance the fact that the ratepayers are
19 paying a return of this against paying a return on the
20 deferred amounts?

21 A. It depends on the deferral. In my Rebuttal
22 and Surrebuttal I think I mentioned that the Commission has
23 and can form a policy and look at each deferral individually
24 and look at the expenditures within those deferrals and
25 determine, okay, who do they really truly benefit.

1 They benefit -- in case one they could benefit
2 the customers solely; case two, it could be the customers
3 and the shareholders. And I think that's what I've asked
4 the Commission to do in the Rebuttal Testimony, take a look
5 at these expenditures.

6 You know, why were they done? They were done
7 to secure the assets of the company for the benefit of the
8 customers. We have a treatment plant out in St. Joe who has
9 a fence around that treatment plant that that fence is in
10 rate base because it's there to protect those assets that
11 serve those customers --

12 Q. But --

13 A. -- so --

14 Q. Sorry.

15 A. No, go right ahead.

16 Q. The company never seeks to recover any costs
17 that don't benefit the ratepayers, do they?

18 A. There are certain expenditures that can be
19 considered as a deferral that benefit both ratepayers and
20 the customers. There are instances.

21 Q. The ratepayers and the customers?

22 A. I'm sorry. The ratepayers and the company. I
23 apologize. It's been a long day.

24 Q. It has been a long day.

25 But the fact remains that because of this AAO

1 for -- certainly for amounts that are outside the test year,
2 the customers are paying amounts that otherwise they
3 wouldn't have to pay. Correct?

4 A. That's the vehicle, that's the nature of an
5 AAO. It's a vehicle that allows the Commission to make sure
6 that the company's financial position is maintained and
7 provides the company to, you know, recover certain costs
8 that otherwise would not. Without the AAO, that vehicle --
9 without that vehicle, that just wouldn't happen.

10 Q. Right. And AAO's are an exception to the
11 normal operation of the regulatory procedure that involves
12 regulatory lag?

13 A. I agree with that, yes.

14 MR. SCHWARZ: That's all.

15 JUDGE THOMPSON: Thank you, Mr. Schwarz.

16 Mr. Cooper?

17 REDIRECT EXAMINATION BY MR. COOPER:

18 Q. Mr. Grubb, you mentioned in response to a
19 question from Commissioner Murray that there was an
20 amortization that was ordered as a part of the 2002-273
21 case; is that correct?

22 A. That's correct.

23 Q. And when did that amortization start?

24 A. December of 2002.

25 Q. Okay. And has the company amortized a portion

1 of its deferral since that point in time?

2 A. Yes, we have.

3 Q. You were asked briefly about I think capital
4 items by Ms. O'Neill. The deferral that's the subject of
5 this issue, does it include the actual capital amounts or is
6 it merely depreciation and carrying costs associated with
7 those amounts?

8 A. Are you asking what's contained within the
9 deferrals?

10 Q. Yes.

11 A. There's basically three components. One is
12 the deferral of the depreciation and the capital carrying
13 charges on the assets that have been placed into service.
14 And it also reflects and includes security-related costs
15 such as guards that we had on our premises throughout the
16 state at various times. Those are the major components put
17 in the deferral.

18 Q. Now, there was a question by Mr. Schwarz that
19 related back to the word "gouged." Do you remember that?

20 A. I remember.

21 Q. Has the company actually made expenditures
22 that -- were there expenditures made by the company that led
23 to this deferral -- to the amounts that are contained within
24 the deferral?

25 A. If you're referring to the -- the total

1 deferral, what's in them, yes, it was like \$4.7 million.

2 Q. But you talked about the items that primarily
3 make up the deferral?

4 A. Uh-huh.

5 Q. There was money spent by the company in
6 regard -- to pay the guards you referenced?

7 A. That's correct.

8 Q. There was capital investment made by the
9 company?

10 A. Yes.

11 Q. And as a result of that capital investment,
12 the company incurred depreciation expense carrying costs.
13 Correct?

14 A. Yes. After the asset goes into service, that
15 occurs.

16 Q. Okay. And the underlying expenditures then,
17 just to kind of wrap up, tell us again, do you believe that
18 those underlying expenditures benefited the ratepayers to
19 some extent?

20 A. Absolutely. I think -- I think our customers
21 wanted it. Obviously, you know, in testifying before the
22 Commission on the AAO case at that time, there -- there
23 was -- I always felt there was a high feeling of anxiety,
24 you know, over the terrorist attacks still and to some
25 extent today there still is.

1 As I said earlier, you know, if we have fences
2 around the treatment plant that were there five years ago,
3 six years ago, those amounts are in rate base. You know,
4 security measures have always been there to protect the
5 assets of the -- of the company and -- that provide the
6 service to our customers.

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

9 JUDGE THOMPSON: Thank you, Mr. Cooper.
10 You may step down, Mr. Grubb.

11 Mr. Rackers. I'll remind you that you're
12 still under oath, Mr. Rackers.

13 MR. SCHWARZ: I tender Mr. Rackers for
14 cross-examination and questions from the Bench on the issue
15 of the company's security AAO.

16 JUDGE THOMPSON: Thank you, Mr. Schwarz.
17 Commissioner Murray?

18 COMMISSIONER MURRAY: I'm sorry, Judge.

19 JUDGE THOMPSON: That's quite all right.
20 Would you prefer to have a round of cross first?

21 COMMISSIONER MURRAY: Yes. Because I'm not
22 sure if I have questions for Mr. Rackers.

23 JUDGE THOMPSON: Very well. Ms. O'Neill?

24 MS. O'NEILL: No questions.

25 JUDGE THOMPSON: Mr. Cooper?

1 STEPHEN RACKERS testified as follows:

2 CROSS-EXAMINATION BY MR. COOPER:

3 Q. Mr. Rackers, in regard to the amounts that
4 have been deferred by the company pursuant to Commission's
5 order in WO-2002-273, the only item of disagreement that the
6 Staff has is related to the legal costs associated with the
7 litigation of the AAO application. Correct?

8 A. We also reduced the amount of AFUDC, the
9 amount of carrying costs that were included.

10 Q. Okay. And that was my next question. There
11 is an issue as to the security AAO related to AFUDC. Is
12 that issue related to the AFUDC issue that was just tried
13 before this Commission?

14 A. Yes. It's calculated exactly the same way.
15 Depending on how the Commission would rule on that issue, it
16 would have the same effect on this issue.

17 Q. So the AFUDC issue that you mention in your
18 testimony in regard to the security AAO you would view as a
19 roll out of the main AFUDC issue in this case. Correct?

20 A. That's correct.

21 Q. Okay. And I believe the Staff also takes the
22 position that the amounts deferred pursuant to the security
23 AAO should not receive rate base treatment. Correct?

24 A. That's correct.

25 Q. In other words, Staff alleges or proposes that

1 the company not receive a return on, if we could use that
2 terminology. Correct?

3 A. That's correct.

4 Q. Now, the Staff does recommend the use of the
5 10-year amortization for recovery of the deferral itself.
6 Correct?

7 A. Yes.

8 Q. And that would be a return of those amounts.
9 Correct?

10 A. That's correct.

11 Q. Now, I think Mr. Grubb had indicated earlier
12 that the company started that amortization in December of
13 2002. Correct?

14 A. Yes.

15 Q. And would you agree with that?

16 A. Yes.

17 Q. Okay. So some portion of the deferral has
18 already been amortized as of today. Correct?

19 A. That's correct.

20 Q. And potentially the company won't receive a
21 return of that portion of the deferral. Correct?

22 A. That's correct.

23 MR. COOPER: That's all the questions I have.

24 JUDGE THOMPSON: Thank you, Mr. Cooper.

25 Mr. Schwarz?

1 MR. SCHWARZ: Does the --

2 JUDGE THOMPSON: The Commissioner will jump in
3 when she has questions.

4 COMMISSIONER MURRAY: Judge, I don't believe I
5 do.

6 JUDGE THOMPSON: Do you have some redirect?

7 MR. SCHWARZ: No.

8 JUDGE THOMPSON: Great. You may step down,
9 Mr. Rackers.

10 Ms. Bolin? Ms. O'Neill.

11 MS. O'NEILL: Yes, your Honor. I would tender
12 Ms. Bolin for cross-examination and questions from the
13 Bench.

14 JUDGE THOMPSON: Thank you. You're still
15 under oath, Ms. Bolin.

16 COMMISSIONER MURRAY: I don't have any
17 questions.

18 KIMBERLY BOLIN testified as follows:

19 QUESTIONS BY JUDGE THOMPSON:

20 Q. I only have one. What's this worth? In other
21 words, what's the company's position in dollars?

22 A. Okay. Let's see. I believe between company
23 and Staff it's worth \$487,280.

24 Q. That's the difference?

25 A. Yes.

1 Q. So is there some amount Staff is willing to
2 allow in under this or is the Staff position zero, if you
3 know?

4 A. I'm not quite sure on --

5 Q. Okay. I missed my chance when I let
6 Mr. Rackers go. That's okay.

7 JUDGE THOMPSON: Mr. Schwarz?

8 MR. SCHWARZ: Oh, I have no questions.

9 JUDGE THOMPSON: Mr. Cooper?

10 MR. COOPER: No questions.

11 JUDGE THOMPSON: Ms. O'Neill?

12 MS. O'NEILL: I'm not really quite sure that I
13 have any redirect, but I'll think about it for -- no. No
14 redirect.

15 JUDGE THOMPSON: You may step down, Ms. Bolin.

16 I'm not going to make you start acquisition
17 premiums today. So we will be in recess until tomorrow
18 morning at 8:30 unless someone has something else.

19 Mr. Cooper?

20 MR. COOPER: We can do this off the record I
21 think, but we probably --

22 JUDGE THOMPSON: Very good. Before we go off
23 the record, I should say I've gotten an e-mail here from
24 Ms. Langeneckert threatening to drive down here in order to
25 move the admission of the four exhibits of her witness,

1 Billie LaConte, 28, 29 and 58 and 86. And I thought, my
2 God, we should save her that trip.

3 Does anyone have any objection to the receipt
4 of any of those four exhibits?

5 MR. SCHWARZ: Staff does not.

6 MR. ENGLAND: No objection, your Honor.

7 MS. O'NEILL: No objection.

8 JUDGE THOMPSON: Exhibits 28, 29, 58 and 86
9 will be received into the record of this proceeding.

10 (Exhibit Nos. 28, 29, 58 and 86 were received
11 into evidence.)

12 JUDGE THOMPSON: I will inform Ms.
13 Langeneckert that she need not make the trip. And we will
14 not be hearing then from Ms. LaConte because, frankly, we've
15 heard from a lot of people and I feel it's been almost
16 sufficient. So that takes care of that.

17 Okay. Let's go off the record then for that
18 discussion that you wanted to have.

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