

BEFORE THE PUBLIC SERVICE COMMISSION

STATE OF MISSOURI

TRANSCRIPT OF PROCEEDINGS

Evidentiary Hearing

February 21, 2012

Jefferson City, Missouri

Volume 20

In The Matter of Missouri-American)
 Water Company's Request For) File No.
 Authority To Implement A General) WR-2011-0337
 Rate Increase For Water And Sewer) and SR-2011-0338
 Service Provided In Missouri Service)
 Areas)

HAROLD STEARLEY, Presiding
 SENIOR REGULATORY LAW JUDGE
 KEVIN D. GUNN, Chairman
 TERRY M. JARRETT
 ROBERT S. KENNEY,
 COMMISSIONERS

REPORTED BY:
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PROCEEDINGS

1
2 JUDGE STEARLEY: All right. Good morning. It
3 is Tuesday, February 21st, 2012. Commission has set this time
4 for an evidentiary hearing in File Number WR-2011-0337, which
5 is captioned as In The Matter Of Missouri-American Water
6 Company's Request For Authority To Implement A General Rate
7 Increase For Water And Sewer Service Provided In Missouri
8 Service Areas. This file has also been consolidated with
9 Files Number SR-2011-0338, WR-2012-0056 and SR-2012-0057.

10 My name is Harold Stearley and I'm the
11 regulatory law judge presiding over today's hearing. Before
12 we take entries, I did want to announce, as we usually do with
13 these large cases with multiple policies, our attendance
14 policy is that parties do not necessarily have to be in
15 attendance for every day of the scheduled hearing, but if
16 they're not here on a day in which we're taking witness
17 testimony, they will have been considered to have waived any
18 right to cross-examine those particular witnesses.

19 And the reason I bring that up at this
20 particular point is I do have notices filed from three parties
21 who have stated they were not going to enter their appearance
22 today but instead that they were going to enter their
23 appearance on the day their issues were scheduled and they
24 would make opening statements on those days as well.

25 Those parties were Triumph Foods, City of Warrensburg,

1 and the Utility Worker's Union of America Local 335. So
2 having made those announcements for them, we will take entries
3 of those parties who are present today, beginning with
4 Missouri-American Water Company.

5 MR. ENGLAND: Thank you, Your Honor. Let the
6 record reflect the appearance of Paul Boudreau, Dean Cooper,
7 and W.R. England on behalf of Missouri-American Water Company.
8 Also on behalf of the Water Company, John Reichart. We've
9 entered written entries of appearance for all four and that
10 contains the necessary mailing and other address information.

11 JUDGE STEARLEY: Okay. Thank you,
12 Mr. England.

13 MR. ENGLAND: Thank you.

14 JUDGE STEARLEY: For Ag Processing,
15 Incorporated.

16 MR. CONRAD: Thank you, Your Honor. Please let
17 the record reflect the appearance of Stuart Conrad and also
18 Jeremiah Finnegan, who will be here this afternoon, the law
19 firm of Finnegan, Conrad & Peterson. And Your Honor, I have
20 provided the reporter with a -- the documentation. If you
21 want me to go through the address and phone, I certainly can.

22 JUDGE STEARLEY: If you've given our reporter
23 that information, that's fine.

24 MR. CONRAD: Thank you.

25 JUDGE STEARLEY: Thank you, Mr. Conrad.

1 For the Empire District Electric Company.

2 MR. JOHNSON: Thank you, Your Honor, it's Craig
3 Johnson, Johnson Law Firm, for the Empire District Electric
4 Company, intervenor. I provided my address to the court
5 reporter.

6 JUDGE STEARLEY: Okay. Thank you,
7 Mr. Johnson.

8 For BJC Healthcare.

9 MS. LANGENECKERT: Good morning. Lisa
10 Langeneckert of the law firm of Sandberg Phoenix & von Gontard
11 appearing on behalf of BJC Healthcare, and the court reporter
12 also has my information.

13 JUDGE STEARLEY: Thank you, Ms. Langeneckert.
14 For the Missouri Industrial Energy Consumers.

15 MS. VUYLSTEKE: Diana Vuylsteke for the law
16 firm Bryan Cave, 211 North Broadway, Suite 3600, St. Louis,
17 Missouri 63102 for the MIEC.

18 JUDGE STEARLEY: Okay. Thank you,
19 Ms. Vuylsteke.

20 For the Office of the Public Counsel.

21 MS. BAKER: Thank you. Christina Baker, PO Box
22 2230, Jefferson City, Missouri 65102, appearing on behalf of
23 the Office of the Public Counsel and the ratepayers.

24 JUDGE STEARLEY: Thank you, Ms. Baker.
25 City of St. Joseph.

1 MR. STEINMEIER: Thank you, Your Honor. Please
2 let the record reflect the appearance of William D.
3 Steinmeier, William D. Steinmeier, P.C. of Jefferson City, on
4 behalf of the city of St. Joseph, Missouri.

5 JUDGE STEARLEY: Thank you, Mr. Steinmeier.

6 For the city of Joplin.

7 MR. SCHWARZ: Please enter the appearance of
8 Marc Ellinger and Tim Schwarz of the firm Blitz, Bardgett &
9 Deutsch. I've provided the reporter with the balance of our
10 information.

11 JUDGE STEARLEY: Okay. Thank you,

12 Mr. Schwarz.

13 For the city of Jefferson.

14 MR. COMLEY: Good morning, Judge Stearley.

15 Appearing on behalf of the city of Jefferson, I'd like the
16 record to reflect the entry of Mark W. Comley, Newman, Comley,
17 & Ruth, P.C. and our business address is on the appearance
18 which I've submitted to the court reporter.

19 JUDGE STEARLEY: All right. Thank you very
20 much, Mr. Comley.

21 For the city of Riverside.

22 MR. BEDNAR: Good morning, Your Honor. For the
23 city of Riverside, Joe Bednar, Keith Wenzel, and Eric Steinle
24 of the law firm Spencer Fane Britt & Browne, the address of
25 which has previously been submitted to the court reporter, on

1 behalf of the city of Riverside.

2 JUDGE STEARLEY: Okay. Thank you, Mr. Bednar.

3 For the Metropolitan St. Louis Sewer District.

4 MR. LOWRY: Good morning, Your Honor. For the
5 Metropolitan Sewer District, Kent Lowry and Byron Francis, of
6 the law firm Armstrong Teasdale LLP, we've provided our
7 written entry of appearance, and we'll be one of the parties
8 waiving appearance until Thursday.

9 JUDGE STEARLEY: Okay. Thank you, Mr. Lowry.

10 For the city of Brunswick and Public Water
11 Supply Districts One and Two of Andrew County.

12 MR. DORITY: Thank you, Judge. On behalf of
13 the Public Water Supply District Numbers One and Two of Andrew
14 County and the city of Brunswick, Missouri, Larry W. Dority
15 and James M. Fischer of Fischer & Dority, P.C., and our
16 written entry of appearance has been provided. Thank you.

17 JUDGE STEARLEY: Thank you, Mr. Dority.

18 And for the Staff of the Missouri Public
19 Service Commission.

20 MR. THOMPSON: Thank you, Judge. Kevin
21 Thompson, Rachel Lewis, Annette Slack, Sarah Kliethermes and
22 Megan McClowry for the Staff of the Missouri Public Service
23 Commission, Post Office Box 360, Jefferson City, Missouri
24 65102.

25 JUDGE STEARLEY: Okay. Thank you,

1 Mr. Thompson.

2 Did I miss anybody? I think I've got
3 everybody.

4 All right. Initially, I must remind you-all to
5 please turn off any cell phones, BlackBerries, other
6 electronic devices, which do have a tendency to interfere with
7 our recording and web casting. Are there any preliminary
8 matters we need to take up at this moment?

9 MR. THOMPSON: Judge, I think I mentioned to
10 you that this case is in the process of settling. We believe
11 that a settlement will be reached and finalized. Work is
12 being done to prepare a stipulation and agreement that
13 describes the settlement, and we would propose this morning to
14 mark exhibits and to take up two witnesses of the company's
15 who are unable to be here at any other time.

16 JUDGE STEARLEY: All right. There were a
17 couple things I had on my list, but considering there are
18 pending settlement negotiations, I think those can wait and we
19 can see how those play out. In terms of marking exhibits, I
20 believe Missouri-American has provided its exhibits and a list
21 of those exhibits.

22 MR. ENGLAND: We have, Your Honor.

23 JUDGE STEARLEY: And I did not, I don't
24 believe, issue my standard of order directing the parties on
25 numbering, but I would like the parties to number their

1 exhibits with their party designation first and then
2 sequentially, and I would like the parties to prepare a list
3 of their exhibits to provide to the court reporter and one to
4 myself. We've been using this as a crosscheck because we had
5 an incident once where some exhibits seemed to have vanished.
6 So this helps us keep them -- keep account of them all.

7 I believe since the two witnesses for today was
8 Ms. Ahern and Mr. Rogers for Missouri-American; is that
9 correct?

10 MR. BOUDREAU: That's correct.

11 JUDGE STEARLEY: And those exhibits.

12 MR. CONRAD: I'm sorry, back here. I think we
13 had -- the parties had talked before about a process and that
14 included marking exhibits as Your Honor has -- has already
15 observed. I think perhaps a couple of us do have brief
16 opening statements that we would like to get out of the way --

17 JUDGE STEARLEY: Okay.

18 MR. CONRAD: -- before you go to those
19 witnesses.

20 JUDGE STEARLEY: Okay. We can certainly allow
21 that. I know the parties have filed position statements and
22 if it is helpful to be expeditious and bypass those openings
23 and just do the witness testimony, we can do that. But if
24 there are parties who would prefer to give openings, we can
25 certainly allow them to do so. Is there -- did -- Mr. Conrad,

1 do you have a preference to give an opening before we start?

2 MR. CONRAD: Yes, I have a brief, and I would
3 prefer that we do that now while the -- while the Commission
4 is -- two-thirds of the Commission as presently constituted is
5 here.

6 JUDGE STEARLEY: All right. Are there any of
7 the other parties present that would like to give openings at
8 this time? And Mr. Steinmeier?

9 MR. STEINMEIER: Yes, Your Honor.

10 JUDGE STEARLEY: We can also reserve any
11 opening statements at the time the parties are offering their
12 witnesses for cross-examination. So no one will be denied an
13 opening statement if they wish to give one. Well,
14 Mr. Conrad, since you'd like to go ahead and give yours, by
15 all means.

16 MR. CONRAD: Very well. Judge, may it please
17 the Commission.

18 We're challenged this morning to talk about the
19 revenue requirement because the two witnesses that are
20 scheduled will be generally on that. So I do want to talk
21 briefly about revenue requirement and how we got there.

22 The revenue requirement for this company seems
23 to be what I might call a roll-up. That is it is a
24 combination and an additive number that is derived by looking
25 at the individual districts and what their -- their costs are.

1 Now, the company has come in with a proposal that it now calls
2 consolidated rate treatment as opposed to that
3 district-specific approach that is the source of the revenue
4 requirement. The perception is that spreading costs is a good
5 thing, but the result is that some districts are charged below
6 their costs and others are required to contribute a subsidy.

7 Now, in 2000, long before I think Your Honor
8 was on the bench or perhaps the two Commissioners were here,
9 no one contributed a subsidy to St. Joseph when the company
10 built a roughly \$75 million plant high on the hill in Andrew
11 County. That cost was absorbed entirely within the
12 St. Joseph district. Some customers in that district
13 experienced as much as a 230 percent increase in their rates.
14 Many were at -- over 100 percent increase. In that same
15 decision, the city of Joplin was asked to pay a subsidy for
16 the benefit of the community of Brunswick so that the people
17 there could have a lower cost of water than basically what
18 their cost showed.

19 Now Your Honor's disinequitable result has come
20 about, in my opinion, because of the Commission's acquisition
21 policy which impacts the revenue requirement of this company.
22 This policy needs to be changed. It apparently looks only to
23 the rates in the acquired district and finds no detriment if
24 those rates remain the same. It completely ignores blue
25 pencils excludes, you use whatever term you want, the

1 potential impact of those rates and those decisions on the
2 customers in other districts of this company who are then in
3 turn asked to subsidize.

4 The circumstances in doing that are very like
5 the circumstances in an HEP decision in 2003, 120 S.W. 3d 732,
6 if you care to take note of it. And in that case, Aquila
7 sought to acquire the assets of St. Joseph Light & Power. The
8 Commission was presented with evidence regarding the detriment
9 that that acquisition would have to steam customers, but the
10 Commission in its wisdom decided that it would simply exclude
11 and blue pencil that evidence of detriment. Now, when that
12 case arrived at the Missouri Supreme Court, however, the
13 Commission was told that even though it might in some future
14 case avoid that detriment, it had to deal with it then because
15 that was what the statute required. And the case was remanded
16 to this Commission.

17 The Commission still must consider all relevant
18 factors when it goes to set rates. And relevant factors
19 insofar as revenue requirement are what district rates are
20 being charged. Citation on that, the old UCCM Case 585 S.W.
21 2nd 41. And that, too, is a Missouri Supreme Court decision.

22 Now Your Honor made reference to the revenue
23 requirement that is associated with the sewer cases. And when
24 this company filed, originally it rolled in sewer cases.
25 There were perhaps one, maybe more, district sewer cases

1 embedded in it. Indeed, even an SR number was assigned, but
2 the Commission early on decided to consolidate them. But the
3 sewer rates, Judges, are still there.

4 The Staff does what it calls an EMS run for
5 each district. Currently, there are 29 districts. Now, I've
6 had a little bit of debate with a couple members of the Staff
7 through depositions as to what EMS stands for. I go back a
8 few years, perhaps more than I should, that it used to be
9 called exhibit manipulation system. It turns out that the
10 word "manipulation" seems to have a context or a connotation
11 that is not desirable and so now the terminology has been
12 exhibit modeling system.

13 But I'd like to show you what those EMS runs
14 show. And what I'm going to show you is from the -- I believe
15 it is February 6, which is as far as we know, the most recent
16 set of EMS runs that the Staff has done.

17 Now, Your Honor, I have, I think, ample copies
18 for Your Honor and the two Commissioners, and then my
19 intention is to put this on -- on the technology of ELMO. And
20 if anybody would like to have a copy to go along with, you're
21 welcome. I don't know -- do you know what we need to do on
22 that? And Dan told me that there was a zoom.

23 MR. BEDNAR: Would you mind if I got a copy of
24 your exhibit?

25 MR. CONRAD: Sure. I'm sorry the numbers are

1 small. Joe, would you manage to let me have one, please?

2 MR. BEDNAR: Sure.

3 MR. CONRAD: The first column of numbers, and
4 again, all of these are taken from the staff EMS runs, are
5 what the current operating revenues from those districts are.
6 We then have identified the Staff revenue increases on the
7 Staff load, Staff midpoint, and the Staff high, and what those
8 percentages show.

9 Now you'll note that the districts show
10 manically different numbers based on their revenues as against
11 the costs that the Staff has identified. The larger districts
12 vary from as much as 45 percent for Jefferson City down to
13 6.2, I'm looking at the Staff high for Warrensburg.

14 But it is interesting then when you move on
15 down to the second group, which are basically acquisitions,
16 some of which this Commission has approved and some which
17 predate this Commission. You will note that on Brunswick,
18 even at the Staff's low, you were talking about an increase of
19 in excess of 100 percent to bring that district's water rates
20 to a cost base level. You will notice a new acquisition down
21 there, line 16, Roark. Again, over a 100 percent increase.

22 Now, there are two places that that can go.
23 Either the company can eat it, which I think we all know is
24 quite not likely, or it can be shifted to some other district.
25 But there is simply no reason for this Commission to grant a

1 preference to a particular locality and in so doing create a
2 disadvantage or subject another locality to a disadvantage.

3 I would observe and someone may mention this
4 later, that some of these districts do not have sewer systems.
5 But if you look down at the very bottom, Warren County Sewer
6 jumps out 280 percent even at the Staff low in order to bring
7 that sewer district to cost.

8 Now let's go back to Brunswick for a moment
9 because I know a little bit about that one. Brunswick has
10 been part of this rate case from the beginning, but it's been
11 part of several prior cases. I have no ax to grind for the
12 folks in Brunswick. They have about 400 customers and they
13 may very well be in the position that they cannot afford the
14 100 percent increase. I don't -- I don't have a problem with
15 that, but there are other options.

16 And if we get into the trial of this, I will
17 lay before the Commission other options that Brunswick
18 community has looked at that are somewhat less expensive.
19 Now, part of the problem, and I headed this off with the
20 acquisition policy that this Commission has, when we start
21 talking about revenue requirement, it is simply inseparable to
22 deal with revenue requirement separate and apart from the
23 policy that is established by this Commission for how
24 districts are acquired.

25 If a district like Brunswick is acquired and

1 cannot be served at a rate that the people can afford, then I
2 would respectfully submit to this Commission that it is not in
3 the public interest, it cannot be shown to be without
4 detriment to ask other localities to absorb a preference --
5 absorb, rather, a detriment to them so that the locality of
6 Brunswick can be preferred.

7 Now sewer, I talked briefly about that, should
8 carry its own weight. The company has sought to blend these
9 together in its consolidated tariff mechanism. But if you
10 will look at OPC versus Atmos, 289 S.W. 3d 340, and that's a
11 Western District Case, 2009, and an older one, State, ex rel.
12 Laundry versus PSC, 34 S.W. 2d 37, 1931 court case. Reading
13 those, I think you must come away with the solid idea that
14 sewer and water service are not like and contemporaneous, they
15 are not provided under the same or substantially similar
16 circumstances, and the language that I just read is right out
17 of that decision. A regulated sewer service in this state
18 needs to cover its own cost.

19 Now let's talk about revenue requirement. When
20 you take a system that has been municipally run or a district
21 sewer and you acquire that sewer or that sewer district by an
22 investor-owned utility, the customers now have to carry the
23 rate of return, they now have to carry tax, which is a
24 gross-up now of something like 1.5, 1.6. They have to carry,
25 in this case, an allocation of costs from mother American

1 Water that are allocated some to Pennsylvania, some to
2 Illinois, and some here.

3 None of those costs had to be incurred, paid
4 for under a district sewer or municipal sewer. Now that's not
5 to say that everybody needs to stay as a district or municipal
6 sewer. But you need folks to look at those alternatives when
7 you consider whether to approve an acquisition. And simply
8 looking at the rates within a district, water or sewer, and
9 saying no detriment because those rates are going to stay the
10 same, ignores the impact that your decision has not only on
11 that district but the way the company is making its proposal
12 on other districts.

13 And I again submit to you that there is simply
14 no basis in Missouri law, in regulatory jurisprudence, if you
15 will, for one locality to be given a preference by the method
16 of giving discrimination or disadvantage to other localities.
17 This is a serious problem.

18 OPC Counsel Baker advised you, I think a few
19 months ago, there was an SW case in which you-all looked at
20 this. And I believe then Chairman Clayton asked the question,
21 Well are we just saddled with what all the other Commissions
22 have done? Well, here folks, you are. These are acquired.
23 They're done. But the first rule, and I've raised this in
24 other contexts, when you find yourself in a hole, the first
25 thing you do is stop digging. Don't dig it any deeper. Stop

1 it.

2 Look, unfortunately, the opportunity to do
3 something about Brunswick, Roark, Warren County Sewer, maybe
4 in the rearview mirror insofar as the acquisition goes, not
5 necessarily in the rearview mirror as to what you can do, but
6 the PSC must confront the implications of its earlier
7 decisions to authorize acquisitions without proper, in my
8 view, consideration of the detriments that result. The
9 situation cannot be fixed by subjecting one locality or
10 several localities to a disadvantage in order to grant a
11 preference to another locality. It just doesn't work.

12 Thank you, Your Honors.

13 JUDGE STEARLEY: Mr. Conrad, before you sit
14 down, let me ask do the Commissioners have any questions for
15 Mr. Conrad?

16 COMMISSIONER JARRETT: I don't have any.

17 JUDGE STEARLEY: All right. Thank you for your
18 statement.

19 Mr. Steinmeier?

20 MR. STEINMEIER: Mr. Chairman, Commissioner
21 Jarrett, Judge Stearley, may it please the Commission.

22 The city of St. Joseph is an intervenor in this
23 case. St. Joseph, the county seat of Buchanan County is the
24 eighth largest city in Missouri, fifth depending on how you
25 count, with a population for the last census of 76,708. As a

1 water customer of Missouri-American Water Company, the city of
2 St. Joseph has paid in average of \$176,615 per year of
3 taxpayers' money to Missouri-American for water for city
4 purposes in the last two fiscal years.

5 Of course, the daily lives and family budgets
6 of the citizens of St. Joseph and the financial success of the
7 commercial and industrial enterprises that form the economic
8 backbone of the St. Joseph community, including AGP and
9 Triumph, which are both intervenors in this case, are all
10 affected by the rates and quality of service of
11 Missouri-American.

12 In this rate case, the city of St. Joseph
13 relies heavily and confidentially on the PSC Staff, the Office
14 of the Public Counsel, and industrial intervenors to assist
15 the Commission in pairing Missouri-American's requested
16 revenue requirement increase to the lowest amount absolutely
17 necessary to ensure lawfully just and reasonable rates for the
18 company.

19 Concerning rate design and miscellaneous
20 issues, I will defer most of the rest of what I was going to
21 say, except to -- until next week when we take up those
22 issues, except I would like to genuinely encourage the
23 Commission to review the position statements referred to
24 earlier by Judge Stearley filed last week by the parties.

25 The first three points under rate design

1 address issues that are of extreme importance to the city of
2 St. Joseph, including the consolidated rate issue. As
3 Mr. Conrad indicated, having borne the entire cost of the new
4 treatment plant in St. Joseph since 2000 without subsidy or
5 contribution from any other district of Missouri-American. It
6 seems fundamentally unfair to now ask the city of
7 St. Joseph -- people of St. Joseph to also contribute to
8 subsidizing other districts of Missouri-American.

9 And the question of water subsidies of sewer
10 services provided by Missouri-American, which the city of
11 St. Joseph also finds extremely unacceptable. St. Joseph
12 provides its own sewer service, would never, in fact, stand
13 even in a theoretical position of possibly being on the
14 receiving end of a water-to-sewer subsidy within the
15 Missouri-American system.

16 But these are issues that we'll address further
17 next week if the occasion calls for it, and I thank you.

18 JUDGE STEARLEY: All right. Any questions for
19 Mr. Steinmeier?

20 Thank you, Mr. Steinmeier.

21 Anybody else wish to give an opening statement
22 at this time or shall we move to witnesses?

23 MR. DORITY: Your Honor, Larry DORITY on behalf
24 of the city of Brunswick. And while the city of Brunswick
25 would have a very different perspective that I would like to

1 offer you contrasting to what Mr. Conrad had shared with the
2 Commission this morning, we had agreed to withhold our opening
3 statement until the rate design portion of the case and I'm
4 going to stand by that agreement.

5 Thank you.

6 JUDGE STEARLEY: All right. Thank you. And as
7 I said, if we get to the portion where we're taking up
8 individual issues in the hearing later, the other parties are
9 certainly free to give an opening at that time.

10 (ALL EXHIBITS WERE MARKED FOR IDENTIFICATION.)

11 All right. Very well then, I believe
12 Missouri-American have two witnesses for us today and today is
13 the only times, is that correct, that they can appear?

14 MR. ENGLAND: Yes, Your Honor. Actually, the
15 witness Rogers, who apparently is still in transit, this is
16 his only day. Witness Ahern is from New Jersey and we had
17 scheduled to bring her out. She could be available later but
18 that would require us to go to the expense of bringing her
19 back again. So we thought as long as we had Mr. Rogers here,
20 we ought to have Ms. Ahern as well. They both sort of address
21 the same related issues regarding capital structure and return
22 on equity.

23 JUDGE STEARLEY: All right. Well, you're
24 certainly free to call Ms. Ahern. Do you know when
25 Mr. Rogers may be arriving?

1 MR. ENGLAND: Momentarily, as I understand it.

2 JUDGE STEARLEY: All right. You may call your
3 first witness then.

4 MR. BOUDREAU: At this point, I'd like to call
5 Pauline Ahern to the stand, please.

6 (The witness was sworn.)

7 JUDGE STEARLEY: You may proceed.

8 MR. BOUDREAU: Thank you.

9 DIRECT EXAMINATION

10 QUESTIONS BY MR. BOUDREAU:

11 Q. Would you please state your name for the
12 record?

13 A. My name is Pauline M. Ahern, A-h-e-r-n.

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

15 A. I am a principle with AUS Consultants in Mount
16 Laurel, New Jersey.

17 Q. And you are here testifying today on behalf of
18 Missouri-American Water Company; is that correct?

19 A. Yes, I am.

20 Q. Are you the same Pauline Ahern who has caused
21 to be filed four items of prepared testimony; specifically
22 prepared direct testimony, rebuttal testimony, and surrebuttal
23 testimony in both proprietary and non-proprietary formats?

24 A. Yes.

25 Q. And those have been marked for identification

1 respectively as MAWC-1, MAWC-2, MAWC-3P, and MAWC-3NP; is that
2 correct?

3 A. Yes.

4 Q. Was that testimony prepared by you or under
5 your direct supervision?

6 A. Yes, it was.

7 Q. Do you have any corrections that you need to
8 make to any of those items of testimony at this time?

9 A. Unfortunately, I do.

10 Q. Let's take those in order, then. I would ask
11 if you have any corrections you'd like to make to your direct
12 testimony?

13 A. Yes.

14 Q. And if you could, just, you know,
15 systematically work through for the Commission and for the
16 counsel of record here the page numbers and the references and
17 make the corrections that you need to make.

18 A. Okay. The first is on page 5, line 30. And
19 this is in MAWC-1. On line 30, the two words "smaller size"
20 should be replaced with the words "unique business risks."

21 The next is on page 10, line 6. The third
22 figure in, \$1.27 should be \$1.20.

23 Page 12, line 5, about two-thirds of the way
24 towards the right, the word "and" should be struck.

25 Page 14, line 11, about halfway across, the

1 word "its" says "for its customers" should say "for their
2 customers."

3 Q. Which line was that again, please?

4 A. Eleven.

5 Q. Thank you.

6 A. Page 14, line 11.

7 Page 17, on line 3, the number "5" should be
8 "6."

9 And on line 7 at the end of the line, "6 and 7"
10 should be replaced with "7 through 10."

11 Page 25, line 18, the word "customers" should
12 be replaced with the word "people."

13 MS. LANGENECKERT: The first time or the second
14 time?

15 THE WITNESS: Oh, I'm sorry, "1.5 million
16 people." Thank you.

17 Page 27, line 19, it's PMA-1, not PMA-6.

18 Page 30, line 9, near the end of the line, it
19 says "2010," it should read "2011."

20 And on page 31, line 4, after the word
21 "outstanding," the entire rest of the line should be struck.

22 BY MR. BOUDREAU:

23 Q. And just for clarification, when the entire end
24 of the line, the words "which" through "2011," the balance of
25 that?

1 A. Yes.

2 Q. Okay.

3 MR. BEDNAR: Just -- line 5, is that sentence
4 or line, Paul?

5 BY MR. BOUDREAU:

6 Q. Let's go back to that last correction that you
7 made, page 31, there seems to be some confusion about what --

8 A. Okay. The phrase, "which finances MAWC's
9 jurisdictional rate base at December 31, 2011," should be
10 struck.

11 Q. So read the complete sentence now with the
12 correction that you've made.

13 A. MAWC's long-term/total, paren, since there is
14 no short-term debt expected to be outstanding, close paren,
15 debt ratio is 49.36 percent, also pro forma at December 31,
16 2011.

17 Q. Okay. Very good.

18 A. Would you like me to take corrections through
19 the exhibits as well at this point?

20 Q. Yes. If you have any corrections to the
21 exhibits to your direct testimony, let's go ahead and do that.

22 A. There are two -- on two schedules. On PMA-19
23 -- I'm sorry, PMA-9, under the headings column one and two.

24 Q. Let's make sure everybody's there.

25 A. Okay.

1 Q. Okay. Everyone seems to be.

2 A. The dates should read June 17th under both
3 columns instead of 13.

4 And for Aqua America, third company down, under
5 column 1, it should be 41.73 percent, not 6. And under column
6 2, that makes it 58.27. And that changes the averages
7 slightly. Column 1 should be 46.62, and column 2, 53.38, and
8 in the very last line, the date June 13th should be
9 June 20th.

10 And the final change in the direct exhibit is
11 on just the next page, PMA-10, page 1, under line 6, the "5"
12 in parentheses should be a "4."

13 Q. Okay. That concludes your corrections to your
14 direct testimony?

15 A. Yes.

16 Q. Do you have any corrections to make to your
17 rebuttal testimony?

18 A. Yes. Less. A few less. On page 30, line 18,
19 the third word is "three" and it should be "two."

20 Q. Okay. Just page 30, which line?

21 A. Line 18.

22 Q. Line 18. Thank you. I'm sorry.

23 A. Page 45, line 2, "2008" should be "2011."

24 On page 52, line 19, the very last word "its"
25 should read "his."

1 And on the next page, 53, line 16 in the
2 middle, "12.63" should be replaced with "11.88."

3 Q. Okay.

4 A. That's it in the testimony.

5 Q. Okay. That concludes it. Do you have any
6 corrections to any of the schedules of your rebuttal
7 testimony?

8 A. Yes. To Schedule PMA-35, line number 9, the
9 entire line should be struck.

10 And on PMA-39, page 5, under column 6 for
11 Middlesex Water Company, the "2.57" should read "4.35." In
12 the next column, "4.07" should read "4.1111," and "6.64"
13 should read "8.46."

14 MR. THOMPSON: 4.64 [sic] should read what?

15 THE WITNESS: 6.64 should read 8.46.

16 MR. THOMPSON: Thank you.

17 BY MR. BOUDREAU:

18 Q. Do you have any further corrections to make to
19 the schedules of your rebuttal testimony?

20 A. No.

21 Q. Do you have any corrections you would like to
22 make to your surrebuttal testimony?

23 A. Sorrowfully, yes.

24 JUDGE STEARLEY: One minute, Counsel. Back on
25 page 5 of Schedule 36, this changing the final line on common

1 cost of equity, equity cost rate, is that going to change the
2 average and median at the bottom there?

3 THE WITNESS: I'll check the average, it does
4 not change the median and that's what I relied upon.

5 The "10.55" would become "10.75." The median
6 stays the same.

7 JUDGE STEARLEY: All right. Thank you.

8 THE WITNESS: Thank you.

9 BY MR. BOUDREAU:

10 Q. Okay, again, I'll ask you, you do have some
11 corrections to make to your surrebuttal testimony?

12 A. Yes, and since the pagination's the same, it
13 would be in 3-P and 3-NP the same.

14 On page 2, line 20, after the word "CAPM," the
15 words "are unfounded" should be inserted.

16 And on line 22, after "company analysis," the
17 word "which" should be inserted.

18 Q. Okay.

19 A. Page 3, line 5, after the word
20 "recommendation," the words "is inappropriate" should be
21 inserted.

22 And on pages 15 and 16, the schedule reference
23 is incorrect. The first one is on line 1 of page 15; "40"
24 should read "41," same in line 6, "40" should read "41." Over
25 on page 16, line 5, "40" should read "41." And in line 17,

1 "40" should read "41."

2 On page 24 and 25, line 14 on 24, "41" should
3 read "42." On page 25, line 6, "41" should read "42," and on
4 line 32, "42" should read "43."

5 On page 26, line 20, "43" should read "44." I
6 inserted a schedule and didn't go back to the testimony.

7 Page 27, line 5, "43" should read "44." Line
8 15, the same thing, "43" should read "44."

9 And the same kinds of changes on line 37 and 38
10 -- I'm sorry, pages 37 and 38. On page 37, line 20, "41"
11 should read "42;" page 38, line 18, "41" should read "42."
12 And that's the extent of the corrections.

13 Q. Do you have any corrections to make to any of
14 the schedules to your surrebuttal testimony?

15 A. Thankfully, no.

16 Q. Now I asked you previously whether the
17 testimony was prepared by you or under your direct
18 supervision?

19 A. Yes.

20 Q. I'm going to ask you now, is the testimony as
21 you've now corrected it true and correct to the best of your
22 information, knowledge, and belief?

23 A. Yes, it is.

24 Q. If I were to ask you the same questions as are
25 contained in your prepared testimony, would your answers today

1 be substantially the same?

2 A. Yes, they would.

3 MS. BOUDREAU: With that, I would offer
4 Exhibits MAWC-1, MAWC-2, MAWC-3-P, MAWC-3-NP, and tender
5 Ms. Ahern for cross-examination.

6 JUDGE STEARLEY: All right. Any objections to
7 the offering of those exhibits? Hearing none, they shall be
8 received and admitted into the record.

9 (MAWC EXHIBIT NUMBERS 1, 2, 3-P AND 3-NP WAS
10 RECEIVED INTO EVIDENCE BY JUDGE STEARLEY.)

11 JUDGE STEARLEY: Cross-examination,
12 St. Joseph? Mr. Steinmeier left the room. Riverside?

13 MR. BEDNAR: None, Your Honor.

14 JUDGE STEARLEY: Okay. MIEC?

15 MS. VUYLSTEKE: No questions.

16 JUDGE STEARLEY: MSD, Metropolitan St. Louis
17 Sewer?

18 Joplin?

19 Jeff City?

20 MR. COMLEY: No questions.

21 JUDGE STEARLEY: Empire?

22 MR. JOHNSON: No questions, Your Honor.

23 JUDGE STEARLEY: Brunswick?

24 MR. DORITY: No questions, Judge.

25 JUDGE STEARLEY: BJC?

1 MS. LANGENECKERT: No questions.

2 JUDGE STEARLEY: AGP?

3 MR. CONRAD: Yes, Judge.

4 CROSS-EXAMINATION

5 QUESTIONS BY MR. CONRAD:

6 Q. Ms. Ahern, do you always have that many
7 mistakes --

8 A. No.

9 Q. -- in your testimony?

10 A. No.

11 Q. As corrected, are you still recommending 11.3
12 ROE?

13 A. That was my original recommendation. I believe
14 it was updated to -- let me double check -- 11.85 in rebuttal.
15 And since then, an update would be 11.55 today.

16 Q. So it went up from your original recommendation
17 and then went down again?

18 A. Correct.

19 Q. Is that correct? Does that put this company on
20 a level playing field with Illinois-American and
21 Pennsylvania-American?

22 A. In terms -- I'm not quite sure I understand in
23 terms of what, sir.

24 Q. Rate of return.

25 A. I have -- I am the witness in the

1 Illinois-American case. I'm not a witness for
2 Pennsylvania-American. I would have to do a study. I have
3 not updated my Illinois-American recommendation. It would put
4 it on a par with those two companies before any adjustments
5 for financial risk, flotation cost, and unique business risks.
6 I would have to study those.

7 Q. Now, are you familiar with the Hope and
8 Bluefield cases?

9 A. Yes, I am.

10 Q. If the company were to be awarded a -- let's
11 just pick a number -- 6 percent return on equity.

12 A. Okay.

13 Q. Would that put that -- this company at a
14 disadvantage as you understand the Hope and Bluefield cases to
15 suggest?

16 A. Yes.

17 MR. CONRAD: Thank you, I think that's all.

18 JUDGE STEARLEY: Public Counsel?

19 MS. BAKER: No questions, thank you.

20 JUDGE STEARLEY: Staff?

21 MR. THOMPSON: Thank you, Judge.

22 CROSS-EXAMINATION

23 QUESTIONS BY MR. THOMPSON:

24 Q. Good morning, Ms. Ahern.

25 A. Good morning.

1 Q. I understand you're a consultant; is that
2 correct?

3 A. Yes.

4 Q. And how many times have you testified, if you
5 know?

6 A. Nearly 200.

7 Q. And over how many years have you been engaged
8 in that line of business?

9 A. In the line of business, almost 24 years.

10 Q. And in the course of your time as an expert
11 witness consultant, how many times have you testified on
12 behalf of ratepayers?

13 A. In terms of consumer advocate testimony? None.

14 Q. So your work is typically for utilities?

15 A. Typically, yes.

16 Q. Okay. And how much are you charging for your
17 testimony today?

18 A. I am not charging anything; my company is.

19 Q. How much is --

20 A. And that's not been determined until after my
21 expenses from today will be submitted.

22 Q. Okay. So leaving the expenses out of it, how
23 much is your company charging for your services in this case?

24 A. That's difficult to say because it's charging
25 me on an hourly basis. My direct testimony was priced at a

1 here-it-is-ready-to-file basis. I used my financial analyst
2 staff which brings the composite rate down. I can't give you
3 that answer without looking at the invoices.

4 Q. I see. What's your hourly rate?

5 A. I believe for them, it's 200 -- low 200s.

6 MR. THOMPSON: May I approach, Your Honor?

7 JUDGE STEARLEY: You may.

8 BY MR. THOMPSON:

9 Q. I'm going to show you a table from the
10 testimony of Michael Gorman, table 1 on page 3, of his direct
11 testimony.

12 A. Thank you.

13 Q. And are you familiar with that testimony?

14 A. Yes, I am.

15 Q. And you're familiar with that table?

16 A. Yes, I am.

17 Q. I wonder if you could look at that for a moment
18 and tell me how many companies on there have an ROE higher
19 than 11.5.

20 A. None.

21 Q. And how many have an ROE higher than 11?

22 A. None.

23 Q. How many have an ROE as high as 10.5?

24 A. Three.

25 Q. And that's out of how many companies?

1 A. Fifteen.

2 Q. Thank you.

3 A. These are authorized, not --

4 MR. THOMPSON: There's no question pending,
5 Judge.

6 JUDGE STEARLEY: The last remark will be
7 stricken.

8 MR. THOMPSON: I have no further questions.
9 Thank you, ma'am.

10 THE WITNESS: Thank you.

11 JUDGE STEARLEY: All right. Questions from the
12 bench?

13 CHAIRMAN GUNN: I just have one.

14 EXAMINATION

15 QUESTIONS BY CHAIRMAN GUNN:

16 Q. In your corrections, it seems to me to be a
17 little bit more -- the rest were technical corrections, but
18 you switched on page 5 of your direct from "smaller size" to
19 "unique business risk." That -- those are kind of
20 fundamentally different things. It's not a technical -- it
21 doesn't appear to be a technical correction.

22 A. Correct. They are --

23 Q. I'm sorry.

24 A. They are fundamentally different, but if you
25 read the rest of my testimony, you'll see that the adjustment

1 I made for business risk is not solely based on the smaller
2 size. It is based on some of the unique risks, which I
3 delineate in my testimony and are discussed in detail in
4 Mr. Williams's testimony.

5 Q. And that's what was going to be my next
6 question is: You did take in account smaller size, but there
7 were other business risks that were taken into account?

8 A. Correct. And if you look at the rebuttal
9 testimony, when I made corrections to Mr. Barnes's recommended
10 return on equity, because his proxy group was approximately
11 the same size as Missouri-American, I reduced the adjustment
12 from 40 basis points to 35 basis points for the unique risks,
13 excluding size.

14 Q. So it's only worth five basis points?

15 A. One would infer that, yes.

16 Q. Well, I will ask you your opinion.

17 A. Yes.

18 Q. That --

19 A. And in past cases, that is approximately what
20 I've given Missouri-American for size only.

21 Q. Five basis points?

22 A. Five basis points, yes.

23 Q. Okay. Thank you.

24 CHAIRMAN GUNN: I don't have anything further.

25 JUDGE STEARLEY: Commissioner Jarrett?

1 COMMISSIONER JARRETT: I don't have any
2 questions, thank you.

3 JUDGE STEARLEY: All right. Any recross based
4 on questions from the bench?

5 Seeing none, redirect?

6 MR. BOUDREAU: Yes, just one question.

7 REDIRECT EXAMINATION

8 QUESTIONS BY MR. BOUDREAU:

9 Q. Do you recall that you got a question from
10 Mr. Thompson about one of Mr. Gorman's schedules; is that
11 correct?

12 A. Correct.

13 Q. There were a number of figures on that schedule
14 that he was asking you to take a look at in connection with
15 your recommendation for return on common equity capital in
16 this case; is that correct?

17 A. Yes.

18 Q. And those figures were sourced from what? Is
19 that a fair comparison, in other words?

20 A. I don't believe it is. I believe that was
21 sourced from American Water Works. I'd have to look at it
22 again to determine. But I don't believe it's a fair
23 comparison because those are the results of rate cases.
24 They're not an expert witness's recommendation necessarily.
25 Some of those are also stipulations, so they are not

1 necessarily the investor-required cost of equity.

2 MR. BOUDREAU: I have no further questions.

3 JUDGE STEARLEY: All right. Thank you,
4 Ms. Ahern, for your testimony. You may step down. I am not
5 going to finally excuse you as a witness, however. Depending
6 on how this proceeding goes, Commissioners may wish to call
7 you back for further testimony. If there's a problem
8 travel-wise, they could arrange by phone or video conferencing
9 in terms of making that simpler. You may step down at this
10 time.

11 THE WITNESS: Okay. Thank you.

12 JUDGE STEARLEY: And Missouri-American, you may
13 call your next witness.

14 MR. ENGLAND: Your Honor, unfortunately,
15 Mr. Rogers is not here. When he made his travel plans, he was
16 under the understanding that we weren't going to start until
17 1:00 this afternoon. He was hoping to be here at 9:30, so as
18 I mentioned a minute ago, hopefully he'll be here momentarily.
19 May I suggest we recess, then reconvene when he gets here?

20 JUDGE STEARLEY: All right. Well, we can take
21 a -- I mean, what we could do is recess and let you-all
22 continue your negotiations and we could reconvene about 1:30
23 this afternoon. You could give me a status report and we
24 could have him testify at that time, or is there a problem
25 with him testifying this afternoon?

1 MR. ENGLAND: Can I -- can I get back to you on
2 that when he gets here, because apparently his schedule's
3 tight and he has a flight out again today, so.

4 JUDGE STEARLEY: Okay. Do you think you'll
5 know his whereabouts within the next 10 to 15 minutes?

6 MR. ENGLAND: I sure hope so.

7 JUDGE STEARLEY: Why don't we take a 15-minute
8 recess.

9 MR. ENGLAND: Thank you.

10 JUDGE STEARLEY: And you can update me when we
11 come back.

12 MR. ENGLAND: And we'll try to contact him in
13 the meantime. Thank you.

14 JUDGE STEARLEY: Thank you.

15 (A break was held.)

16 JUDGE STEARLEY: All right. We are back on the
17 record and it appears Missouri-American, you're ready to call
18 Mr. Rogers to the stand.

19 MR. BOUDREAU: Yes, I'd like to call
20 Mr. William Rogers to the stand, please.

21 (The witness was sworn.)

22 JUDGE STEARLEY: Thank you, you may be seated,
23 and you may proceed.

24 MR. BOUDREAU: Thank you.

25 ///

1 DIRECT EXAMINATION

2 QUESTIONS BY MR. BOUDREAU:

3 Q. Would you state your name for the record
4 please, sir?

5 A. My name is William Dexter Rogers.

6 Q. And by whom are you employed and in what
7 capacity?8 A. I am employed directly by American Water Works
9 Service Company, which is a wholly-owned subsidiary of
10 American Water Works Company. And I serve as the treasurer
11 for American Water Works.12 Q. And you are here today testifying on behalf of
13 Missouri-American Water Company?

14 A. Yes, I am.

15 Q. Okay. Are you the same William Rogers who's
16 caused to be -- prepared and filed rebuttal testimony and
17 surrebuttal testimony, which have been marked respectively as
18 Exhibits MAWC-18 and MAWC-19?

19 A. Yes, I am.

20 Q. Was that testimony prepared by you or under
21 your direct supervision?

22 A. It was.

23 Q. Do you have any corrections to make to either
24 of those items of testimony?

25 A. I have one correction to make in the first

1 exhibit, the cover page should read rebuttal testimony as
2 opposed to direct testimony.

3 Q. Do you have any other corrections to make to
4 your testimony at this time?

5 A. I do not.

6 Q. Was the testimony that you've prepared and
7 caused to be filed true and correct to the best of your
8 information, knowledge, and belief?

9 A. Yes.

10 Q. And if I were to ask you the same questions as
11 are contained in that prepared testimony, would your answers
12 today be substantially the same?

13 A. Yes, they would be.

14 MR. BOUDREAU: With that, I would offer into
15 the record Exhibits MAWC-18 and MAWC-19 and tender Mr. Rogers
16 for cross-examination.

17 JUDGE STEARLEY: Any objections to the offering
18 of these two exhibits?

19 MR. CONRAD: No.

20 JUDGE STEARLEY: Hearing none, they shall be
21 received and admitted into the record.

22 (MAWC EXHIBIT NUMBERS 18 AND 19 WERE RECEIVED
23 INTO EVIDENCE BY JUDGE STEARLEY.)

24 JUDGE STEARLEY: Instead of reading through
25 everyone like I did last time, is there anyone other than AGP,

1 Public Counsel, or Staff that wishes to cross-examine this
2 witness?

3 Seeing none, Mr. Conrad, cross-examination?

4 MR. CONRAD: Thank you, Your Honor. Very
5 briefly.

6 CROSS-EXAMINATION

7 QUESTIONS BY MR. CONRAD:

8 Q. Good morning. Hope you had a pleasant trip.

9 A. It was a pretty drive this morning from
10 St. Louis.

11 Q. You indicated you were the Treasurer of
12 American Water Works?

13 A. Yes, sir.

14 Q. And you indicated that -- and I'm sorry if I
15 didn't catch it, but the particular group you were with was a
16 wholly-owned subsidiary?

17 A. Yes, sir. The American Water Works Service
18 Company is a wholly-owned subsidiary of American Water.

19 Q. How many wholly-owned subsidiaries does
20 American Water Works have?

21 A. Approximately 25 direct wholly-owned
22 subsidiaries.

23 Q. Now, when you say a wholly-owned subsidiary,
24 just clarify for me what you mean.

25 A. It means that there is no other shareholder

1 than American Water Works.

2 Q. Now, do you -- do you distinguish between -- I
3 think you mentioned some 20. Do you distinguish between them
4 as to their functions in such a way that -- that you would
5 identify operating entities from service organizations?

6 A. Yes, we do. So there's a difference between
7 profit centers or independent subsidiaries and those legal
8 entities which provide services to those subsidiaries.
9 American Water Works Service Company is a legal entity, which
10 is wholly and directly owned that provides various services to
11 our regulated utilities. And in the same way, American Water
12 Capital Corporation is wholly and directly owned and is the
13 conduit for our subsidiaries' access to capital.

14 Q. Now, do you identify those operating entities
15 as regulated utilities? How do you identify them?

16 A. The -- we have two lines of business that we
17 report to Securities and Exchange Commission. They are our
18 regulated operations and they are our market-based operations.
19 As a result of the sale of one regulated operation in 2011 and
20 two in 2012, we have 16 regulated operating subsidiaries. And
21 our market based operations are across five distinct
22 subsidiaries, to the best of my knowledge.

23 Q. Now, Pennsylvania is a jurisdiction in which
24 you operate regulated utilities; is that correct?

25 A. Yes, sir. Pennsylvania-American Water is a

1 wholly-owned subsidiary.

2 Q. And Illinois-American Water --

3 A. Yes.

4 Q. -- is another one? Are there any other
5 utilities in addition to Missouri-American, whom we've
6 identified three, are there any other regulated entities that
7 are in the class of Pennsylvania-American, Illinois-American,
8 Missouri-American?

9 A. Yes, and I will do my best to name the other
10 13.

11 Q. Well, I wasn't going to ask you -- I wasn't
12 going to test your memory, I just wanted to -- actually, sir,
13 I have a slightly different question.

14 You'd agree with me that the service company
15 which you're a part and the other market-based, wholly-owned
16 subsidiaries incur costs in their operation, do they not, sir?

17 A. I think I understand your question as to the
18 service company and the market base and their costs? Is that
19 -- they do, in fact, incur costs.

20 Q. And are those costs, then, allocated down --
21 and I will use the term "down" in the sense of an
22 organizational chart -- but are they allocated to the
23 regulated entities?

24 A. The services that they are providing and
25 therefore the costs of those companies other than the

1 market-based within service company are allocated through an
2 allocation formula, which was both direct and indirect
3 charging to the utilities as well as the market-based
4 operations.

5 Q. So the utilities get some allocated portion of
6 those costs?

7 A. Yes, in accordance with the way the utilities
8 approve their budget and in accordance with our allocation
9 methodology.

10 MR. CONRAD: That you, sir, that's all.

11 JUDGE STEARLEY: Cross-examination, Public
12 Counsel?

13 MS. BAKER: No questions, thank you.

14 JUDGE STEARLEY: Staff?

15 MR. THOMPSON: No questions, thank you.

16 JUDGE STEARLEY: All right. Questions from the
17 bench?

18 CHAIRMAN GUNN: I just have a couple.

19 EXAMINATION

20 QUESTIONS BY CHAIRMAN GUNN:

21 Q. Are any of those 16 regulated subsidiaries
22 rated by any rating agencies?

23 A. We have two out of the regulated subsidiaries
24 that hold an independent credit rating from both Moody's and
25 Standard & Poors. And those are New Jersey-American Water and

1 Pennsylvania-American Water. And in that case, they hold
2 credit ratings for their secured debt, only which we issued in
3 their case in the tax-exempt market.

4 Q. Do any of the other utilities have
5 non-independent credit rating -- are they given a credit
6 rating based on the consolidated operations of American Water?

7 A. There are not. The credit ratings of the
8 utilities are inferred from both their capital structure and
9 their credit quality as well as the strength of the
10 consolidated entity.

11 Q. Your testimony was that Missouri-American Water
12 has a stronger balance sheet than the parent company as a
13 whole.

14 A. Yes, sir.

15 Q. Is that true with New Jersey?

16 A. Yes.

17 Q. Is it true with Pennsylvania?

18 A. Yes.

19 Q. Is it true with the other regulated entities?

20 A. It is not.

21 Q. How -- how many of those 13 remaining would you
22 say have stronger balance sheets than the parent company?

23 A. The majority of our companies -- subsidiary
24 companies have a stronger balance sheet than the consolidated
25 entity. The consolidated entities, the balance sheet is

1 approximately 43 percent equity-to-total capitalization.
2 Depending on a risk profile of our subsidiaries, their balance
3 sheets range anywhere from 42 percent to 50 percent, and we --
4 with input from the subsidiaries, determine where we think the
5 right balance sheet is for that subsidiary.

6 Q. Now, out of those companies that -- that you
7 consider to have a stronger balance sheet than the parent, how
8 many of those have a lower cost of capital than the parent?

9 A. I think that would be difficult to meaningfully
10 and accurately quantify for the following reason: Access to
11 capital and cost of capital is not merely the balance sheet or
12 the credit statistics, it has to do with the size of the
13 company and the efficiencies that our companies can gain in
14 the capital markets through American Water Capital Corp.

15 Q. I understand that. And your testimony is that
16 Missouri-American's balance sheet alone doesn't make it a
17 better credit risk than the parent company.

18 A. That's correct.

19 Q. So I am trying to figure out are there other
20 entities that are considered to be a stronger balance sheet
21 that are better credit risks than the parent company?

22 A. My best example would be both New
23 Jersey-American Water and Pennsylvania-American Water where
24 they access taxable corporate debt through American Water
25 Capital Corp. as opposed to independently.

1 Q. Let's take those out because they're
2 independently rated.

3 A. But only for their tax-exempt and secured debt.

4 Q. So for their non-independent ratings, their
5 cost of capital would be lower than the parent company?

6 A. I don't think we could say that.

7 Q. Better credit risk?

8 A. The better credit ratings in terms of ratios,
9 not necessarily a better credit risk, due to the size of the
10 companies.

11 Q. Are any other -- any other -- besides New
12 Jersey and Pennsylvania, are there any other subsidiaries,
13 regulated subsidiaries that fit into that? You said those are
14 your best examples.

15 A. Yes.

16 Q. Are there any other ones that you think are
17 similar situated to New Jersey and Pennsylvania?

18 A. None come to mind.

19 CHAIRMAN GUNN: Thank you. I don't have
20 anything further.

21 JUDGE STEARLEY: Commissioner Jarrett?

22 COMMISSIONER JARRETT: Mr. Rogers, I don't have
23 any questions, thank you.

24 THE WITNESS: Thank you.

25 JUDGE STEARLEY: All right. Recross based on

1 questions from the bench?

2 Hearing none, Mr. Rogers, you may step down.

3 As I instructed Ms. Ahern, we are not going to finally excuse
4 you at this time. The Commission may wish to recall you for
5 additional questions later. If that should happen, though, we
6 will work things out scheduling with you. It may involve even
7 by phone or teleconference. You may step down at this time.

8 THE WITNESS: Thank you, Your Honor.

9 MR. BOUDREAU: I understand that you've asked
10 the witness to stand by, and that's fine. I'd like to reserve
11 the opportunity for redirect if there are any further
12 questions. I didn't have any at this point, but.

13 JUDGE STEARLEY: Certainly. Certainly. And I
14 apologize, Mr. Boudreau, I didn't mean to overlook a redirect
15 there.

16 All right. Go ahead, Mr. Rogers.

17 At this time, do the parties wish to recess as
18 we discussed earlier to further discuss their settlement
19 negotiations?

20 MR. THOMPSON: Yes, Your Honor.

21 MR. ENGLAND: Yes, Your Honor.

22 JUDGE STEARLEY: Okay. Is there anything else
23 we need to take up at this point?

24 MR. ENGLAND: Before we conclude, and I don't
25 know that this needs to be on the record, but I believe

1 Mr. Rogers has an opportunity to catch a flight this
2 afternoon, perhaps even Ms. Ahern. If there is a plan to call
3 them back, do they need to --

4 JUDGE STEARLEY: It probably won't be today.

5 MR. ENGLAND: Okay.

6 JUDGE STEARLEY: It will be based upon what
7 happens with your negotiations today if these witnesses need
8 to come back to provide additional testimony.

9 MR. ENGLAND: And did I understand your
10 statements earlier to indicate that we might be able to recall
11 them via a telephone?

12 JUDGE STEARLEY: That's correct.

13 MR. ENGLAND: Okay. Thank you.

14 JUDGE STEARLEY: That's correct. I don't want
15 to just recess and not know where things are going. We do
16 have two weeks of scheduled hearings with issues and witnesses
17 laid out for each of those days, and my obsessive-compulsive
18 personality is not going to allow me to just turn you-guys
19 loose. So I would suggest we reconvene at some point today,
20 this afternoon, at least for a few moments so you can update
21 me as to the status of the negotiations, if we need to
22 continue with any of the scheduled days of testimony.

23 MR. ENGLAND: May I suggest that we get back to
24 you no later than four o'clock this afternoon to let you know
25 where we are?

1 JUDGE STEARLEY: Okay. And why don't we
2 reconvene here, we'll go back on the record at four o'clock,
3 and you can update me at that time and we can deal with any
4 scheduling matters then.

5 MR. ENGLAND: Thank you, Your Honor.

6 JUDGE STEARLEY: Thank you, all. We stand in
7 recess.

8 (End of Proceedings.)

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CERTIFICATE OF REPORTER

STATE OF MISSOURI)

) ss:

COUNTY OF GASCONADE)

I, JENNIFER L. LEIBACH, Registered Professional Reporter, Certified Court Reporter, CCR #1108, and Certified Realtime Reporter, the officer before whom the foregoing matter was taken, do hereby certify that the witness/es whose testimony appears in the foregoing matter was duly sworn; that the testimony of said witness/es was taken by me to the best of my ability and thereafter reduced to typewriting under my direction; that I am neither counsel for, related to, nor employed by any of the parties to the action in which this matter was taken, and further that I am not a relative or employee of any attorney or counsel employed by the parties thereto, nor financially or otherwise interested in the outcome of the action.

Court Reporter

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