

1 STATE OF MISSOURI  
2 PUBLIC SERVICE COMMISSION  
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6 TRANSCRIPT OF PROCEEDINGS  
7 Hearing  
8 December 18, 2003  
9 Jefferson City, Missouri  
10 Volume 15  
11  
12 In the Matter of Missouri-American )  
13 Water Company's Tariff to Revise ) Case No. WR-2003-0500  
14 Water and Sewer Rate Schedules. )  
15  
16 KEVIN A. THOMPSON, Presiding,  
17 DEPUTY CHIEF REGULATORY LAW JUDGE.  
18  
19 CONNIE MURRAY,  
20 ROBERT M. CLAYTON, III,  
21 COMMISSIONERS.  
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1 P R O C E E D I N G S

2 JUDGE THOMPSON: I'll remind Mr. Jenkins that  
3 you're still under oath. And let's get a quick roll call  
4 who is here. Anybody here for the Industrial Energy  
5 Consumers, Missouri Energy Group, Ag Processing, City of  
6 Riverside, Water Rate Coalition, Empire District, Joplin  
7 water districts, Warrensburg, Jefferson City, Local 35?

8 (No response.)

9 JUDGE THOMPSON: So all we have is company,  
10 Public Counsel and Staff; is that correct?

11 (No response.)

12 JUDGE THOMPSON: Okay. You may proceed,  
13 Mr. Ciottone.

14 JAMES M. JENKINS testified as follows:

15 DIRECT EXAMINATION BY MR. CIOTTONE:

16 Q. State your name, please, sir.

17 THE WITNESS: Your Honor, may I change the  
18 seat?

19 JUDGE THOMPSON: Sure. Anything you need to  
20 be comfortable. Are you ready now?

21 THE WITNESS: Yes, sir.

22 BY MR. CIOTTONE:

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

25 A. James M. Jenkins.

1           Q.       Mr. Jenkins, you have testified earlier in  
2 this case, have you not?

3           A.       Yes, I have.

4           Q.       And you've submitted and -- prepared and  
5 submitted rebuttal testimony which was designated Exhibit 47  
6 and surrebuttal testimony that was designated Exhibit 79; is  
7 that correct?

8           A.       Yes.

9                   MR. CIOTTONE: I do not know, your Honor,  
10 whether they have been offered previously, but if they have  
11 not, I would offer them again at this time.

12                  JUDGE THOMPSON: They have both been offered  
13 and received.

14                  MR. CIOTTONE: Great. And I would then tender  
15 Mr. Jenkins for cross-examination.

16                  JUDGE THOMPSON: Thank you, Mr. Ciottone.  
17 Ms. O'Neill?

18                  MS. O'NEILL: No questions right now.

19                  JUDGE THOMPSON: Mr. Bates?

20                  MR. BATES: No questions, thank you.

21                  JUDGE THOMPSON: Now it's my turn.

22 QUESTIONS BY JUDGE THOMPSON:

23           Q.       Mr. Jenkins, what is the sum that the company  
24 would like to have in revenue with respect to the operation  
25 of the national call center?

1           A.       The company on an annual basis would like to  
2 have \$4,102,145. That's what we've identified as the  
3 ongoing annual cost.

4           Q.       And that's what you're asking for in this  
5 case?

6           A.       That's correct.

7           Q.       So \$4,102,145?

8           A.       Yes, sir.

9           Q.       And if you know, what is the amount that Staff  
10 is proposing for that?

11          A.       Based on Mr. Cassidy's surrebuttal testimony,  
12 page 25, \$3,261,840.

13          Q.       And that's Cassidy's surrebuttal 25?

14          A.       Yes, sir.

15          Q.       Okay. Now, there are, as I understand it,  
16 some transition costs at issue with respect to moving from  
17 the, I think they've been referred to as legacy call centers  
18 to the national call center; is that correct?

19          A.       That's correct.

20          Q.       And as I understand the company's proposal,  
21 you would capitalize this amount and then amortize it at --  
22 over a 20-year period?

23          A.       Yeah, over approximately a 20-year period.

24          Q.       Okay. So if you can tell me, then, what is  
25 the total amount of the transition costs? And then second,

1 what is the annual amount that you're proposing?

2           A.       Yes, sir. The -- in the shared service  
3 center, which is related to the accounting function, the  
4 gross amount of the transition costs was \$4,488,000.

5           Q.       \$4,488,000?

6           A.       827.

7           Q.       827. Okay. Now, is that the call center  
8 transition costs or the shared service center?

9           A.       That is the shared service center transition  
10 costs.

11          Q.       Okay. What are the call center transition  
12 costs?

13          A.       The call center transition costs are  
14 \$5,263,822.

15          Q.       Okay. Let me get these amounts written in the  
16 right boxes here.

17                   Now, what then is the annual amount that the  
18 company is requesting for trans-- for the call center  
19 transition costs?

20          A.       The annual amount is \$224,765.

21          Q.       Okay. And what is the annual amount that the  
22 company is requesting for the shared service center  
23 transition costs?

24          A.       That amount is \$191,673.

25          Q.       Very good. And is that also being amortized

1 over a 20-year period?

2 A. Yeah. The exact period is 23.4 years.

3 Q. Is that for both?

4 A. For both.

5 Q. 23.4 years. Very good. And what is the  
6 amount, if you know, that Staff is proposing for the call  
7 center transition costs?

8 A. The Staff is proposing recovery of -- no  
9 recovery of any of these costs.

10 Q. Either?

11 A. Either.

12 Q. Okay. So zero and zero; is that correct?

13 A. Yes, sir.

14 Q. Okay. Now, what exactly is it that the shared  
15 service center does?

16 A. The shared service center is really our back  
17 office accounting function, and it processes our checks,  
18 processes our invoices, and all the back office accounting  
19 support functions that are more transactional in nature.

20 Q. I see. And the shared service center is  
21 operated by an affiliated corporation; is that correct?

22 A. It's part of the service company, our service  
23 company.

24 Q. American Water Service Company?

25 A. Yes, sir.

1           Q.       Okay. And what were the functions, if you  
2 know, that caused the costs that were experienced in the  
3 transition to the shared service center? In other words,  
4 was it necessary to transfer data from one system to  
5 another, things of that sort?

6           A.       Yes, sir. The type of transition costs are  
7 related to setting up systems. So we had two different  
8 accounting systems and we went to one accounting platform,  
9 developing consistent business processes, and testing the  
10 validity and data conversion and mock conversions, and a  
11 significant amount of testing that would take place when you  
12 go to conversion of that -- of that nature.

13          Q.       Okay. Now, is it your opinion that those  
14 transition costs for the shared service center are  
15 reasonable and not excessive?

16          A.       Yes, sir. I mean, as Mr. Van Den Berg's  
17 testimony yesterday pointed out, those -- the total -- sum  
18 total of those costs are quite reasonable and well within  
19 industry standards.

20          Q.       And is it the same with respect to the call  
21 center transition costs?

22          A.       Yes, sir.

23          Q.       Okay. And speaking only of the shared service  
24 center, are there economies of scale or economies of scope  
25 that are eventually going to lead to savings from this

1 migration to the shared service center?

2           A.       We believe that those -- we're already  
3 achieving those savings, given the level of call volumes we  
4 have today.

5           Q.       I'm just talking service center, not the call  
6 center.

7           A.       Excuse me. Sorry. These two names.

8           Q.       I understand. I want to keep them separate.

9           A.       Yes. Yes, in the record we've identified a  
10 level of savings, and those savings are reflected in our  
11 current rates, and the Staff has not taken an issue with  
12 that.

13          Q.       Okay. And I assume, and tell me if I'm wrong,  
14 that the call center is expected to provide a superior  
15 quality of service in terms of wait time, number of calls  
16 handled, accuracy of answers, compared to the legacy call  
17 center?

18          A.       That is correct. The legacy center didn't,  
19 for example, didn't have automated call distribution. The  
20 new call center has that, and that allows the company to get  
21 the calls directed to the right customer service rep that  
22 has the correct skills to answer the questions, whether  
23 they're turnoffs, turnons, high bill issues. It could be a  
24 bankruptcy-type issue. Those things could be automatically  
25 directed. On our old system, you'd get a phone call, then

1 you'd have to be transferred to somebody else.

2           The call center today has a computer telephone  
3 integration, which the legacy didn't. So in other words,  
4 when you call into the call center, that's mapped, right  
5 automatically comes to your employee in-- or your customer  
6 information. You know it on the screen immediately. So the  
7 call center rep can immediately address the customer's  
8 concerns.

9           As well as a work management system. The --  
10 the legacy system didn't have work management capabilities;  
11 whereas, the new call center has good work management-type  
12 processes in terms of scheduling. So now we can schedule  
13 better and meet our customer needs, given most of us have  
14 two-income families.

15       Q.     And I think my last question, if you know,  
16 with respect to either the switch to the call center or the  
17 switch to the service center, do you know whether Staff is  
18 challenging the prudence of either of those decisions?

19       A.     Yes, I do know.

20       Q.     Are they?

21       A.     They are not.

22       Q.     They are not.

23       A.     We had asked a specific Data Request, and in  
24 response to that Data Request, it's my understanding is that  
25 there was no dispute with respect to prudence.

1 JUDGE THOMPSON: Thank you. Commissioner  
2 Murray?

3 COMMISSIONER MURRAY: Thank you, Judge. I was  
4 trying to catch up here. Was there no cross-examination of  
5 this witness?

6 JUDGE THOMPSON: There was none.

7 QUESTIONS BY COMMISSIONER MURRAY:

8 Q. Good morning, Mr. Jenkins.

9 A. Good morning.

10 Q. I just have one or two questions. And  
11 basically I think my confusion stems from the AWR issue, and  
12 I think that the calls coming in for AWR, I believe Staff  
13 has some challenge to your figures based on those calls; is  
14 that right?

15 A. That is my understanding.

16 Q. Okay. Can you tell me if there are -- looks  
17 like from what was presented yesterday that there were some  
18 calls that were going through to MAWC in response to the AWR  
19 solicitations; is that correct?

20 A. I'll give you my understanding of that, is  
21 basically the AWR program has a separate 1-800 number that  
22 can be called. There are times, as pointed out yesterday,  
23 that some customers may call in on the typical 1-800 number  
24 for just a routine regulated service, and what  
25 Mr. Van Den Berg was testifying -- and I can't remember

1 exactly the number -- but something under 300 calls a year  
2 would be the most that we're seeing based on the result  
3 today.

4 Q. And where are those calls accounted for in  
5 your allocation of expenses?

6 A. Those calls are in terms of the 500,000-plus  
7 calls a year versus 200. They're really de minimis. The  
8 calls -- the AWR program at the shared service -- at the  
9 call center is specifically charged to the AWR services.

10 Q. So that those approximately 300 calls that do  
11 mistakenly come through to the call center are billed back  
12 to -- the cost to handle those calls is billed back to AWR?

13 A. Right now it's my understanding we do not  
14 allocate those 300 calls out of almost 600,000 calls a year.

15 Q. What would that dollar amount be, do you know?

16 A. Commissioner, it would be so de minimis that  
17 it's probably not worth trying to account for it, because it  
18 takes three decimal points to get to the first number.

19 So in other words, what I'm trying to say is  
20 that volume of calls, 300 calls out of -- I just used  
21 600,000 calls a year -- is .0005 percent. Therefore, in  
22 terms of cost allocation, it would be my opinion not to  
23 allocate that because of the de minimis nature of the  
24 transaction.

25 Q. Okay. I understand that it may be de minimis,

1 but is there any justification for charging the ratepayers  
2 at all for those calls?

3           A.       I don't think the ratepayers should be  
4 charged, and we could put together something that would --  
5 that would do that allocation.

6           Q.       Okay. I think that may be one of the issues  
7 here, that we certainly don't want to include any costs  
8 allocated to the ratepayers that should be allocated  
9 somewhere else, but if you actually make those payment  
10 exchanges or not, it shouldn't be allocated to the  
11 ratepayers?

12          A.       I agree.

13                   COMMISSIONER MURRAY: Okay. Thank you.  
14 That's all I have.

15                   MR. CIOTTONE: Your Honor, excuse me. Would  
16 it be appropriate for me to just give you some arithmetic to  
17 answer your question from what's in the record?

18                   The cost per call, which is what we were  
19 discussing yesterday, I think the company's position is that  
20 it's \$9.28 per customer per year -- or no, that's total.  
21 Cost per call is probably about \$8, 7.87, is that it? \$7.87  
22 per call. So if those costs were not properly allocated, if  
23 you took 8.77 times, rounding off 229 to 300 calls, you'd be  
24 talking about \$2,600.

25                   But we also understand that those calls are,

1 in fact, allocated back to AWR, but even if they were not,  
2 the maximum arithmetic fallout of that would be \$2,631 a  
3 year.

4 COMMISSIONER MURRAY: I'm sorry. You said  
5 they are, in fact, allocated back to AWR?

6 MR. CIOTTONE: That's what I'm told. The ones  
7 that work their way through, because if it goes into the  
8 company's number, instead of the specifically assigned  
9 number to AWR, if someone calls the company number, there's  
10 a prompt there that says, hey, if you want to know about  
11 this, press this button and it switches it over. That dumps  
12 it over into AWR and then goes into their billing.

13 So the only actual incurred cost to the calls  
14 that are inadvertently or inappropriately dialed to the  
15 customer service number through that prompt jump over to the  
16 AWR fully funded, where the employees are paid by AWR, the  
17 overhead, the rent and everything is paid by AWR.

18 So if you were to ascribe some charge per call  
19 for the availability of that prompt, it would be  
20 inappropriate for me to judge what part of that it is, but  
21 if it was fully handled by the employee, by the MAWC  
22 employee at the 7.87 per call times 300 would be \$2,600.

23 COMMISSIONER MURRAY: All right. Thank you  
24 for that.

25 MS. O'NEILL: Your Honor, since it appears

1 Mr. Ciottone is testifying, could he either -- I suppose  
2 maybe he should be sworn and subject to cross-examination.  
3 I realize that the information may be helpful, but it's not  
4 really helpful if an attorney gives it.

5 JUDGE THOMPSON: I'm well aware of that,  
6 Ms. O'Neill. I appreciate you reminding me nonetheless. I  
7 was going to say, Mr. Ciottone, do you have a witness who  
8 can testify to those matters?

9 MR. CIOTTONE: Yes. My witness has already  
10 put the \$7.87 a call into evidence.

11 JUDGE THOMPSON: That's correct.

12 MR. CIOTTONE: So that's there. What I was  
13 doing was performing arithmetic, and I fully intend to do  
14 that with the help of Mr. Cassidy.

15 JUDGE THOMPSON: Telling us about the prompt  
16 and it's bumped over into the other company's queue and they  
17 pay everything respecting that, I think that part's not  
18 really in evidence.

19 MR. CIOTTONE: I think Mr. Cassidy knows it,  
20 and we plan to explore that at some length today.

21 JUDGE THOMPSON: Very well. It's your case.  
22 I have a couple of additional questions that have come to  
23 mind.

24 THE WITNESS: Yes, sir.

25 FURTHER QUESTIONS BY JUDGE THOMPSON:

1           Q.       If you know, what is the amount in the test  
2 year for call center expense?

3           A.       I believe I know that.

4           Q.       I figure you do.

5           A.       In the test year, we had a number of  
6 \$4,996,881.

7           Q.       And that was operating expense?

8           A.       Yes. Yes, sir.

9           Q.       So both the company and Staff are advocating  
10 for a number that is lower than the test year operating call  
11 center operating expense?

12          A.       That's correct. We've now reached what I  
13 would refer to as the beginning of steady state, and we've  
14 made an adjustment as we've went through the process and  
15 through the discovery process, through testimony, we've  
16 adjusted that number down.

17          Q.       Okay. And the transition costs for the call  
18 center and the service center, were they incurred during the  
19 test year?

20          A.       The St. Louis call center, the St. Louis  
21 district went into the call -- went into the Alton call  
22 center around December '01. Therefore, those costs, the  
23 majority of those costs were incurred in the '01-'02 time  
24 frame. So not -- not all the costs were in the 2002 test  
25 year.

1 Q. Okay. Maybe a better question is, was the  
2 national call center operating during the test year?

3 A. Yes, sir. The national -- the St. Louis  
4 district's call center for all practical purposes began  
5 operation January of 2002. I mean, it was in a test  
6 operation up and running in December of '01, but its first  
7 full year of operation was 2002.

8 Because at that time we had -- were faced with  
9 two separate legacy systems because of our prior merger of  
10 the companies, the districts outside the St. Louis district  
11 actually went in the call center around May of this year.

12 Q. Okay. What about the shared services center,  
13 was that operating during the test year?

14 A. Yes. The shared service center because --  
15 because of the acquisitions and we were faced with a  
16 management team of two different accounting platforms, we  
17 went into the shared service center around November of '01.  
18 So for all practical purposes, the first full year of  
19 operation was during the test year 2002.

20 Q. Is there also an annual fee that  
21 Missouri-American pays to the service company for the  
22 services provided by the service center?

23 A. Yes, for the accounting shared service center.  
24 Yes, sir.

25 Q. And is that not in dispute?

1           A.       That is not in dispute.

2                   JUDGE THOMPSON:  Commissioner Clayton?

3  QUESTIONS BY COMMISSIONER CLAYTON:

4           Q.       Good morning.

5           A.       Good morning.

6           Q.       I may ask you some questions that have been

7  repetitious from this morning, and I apologize for that, but

8  I'm trying to get organized in my note taking and

9  reconciling everything that I've read on these subjects.

10                  I want to start with the national call center,

11  which I believe is Issue 6, and I want to confirm exactly

12  what we're talking about in actual dollars.  What is the

13  amount that the company is requesting, the dollar amount

14  that the company is requesting to be included as its cost

15  for the national call center only?  Do you have that figure?

16           A.       Yes, sir.  The ongoing operating costs that

17  we're requesting in this rate proceeding is \$4,102,145.

18           Q.       Okay.  And how was that figure derived?  Is

19  that actual cost or how was that figure achieved?

20           A.       Basically, it's actual cost, because the

21  St. Louis district, which is the biggest part of our

22  operation, as I previously explained, has been up and

23  running now for almost two years.  And then the Missouri --

24  the outstate or the out -- the districts outside of

25  St. Louis, as I previously mentioned, went into the call

1 center beginning May of this year.

2                   And we've taken a combination of actual costs  
3 for the St. Louis operation plus best information we have,  
4 like we do at lots of things in the ratemaking process, with  
5 the facilities that went in in May and come up with that  
6 \$4,102,000. And that's the reason that we reduced our  
7 ongoing operating costs from when we filed the case. We had  
8 better data, the systems were up and running.

9           Q.       So that the \$4.1 million is made up of several  
10 parts, correct?

11          A.       That's correct.

12          Q.       What is the first part?

13          A.       The -- it would be made up for call handling.

14          Q.       Well, first of all, what's the amount? Why  
15 don't we start with that?

16          A.       Commissioner, I don't have that -- that  
17 breakdown.

18          Q.       Well, how many parts are there? There's the  
19 operating amount and then there's the St. Louis County  
20 amount and then there's a third amount, isn't there?

21          A.       The -- what the \$4.1 million represents  
22 is all the operating costs for our call center and for the  
23 St. Louis call center, which would mean call handling, would  
24 mean the technology costs, would mean billing and  
25 collecting. It would mean all the labor -- labor of those

1 facilities. That's the primary components of that, that  
2 would result in \$4.1 million.

3 Q. And this is a national call center, so you  
4 have calls that come in from every state in which American  
5 Waterworks is operating; is that correct?

6 A. That is correct.

7 Q. So the actual operating amount that you  
8 started off with, is that -- that's a share for Missouri?

9 A. That is correct.

10 Q. And I know you said that was an actual amount,  
11 but it's actually -- it's figured based on Missouri call  
12 volume?

13 A. It's figured based on customer count, and we  
14 have a longstanding agreement with our -- contractual  
15 agreement with our affiliated company, American Water  
16 Services Company, and those costs are charged based on  
17 customer counts. And what we've been doing --

18 Q. Number of customer?

19 A. Number of customers.

20 Q. When you say customer counts?

21 A. Yes, sir.

22 Q. Do you know offhand what is Missouri's  
23 customer count in the scope of the full company? What's the  
24 percentage?

25 A. It's usually around 15 percent.

1           Q.       15 percent. So the total call center  
2 operating expense is borne by -- in parts by each of the  
3 regulated entities, by each of the state operations; is that  
4 correct?

5           A.       That's correct.

6           Q.       And Missouri's share, under your theory, would  
7 be 15 percent roughly?

8           A.       Roughly, approximately.

9           Q.       Do the non-regulated -- non-regulated  
10 subsidiaries of American Waterworks contribute to the call  
11 center?

12          A.       We have -- we have the American Water  
13 Resources, the service line program in the call center, and  
14 that's directly -- directly charged. Everything else in  
15 that call center is all the different state-regulated  
16 activities.

17          Q.       So in achieving the figure that the state  
18 would pay, do you take the total operating expense of the  
19 call center and then you subtract off all the direct  
20 charges to the non-regulated subsidiaries and then take the  
21 15 percent of Missouri's customers? Is that what you're  
22 telling me how it works?

23          A.       Yes, sir.

24          Q.       Okay. So there is a direct charge to AWR  
25 prior to taking Missouri's share for the regulated usage?

1           A.       That's my understanding.

2           Q.       Okay. Are any -- do any of the other

3 subsidiaries take a charge for use of the call center?

4           A.       Yes. We've got close to 20 other utilities,

5 regulated utilities.

6           Q.       I'm talking about non-regulated.

7           A.       Oh, I'm sorry.

8           Q.       Non-regulated affiliates.

9           A.       No.

10          Q.       AWR is the only one?

11          A.       Yes.

12          Q.       So no one would have to call up to access

13 credit for AWCC. I assume that's not available to all of

14 Missouri-American's customers?

15          A.       That's correct.

16          Q.       Bummer. I'm trying to remember, and I know I

17 have reviewed it, what other affiliates are there only by

18 American Waterworks? There's AWR, there's AWCC.

19          A.       American Water Service or --

20          Q.       What is -- what does AWS do?

21          A.       It's -- it's primarily in the O&M contract

22 business, the -- as well as residual business, businesses.

23          Q.       What is a residual business?

24          A.       That's a waste product of water treatment and

25 sewer facilities, helping dispose of that.

1           Q.       I know this has been asked before, and I'm  
2 going to have to ask it again. Do you-all have a percentage  
3 of the total calls that have been made to the call center  
4 that are from Missouri?

5           A.       Yes, we've got this.

6           Q.       What is that percentage?

7           A.       Sir, we need to get Mr. Van Den Berg  
8 yesterday. I know we get close to 6 -- evidence is showing  
9 we're getting close to 600,000 calls.

10          Q.       But you don't know the percentage?

11          A.       I don't know the percentage.

12                   MR. CIOTTONE: Your Honor, Mr. Van Den Berg is  
13 still here. His flight doesn't leave until this afternoon.  
14 With respect to Commissioner Clayton's concerns and  
15 Commissioner Murray's concerns, perhaps we should put him  
16 back on.

17                   JUDGE THOMPSON: Sure, we can do that.

18 BY COMMISSIONER CLAYTON:

19          Q.       I want to ask you a few questions, I think, on  
20 the shared services portion of this, and basically on the  
21 shared services, all we're really talking about are the  
22 transition costs into the shared service center nationally,  
23 correct?

24          A.       That is correct. And that's for the  
25 accounting back office functions.

1           Q.       So we're only talking accounting.  There are a  
2 number of shared services enjoyed by Missouri-American, by  
3 the parent company, but we're only talking accounting; is  
4 that a fair statement?

5           A.       That's correct.

6           Q.       I believe there's an ITS shared service  
7 division?

8           A.       That's correct.

9           Q.       What does that do?

10          A.       ITS is -- is part of our service company  
11 arrangement, and that provides support for technology.  For  
12 example, last night I could not get access from my hotel  
13 room into my e-mail.  I was having a problem.

14          Q.       Lucky you.

15          A.       Lucky me.  And I was able to access that  
16 through the 1-800 number, because I'm an employee.  I gave  
17 them the proper notification who I am and then found out  
18 that I was doing something incorrect, operator error, as it  
19 normally is, and then I got access into our website.  And  
20 that's the kind of service that they provide.

21          Q.       That's the ITS, but it's not included in this  
22 transition cost, correct?

23          A.       No.

24          Q.       So we're only talking about the accounting?

25          A.       Right.  And the only issue -- my understanding

1 from the record, the only issue on the accounting back  
2 office function is just the transaction -- transitional cost  
3 to get from two platforms to one platform and all the data  
4 conversion. That's the issue that we have on that in this  
5 case, and Staff is recommending that we not be allowed to  
6 recover any of those costs.

7 Q. The platform transition costs?

8 A. Correct.

9 Q. And that figure's roughly \$5.2 million?

10 A. What we're talking about is the back office  
11 accounting called the shared services center, and that's the  
12 4,488,827.

13 Q. Okay.

14 A. It's confusing, Commissioner.

15 COMMISSIONER CLAYTON: It's the Judge's notes  
16 that --

17 JUDGE THOMPSON: It's all my fault.

18 BY COMMISSIONER CLAYTON:

19 Q. He's paid to take the blame. So the  
20 4.48-roughly million dollars amortized over 23.4 years for  
21 an annual charge or expense of 191,673; is that correct?

22 A. That's correct.

23 Q. Now, this is -- and forgive me. I'm probably  
24 being repetitious, but this is entirely platform merging  
25 everything together, this is all computer and labor expense

1 in making the computer systems?

2           A.       Yeah, absolutely, setting up the systems,  
3 getting common processes, because we had two platforms, and  
4 at that time with the merger two different, you know --

5           Q.       Was that done inhouse or out? Did you-all  
6 outsource it to another country, which everyone seems to do,  
7 including us?

8           A.       No, we didn't outsource it to another country,  
9 but we did have a Centure (phonetic spelling) was a big  
10 player in helping us move that forward and it involved a lot  
11 of mock conversions, a lot of data scrubbing and a lot of  
12 testing before you could get it into the back office  
13 accounting function.

14          Q.       Okay. And how was this share for Missouri  
15 derived? Was this just the cost of moving Missouri's  
16 operation or the total transition for the entire country  
17 into the shared services?

18          A.       It would be the -- this might be something I  
19 need to have Mr. Grubb -- it's starting into some fine  
20 details.

21          Q.       And you might not be the right person to ask?

22          A.       Correct.

23          Q.       I'm coming in late and I've got a stack of  
24 testimony here, so I apologize.

25          A.       That's fine.

1 Q. So direct me to whoever I'm supposed to go to.  
2 A. Mr. Grubb, who is following me today, follows  
3 our monthly bills and gets into that level of detail.  
4 Q. When you say monthly bills, that's the bills  
5 that you would pay to the parent company, you mean?  
6 A. Yeah. Misspoke. What I meant, monthly bills  
7 not related to this, to the transition costs. I meant -- I  
8 misspoke and was talking about the operating, the ongoing  
9 operating costs of a center, whether it's the accounting  
10 center or the call center.  
11 Q. Just give me one second. I just want to make  
12 sure that I understand this. The national call center costs  
13 that we discussed are base -- is based on a customer count,  
14 and are you saying that the shared service center transition  
15 costs are based the same way or not based the same way or  
16 you don't know?  
17 A. Based the same way, consistent with the  
18 contractual agreement we have with the -- the service  
19 company, which has been used by this Commission and adopted  
20 for many years.  
21 Q. So based on customer count?  
22 A. Yes, sir.  
23 Q. And basically we're talking about accounting  
24 and payroll services. Anything else that -- that this  
25 particular shared service center does?

1           A.       Yes.  It really gets into the back office  
2 detail transactional, where it's processing invoices, paying  
3 checks, paying all our vendors, processing payroll, all  
4 those type of detailed back office debits and credit  
5 functions.

6           Q.       So this would -- this would -- this fits in  
7 with the testimony that we had earlier in the week that  
8 basically the money comes in to Missouri-American and it  
9 goes to a lock box, and then basically it is accounted for  
10 and then distributed to the various parties by the -- by  
11 this shared service center?

12          A.       That is correct.

13          Q.       Rather than just coming to Missouri-American  
14 and Missouri-American cuts all of its own checks, it goes to  
15 the national and then the national pays?

16          A.       That is correct, but I also supervise the  
17 financial function at Missouri-American, and that's -- we  
18 review that, you know, that type of information on a daily  
19 basis.  I've got staff people that do that.

20          Q.       So Missouri-American has the responsibility of  
21 tracking the accuracy of those figures?

22          A.       Absolutely, as well as the accountability.

23          Q.       And the accountability.  Okay.  Thank you very  
24 much for your patience with me.

25          A.       Yes, sir.

1 JUDGE THOMPSON: Commissioner Murray, any  
2 further questions?

3 COMMISSIONER MURRAY: Just one. Thank you.

4 FURTHER QUESTIONS BY COMMISSIONER MURRAY:

5 Q. Mr. Jenkins, in your testimony, on page 9 of  
6 your rebuttal, you mention that Staff Witness Bernsen had  
7 made a request for additional recording data from the  
8 national call center and that the company was currently  
9 reviewing that request and working with Ms. Bernsen to  
10 understand what was required and to determine if such  
11 information is readily available without any additional  
12 cost. That's your testimony, right?

13 A. That is correct.

14 Q. Has -- what's the status of that request right  
15 now?

16 A. We've looked at that, and on page -- just to  
17 give the Commissioner some references in the record, on  
18 page 10 of Ms. Bernsen's testimony, beginning on line 17,  
19 Ms. Bernsen specifically identifies the type of information  
20 that she would like to have, and, for example, the first  
21 part of the information is inclusion of a customer -- of our  
22 quarterly customer opinion survey response data.

23 Q. What line are you on?

24 A. Line 21.

25 Q. Okay.

1           A.       That -- so with respect to that first request,  
2 in terms of the inclusion of the quarterly customer opinion  
3 survey responsive data, we can comply with that.

4           Second, with respect to informing the Staff on  
5 the staffing levels of the Alton call center, we can comply  
6 with that.

7           Q.       When you say you can comply, does that mean  
8 you have complied or --

9           A.       No.   What -- I really need to work with Staff,  
10 but -- on the specifics of how we get the information, but  
11 like we do with lots of things, you know, we already submit  
12 monthly compliance reporting for the call center.   So we  
13 can -- we can easily add those two items, for example,  
14 without additional cost.   We can go ahead and just process  
15 that through.

16          Q.       All right.   And the Staff's request is  
17 actually going forward; it's not that they were asking for  
18 that information?

19          A.       That is my understanding, it's a going-forward  
20 request.

21          Q.       Thank you.   Go ahead with the third item.

22          A.       Yes.   And then the third item is total monthly  
23 call volume received at the call center, and we can comply  
24 with that.

25          Q.       All right.   So there's no longer, to your

1 knowledge, any dispute on that issue?

2           A.       As long as we keep it narrowly to those three  
3 items, there's no problem.

4                   COMMISSIONER MURRAY: Thank you.

5                   JUDGE THOMPSON: This is kind of a round  
6 robin. I apologize.

7                   THE WITNESS: Yes, sir. No problem.

8 FURTHER QUESTIONS BY JUDGE THOMPSON:

9           Q.       Before I let you go, because you're the number  
10 guy and we haven't heard anybody yet on the Belleville  
11 laboratory cost issue, which is part of this group of  
12 issues, I'd like to know if you know what is the amount that  
13 the company wants in revenue for the Belleville laboratory  
14 costs?

15          A.       I am fortunate that I have another -- a second  
16 number person in our company, and Mr. Grubb, who has been  
17 following that issue, could speak specifically about it,  
18 your Honor.

19          Q.       So he's the man to ask that question?

20          A.       Absolutely. I do not know.

21          Q.       Okay. That's fair enough. I just want to  
22 make sure I get these numbers before the end of the hearing.

23          A.       I understand.

24          Q.       What about Issue No. 8, American Water  
25 Resources, if you know, what is the number that the company

1 wants in revenue for this American Water Resources issue?

2           A.       That issue as well is being handled by

3 Mr. Grubb.

4           Q.       Okay. Very good. Then there is this

5 additional issue that showed up that none of the other

6 persons had a position on, which is continued reports to

7 Staff. Should the company be required to continue reporting

8 performance measurement information to the Staff? Should it

9 be required to furnish additional information with that

10 reporting data? If you know, does the company have a

11 position on that issue?

12          A.       Yes, your Honor, and I think my response to

13 Commissioner Murray --

14          Q.       That's what you recall?

15          A.       That's what I was specifically addressing,

16 what our position was on the additional information. And

17 Ms. Bernsen identified three things at the close of the

18 testimony -- or direct testimony, believe.

19          Q.       So to summarize your position is, you're

20 willing to do that; you need to confer with Staff to figure

21 out exactly how and when?

22          A.       Yes, sir.

23          Q.       Is that right?

24          A.       Yes, sir.

25          Q.       Okay. And the information you've already

1 provided you're willing to continue to provide?

2 A. Yes.

3 Q. So that's a nonissue?

4 A. That is a nonissue.

5 JUDGE THOMPSON: Thank you. Any further  
6 questions from the Bench for Mr. Jenkins?

7 (No response.)

8 JUDGE THOMPSON: Okay. Recross, Ms. O'Neill?

9 MS. O'NEILL: Thank you.

10 RECROSS-EXAMINATION BY MS. O'NEILL:

11 Q. Good morning, Mr. Jenkins.

12 A. Good morning.

13 Q. A couple of things occurred to me as I was  
14 listening to you testify in response to questions from the  
15 Bench that, although I appreciate your answers, there's a  
16 few things that I thought maybe we should get a little bit  
17 further about.

18 One is the issue about the transition costs  
19 that you're seeking recovery of. You're really asking for  
20 two things regarding these transition costs for the call  
21 center and the shared services center both, is that right,  
22 both an amortization and capitalization?

23 A. That's correct.

24 Q. And so you're seeking an amortization for a  
25 return of those expenses through that period of time of the

1 amortization, right, with 23 years or something like that --

2 A. Yes.

3 Q. -- on the call center?

4 Also seeking a return of the investment as a  
5 capital item in rate base?

6 A. That is correct, because that adequately  
7 compensates the company for \$10 million of cost that it's  
8 laid out up front and provides a return on that money, just  
9 like you, when you put money in a bank, you expect a return  
10 back.

11 Q. What would be the difference, if any, in the  
12 amounts that we've been talking about this morning if you  
13 were only seeking a return of the amortization, as opposed  
14 to the calculation, if you know?

15 A. I'll calculate that for you. Okay. With  
16 respect to the shared services center, which is the back  
17 office accounting function which relates to a gross cost of  
18 \$4.48 million, the annual cost to service that investment in  
19 terms of a return on that investment would be \$471,648.

20 Q. So that would be the -- that would be the  
21 difference?

22 A. Right. That's putting -- that's putting  
23 \$4.48 million out on the table and that's being compensated  
24 for putting that \$4.48 million on the table.

25 JUDGE THOMPSON: That's the return on?

1 THE WITNESS: That's the return on, yes, sir.  
2 JUDGE THOMPSON: How much was it again?  
3 THE WITNESS: \$471,648.  
4 BY MS. O'NEILL:  
5 Q. A year?  
6 A. A year.  
7 Q. Okay.  
8 A. Now, keep in mind, just like with the bank,  
9 and whenever you pay something off, that doesn't stay there  
10 for the entire 23 years. As we keep coming in the  
11 ratemaking cycle, it'll go down, because we've recovered a  
12 piece of it, so it'll go down and get trued up in the next  
13 rate cycle and work its way down, just like any plant  
14 investment we make through the ratemaking cycle.  
15 Q. Similar to a depreciation?  
16 A. Correct. Now, that's with respect to the  
17 shared service center back office. I think, for the  
18 record's sake and clarity, we should also identify the  
19 customer service center, which is our call center function.  
20 Q. That was my next question, so good.  
21 A. And as I mentioned before, the gross cost of  
22 that was \$5,263,822. To service that investment in terms of  
23 the call center, the return-on piece is \$564,619.  
24 Q. So that would be the difference between what  
25 you're seeking with both of those components versus just the

1 amortization without the capitalization?

2           A.       That is correct.

3           Q.       Okay.  When Missouri-American made the  
4 decision -- and I know that you've been back and forth in  
5 New Jersey and here the last couple of years, but I think  
6 you may have been involved in some of this.  So if not, I  
7 apologize and I'll ask Mr. Grubb.

8                    But when the decision was made to go to the  
9 national call center, was that decision made after reviewing  
10 bits from other outside providers for an upgraded call  
11 center operation?

12           A.       That decision was based on -- as you know, I  
13 have been around a while.  That's the beauty of age, I  
14 guess.  But we're talking about when those decisions were  
15 made, that was the 2000-2001 time frame, and at that point  
16 this company was faced with really three rather large  
17 Missouri utilities coming together as one.  
18 Missouri-American bought old St. Louis County Water Company,  
19 and it also bought United Water Company.

20                    So right at that point, in that time frame, we  
21 were faced with two -- and then if you want to count the  
22 United Water facilities here in Jeff City as three -- for  
23 all practical purposes, two platforms:  One under the old  
24 Missouri-American platform; one under the St. Louis County  
25 platform.  Totally different systems, both in the accounting

1 and call center.

2                   We were going to need to put those together as  
3 one platform, both in the accounting function and the call  
4 center, so that was going on at the time. At the same time,  
5 as I've discussed earlier in my testimony, these legacy  
6 systems, both the old St. Louis County legacy system as well  
7 as the old Missouri-American legacy system, were at the end  
8 of their life.

9                   And as part of this national effort with the  
10 call center, it came for the benefit of Missouri citizens,  
11 in my opinion, right -- just at the right time, because then  
12 we were able to leverage the economies of scale on a  
13 national basis with a system like that, putting in 19 to  
14 20 -- a system to handle 19 or 20 call center accounting  
15 systems, as opposed to taking the risk and trying to upgrade  
16 the center on a stand-alone basis in Missouri.

17                   We would not have been able to provide, cost  
18 effectively, the type of performance measures, the  
19 performance tools that we're able to provide today.

20           Q.       So would it be fair to say that the -- going  
21 with the American Systems call center and -- although this  
22 is kind of a compound question -- the American System shared  
23 services center was really the only viable option that the  
24 company considered on those two issues, given the fact that  
25 upgrades needed to be made, as you've testified?

1           A.       Based on that process, as well as the experts  
2 that were putting those centers together advising us that on  
3 a stand-alone basis we could not afford to put the same  
4 level of technology, the same type of improvements that we  
5 were able to put together, whether it was in the accounting  
6 system or the call center, on an individual basis than what  
7 we could do on a national basis, given the economies of  
8 scale.

9           Q.       Did Missouri-American Water Company, after  
10 deciding that being part of a national or at least  
11 larger-than-one-state system for -- and let's just talk  
12 about the call center for a minute -- call center, did  
13 Missouri-American talk to any other entity other than  
14 American Water in deciding where that call center was going  
15 to be and what call center it was going to be a part of?

16          A.       No, we -- no.

17          Q.       How about the shared services center, same  
18 question?

19          A.       No.

20          Q.       I think you referred in one question regarding  
21 American Water resources to Mr. Grubb. Would it be safe to  
22 say that I could refer all my American Water Resources  
23 questions to Mr. Grubb?

24          A.       Yes.

25          Q.       Is that because that's not your area and you

1 don't have that information in front of you?

2           A.       Quite frankly, it's because, as you know, I've  
3 not followed that issue and the detail of many of the  
4 questions that I've had experience with you in the past.

5           Q.       And some of these transition costs that we're  
6 talking about occurred during the test year and some didn't;  
7 is that correct?

8           A.       That's correct.

9           Q.       What's the level of transition costs for the  
10 call center that occurred during the test year and, if  
11 necessary, the update periods?

12          A.       I do not have that information.

13          Q.       Would Mr. Grubb have that or someone?

14          A.       We do have it in the company. Whether  
15 Mr. Grubb has it with him today or not, I do not know, but  
16 we can check.

17          Q.       Could you check on that?

18          A.       Yes, ma'am.

19          Q.       How about the shared services center, do you  
20 know what level of those transition costs were in the test  
21 year?

22          A.       No, I do not.

23          Q.       Could you check on those as well?

24          A.       Yes, ma'am.

25               MS. O'NEILL: Thank you. I don't have any

1 further questions.

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

3 Commissioner Clayton has some additional questions, so we're  
4 going to break up the smooth flow and allow him to do that.

5 COMMISSIONER CLAYTON: I apologize for this.

6 We have to go to agenda here in about three minutes and I've  
7 got something on my mind. I want to make sure I understand  
8 this.

9 FURTHER QUESTIONS BY COMMISSIONER CLAYTON:

10 Q. Regarding the call center and the operating  
11 expenses, the company's requesting roughly \$4.1 million,  
12 correct?

13 A. Yes, sir.

14 Q. And you base that on, roughly, Missouri's  
15 15 percent share of the overall expense of the call center;  
16 is that correct?

17 A. That's correct.

18 Q. So that would make the total operating expense  
19 of that call center roughly \$27.3 million a year is what is  
20 spent there by the parent company and all the other?

21 A. Using that math, yes, sir.

22 Q. I mean, if you divide it by 15 percent, it  
23 comes out to be that amount. And Staff's position is that  
24 the company should only be able to recover what was the  
25 amount in prior -- in a prior period before the existence of

1 the national call center, is that a fair assessment with  
2 your understanding, which is roughly \$3.2 million?

3           A.       Yes. That's based on the way our old legacy  
4 systems operated, and as we discussed yesterday in terms of  
5 the difference in it being customer levels and actual call  
6 volume is the big area of, from my perspective, controversy  
7 in that issue.

8           Q.       So the company's position is that the  
9 ratepayer would pay an additional \$900,000, roughly, between  
10 prior years and then the existence of the national call  
11 center, plus roughly \$5.2 million in call center transition  
12 costs over 23 years, or \$564,000 a year, correct?

13          A.       564,000 relates to the return on, and then the  
14 recovery of is the one --

15          Q.       Excuse me. That's the third component.

16          A.       Yeah.

17          Q.       So the percentage of the 5.2 million is  
18 actually 224,000, plus the 564,000?

19          A.       Right. And they're not only paying for --  
20 those costs are necessary, one, as I previously discussed,  
21 is the old technology was at the end of its life. The new  
22 technology, the new call center provides us much better  
23 customer service options, technology with work force  
24 management and better call routing, et cetera, as I went  
25 through before, to get there.

1                   As well as, Commissioner, at this time we were  
2 faced with needing to do something anyway with our -- with  
3 our operations, because we had these three different  
4 companies. We had to put them together as one. And this, in  
5 my opinion, was the right decision to make was to go into  
6 that and not take the risk.

7           Q.       Is the transition cost figure a percentage or  
8 is it an actual cash outlay?

9           A.       That's what we've got to get from Mr. Grubb in  
10 terms of those.

11          Q.       Okay. And the 564,000, is that an actual  
12 figure or is that a percentage?

13          A.       The 564,000, once you get -- once we incur the  
14 cost from Missouri-American's perspective of the \$5,263,822,  
15 that's the return-on component which means, in order to keep  
16 the company whole, we need to apply a return on it, and it  
17 covers the income taxes, net of interest deduction. So  
18 that's really the servicing of that -- of putting \$5 million  
19 up front and not providing that cost and expense for free,  
20 in essence.

21          Q.       So is the 564,000 included in the 5.2 million  
22 or is that in addition to the 5.2 million?

23          A.       Think of it like your home mortgage in terms  
24 if you borrow money and then you pay back your amortization,  
25 when you pay your amortization on your monthly home

1 mortgage, you also pay interest. That's the interest or the  
2 carrying charge.

3 Q. So the answer to the question would be in  
4 addition, it's not part of it?

5 A. Yeah, it's in addition to servicing the  
6 investment.

7 Q. And was this done -- it's your testimony that  
8 the company had to do it, I mean, there was -- with its  
9 infrastructure that was not working at the time?

10 A. Yes, sir.

11 COMMISSIONER CLAYTON: I think that's all I'll  
12 ask you right now. Thank you very much for letting me do  
13 that. I appreciate it.

14 JUDGE THOMPSON: Thank you, Commissioner.

15 Ms. O'Neill, I think you're going to get  
16 another crack.

17 MS. O'NEILL: I think I'm okay, Judge.

18 JUDGE THOMPSON: Then Mr. Bates.

19 MR. BATES: Thank you.

20 RECROSS-EXAMINATION BY MR. BATES:

21 Q. Good morning, Mr. Jenkins.

22 A. Good morning.

23 Q. I believe you testified as to a figure of  
24 approximately 4.1 million; is that right?

25 A. That's correct.

1 Q. Is it not true that \$125,000 of that is  
2 nonrecurring cost?

3 A. Good question. And the record at this point  
4 is unclear to me, but in terms of that 125,000, we still  
5 have a couple individuals at our St. Joe operation that  
6 would still support some of those costs. I don't believe to  
7 the level of \$125,000. So -- and I'm -- I have not been  
8 able to understand where Staff's position is on that.

9 Q. Okay. Well, let me ask you this: Would all  
10 states joining the call center receive the same benefits as  
11 those you described that Missouri would receive, in your  
12 belief?

13 A. Don't know. I think some of the states  
14 were -- probably had similar legacy platforms like our  
15 districts outside the St. Louis operation, and that's the  
16 reason those -- all those states that were part of that  
17 began to come into the call center, for example, I think  
18 this year.

19 Some of the -- some of the states would have  
20 had different levels of technology put in different --  
21 different time frames. So I don't know the answer, but I  
22 assume various -- various states of -- various levels of  
23 technology type of ability to deploy.

24 Q. Okay. I believe you talked a bit about an  
25 approximately \$4.9 million test year level expense figure;

1 is that correct?

2           A.       That's correct.

3           Q.       Are you aware of Data Request No. 441 in this  
4 case?

5           A.       No.

6           Q.       Okay. If I represented to you that Mr. Grubb  
7 on behalf of the company on October 4th of this year  
8 responded that the company and the Staff had agreed that a  
9 test year level of expense for the call center would be  
10 \$3,669,378, would you disagree with me?

11          A.       I think that question would be best directed  
12 to Mr. Grubb.

13                   JUDGE THOMPSON: What's that figure again?

14                   MR. BATES: 3,669,378.

15                   JUDGE THOMPSON: That's still higher than what  
16 Staff's proposing, isn't it?

17                   MR. BATES: Yes.

18                   JUDGE THOMPSON: Okay. Proceed.

19                   MR. BATES: I think that's all I have of  
20 Mr. Jenkins for right now. Thank you.

21                   JUDGE THOMPSON: Thank you, Mr. Bates.

22                   Mr. Ciottone?

23 REDIRECT EXAMINATION BY MR. CIOTTONE:

24           Q.       Just one clarification, Mr. Jenkins.

25 Ms. O'Neill postulated the possibility of return of instead

1 of return on the transition cost. Now, the return on the  
2 transition cost by capitalizing is over 23 years or  
3 something like that?

4 A. That is correct.

5 Q. If it was return of, would you expect the same  
6 time frame to be used? If the return on aspect were  
7 eliminated and it was determined that you were only entitled  
8 to a return of, as Mr. Cassidy described was the case with  
9 UE, would you expect that time frame to be different?

10 A. Absolutely. I would expect it to be much  
11 shorter.

12 MR. CIOTTONE: Thank you. That's all I have.

13 JUDGE THOMPSON: Don't go away.

14 FURTHER QUESTIONS BY JUDGE THOMPSON:

15 Q. Let's say the Commission decides that, in  
16 fact, all you get is return of.

17 A. Yes, sir.

18 Q. So what would be the annual figure that the  
19 company would want?

20 A. I would, based on my prior experience and  
21 recognizing that we couldn't have it in one year, the  
22 amortization periods that I've seen and would recommend  
23 would be a three- to five-year period.

24 Q. So you're talking about the 5,263,822 divided  
25 up into three to five parts?

1           A.       Yes, sir.

2           Q.       Okay. And that's if there's no return on?

3           A.       Yes, sir.

4           Q.       Very well. And if I wanted to ask you

5 questions about the performance of the call center, the

6 metrics, the waiting times, that kind of thing, would you be

7 able to answer those?

8           A.       I think we need to bring somebody else in from

9 the company on the specific aspects of performance.

10          Q.       And who would that be, if you know?

11          A.       I think we -- I don't think we have that

12 person here today.

13          Q.       Okay. Well, you guys can confer and decide

14 who that person is and let me know when you know. All

15 right?

16          A.       Yes, sir.

17                   JUDGE THOMPSON: Okay. Now, since I've asked

18 him some more questions, anybody else want another hit at

19 some recross? Ms. O'Neill?

20                   MS. O'NEILL: No, thank you.

21                   JUDGE THOMPSON: Mr. Bates?

22                   MR. BATES: No, thank you.

23                   JUDGE THOMPSON: Mr. Ciottone?

24                   MR. CIOTTONE: No, sir. Now, in the interest

25 of time, I suggest we'd put Mr. Van Den Berg on to establish

1 the questions that were raised by Commissioner Murray and  
2 yourself, because he has transportation concerns. And then  
3 we can put on Mr. Grubb, as was anticipated, for whatever  
4 questions anyone has of him.

5 JUDGE THOMPSON: That's a great idea, except  
6 that the Commissioners are presently in agenda. I don't  
7 recall what their questions were.

8 MR. CIOTTONE: I do.

9 JUDGE THOMPSON: In that case, you're very  
10 efficient, Mr. Ciottone.

11 You can step down, Mr. Jenkins. I'm not going  
12 to excuse you, because I'm sure we're going to hear from you  
13 again in this case. And why don't we have Mr. Van Den Berg  
14 back. Mr. Ciottone, then, will ask the questions that he  
15 has carefully noted that the Commissioners wanted. I guess  
16 you'll be doing direct.

17 Nice to see you, Mr. Van Den Berg.

18 THE WITNESS: Nice to see you.

19 JUDGE THOMPSON: I'll remind you that you're  
20 still under oath. Go ahead and take your seat.

21 Please proceed.

22 A. JOSEPH VAN DEN BERG testified as follows:

23 DIRECT EXAMINATION BY MR. CIOTTONE:

24 Q. Mr. Van Den Berg, Commissioner Murray's  
25 concerns were about the handling of the calls through the

1 call center that related to the service line programs with  
2 AWR, and she wanted to know what costs -- how the cost  
3 allocations were handled. We understood that the cost  
4 allocations of the numbers that -- of the calls that came to  
5 the specific number for AWR were isolated. I think that had  
6 been established.

7                   She was concerned about the calls that you  
8 characterized as being 292, give or take, was your estimate.  
9 What happens to the cost of providing the attention to those  
10 calls that come in through the normal customer service call  
11 center? And I testified as Ms. O'Neill properly observed --

12                   MS. O'NEILL: Your Honor, I'm going to object.  
13 This is becoming a very leading question. He can answer the  
14 question. I think he was here during the prior testimony of  
15 Mr. Ciottone.

16                   MR. CIOTTONE: I thought my goal was to  
17 restate the Commissioner's question is all I'm attempting to  
18 do.

19 BY MR. CIOTTONE:

20           Q.       What happens to those calls? What happens to  
21 the allocation of those calls?

22           A.       The costs that come in to the regular 800 are  
23 tracked and those are charged back at fully charged full  
24 cost to AWR for any of the time that a rep happens to take  
25 in getting the call and having to transfer it. If it goes

1 in that way, they get charged for the full call handling  
2 time as well. So it's fully charged back to AWR. They're  
3 in a separate building, they're in a separate facility, so  
4 they have that and they can tell what that is, so they  
5 charge it back.

6 Q. What's the triggering event that moves the  
7 charges back to AWR?

8 A. I don't know the specifics except for the  
9 actual tracking of the transfer.

10 Q. The prompt?

11 A. The transfer of a -- if it has come in through  
12 the wrong number and it goes over, that's tracked and then  
13 is charged. And it's done on a national basis back to the  
14 call center, not specific to any individual entity.

15 Q. So is there a method to calculate the costs  
16 that we are attributing to the call center that would be  
17 attributable to AWR that should, as Commissioner Murray was  
18 concerned, not be charged to the overall customer?

19 A. I believe that the charges that we have for  
20 the call center, which are based on the actual bills that  
21 are coming from American, have already taken that and  
22 charged that to AWR, so that that has been taken out and  
23 we're charged just those costs that are related to the  
24 regulated customers in the center and the calls and the  
25 costs associated with those customers.

1 Q. So the adjustment should be?

2 A. I don't believe there is an adjustment to our  
3 numbers as we have it. The only adjustment would be whether  
4 or not we have the call volume, not on the cost side.

5 Q. Referring now to Commissioner Clayton's  
6 question, he was concerned about the customer relationship  
7 that the percentage of the customers served by  
8 Missouri-American relative to the customers served by the  
9 entire system and insofar as that percentage or customer  
10 count allocation is used to spread the call center and the  
11 shared services cost. Do you know what that number is?

12 A. The best information I have is the latest  
13 information I have, which is for November. And in November  
14 there were 2,896,028 customers that were in the call center,  
15 of which 442,904 are Missouri-American or 15.2 percent. And  
16 the calls that came into the switch for November, the total  
17 was 308,045 calls. Missouri's were 44,910, representing  
18 14.6 percent. So the difference is less than 1 percent  
19 between call volume allocation and customer allocation.

20 Q. I lost you. What's the customer allocation  
21 number, what percentage?

22 A. 15.2.

23 Q. And then the call allocation?

24 A. 14.6.

25 MR. CIOTTONE: Thank you. That's all I have.

1 JUDGE THOMPSON: Thank you, Mr. Ciottone.  
2 Ms. O'Neill?  
3 CROSS-EXAMINATION BY MS. O'NEILL:  
4 Q. Mr. Van Den Berg, handling -- you're talking  
5 about handling these calls and these transfers. Now, what  
6 actually is moved from the Missouri-American allocation to  
7 the American Water Resources allocation? Is it a proportion  
8 of the, for lack of -- for a generic -- used generically,  
9 the salary of the customer service representative or is it  
10 more than that, less than that?  
11 A. The terminology that was provided to me by the  
12 company was fully allocated, so I assume that means salary  
13 plus all benefits and associated.  
14 Q. Related to the customer service  
15 representative?  
16 A. That may have taken the call.  
17 Q. Okay. But not as to anything else? Not any  
18 other costs other than the customer service representative?  
19 A. I don't know of any other aspects to that, no.  
20 Q. And we're not really sure if what you just  
21 said is actually what they do, because they didn't give you  
22 that breakdown?  
23 A. They did not provide a specific breakdown, no.  
24 Q. Okay.  
25 A. Again, the purpose in what we were looking at

1 was basically the call volume to determine whether or not it  
2 was of substance to our estimate on call volume for the call  
3 center related to Missouri.

4 MS. O'NEILL: Okay. No further questions.

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

6 Mr. Bates?

7 MR. BATES: Thank you.

8 CROSS-EXAMINATION BY MR. BATES:

9 Q. Hi again, Mr. Van Den Berg.

10 A. Good morning.

11 Q. Have you ever toured the call center yourself?

12 A. Yes, I have.

13 Q. Okay. How do you know that they're in a  
14 separate building?

15 A. Because they were not there and they're in a  
16 separate building.

17 Q. When did the tour take place?

18 A. In October.

19 Q. Of this year?

20 A. Yes.

21 Q. Do you know if they were ever in another  
22 location?

23 A. I do not know if they were in another  
24 location.

25 Q. Okay. How is a call that discusses more than

1 one subject handled?

2           A.       If it -- if you're relating to the fact that  
3 when you come in on a call, if you are -- go through and you  
4 are -- you're asked a prompt. There are a set of prompts,  
5 and you go in there and you're specifically sent to a skill  
6 that is related to that.

7                    So if it's Missouri-American and you're asking  
8 about a bill, they take care of that. So that is where it's  
9 tracked. You will be focused on however you have selected  
10 to go into that prompt system.

11           Q.       Okay. Let's say they have more than one  
12 concern and they make a judgment in their mind and they make  
13 that prompt and then want to discuss another subject, how is  
14 that handled?

15           A.       The way in which the skill base is set up for  
16 Missouri, those people who can handle most of the aspects of  
17 a Missouri-based call are the people that will get the call  
18 for that skill.

19           Q.       Okay. Do you know if there's any way to  
20 identify the calls that are directly related to the Water  
21 Line Protection Program?

22           A.       The only way to identify the calls are from  
23 the switch that the calls go into, that separate on the  
24 number that the water line protection-eligible customer  
25 received and tracking that call volume based on that switch.

1                   MR. BATES: Okay. I think that's all. Thank  
2 you.

3                   JUDGE THOMPSON: Thank you, Mr. Bates. No  
4 questions from the Bench. Redirect, Mr. Ciottone?

5                   MR. CIOTTONE: No, sir.

6                   JUDGE THOMPSON: If the Commissioners get here  
7 from agenda before you've left, perhaps they will have some  
8 questions for you.

9                   Mr. Grubb, I'll remind you you're still under  
10 oath, sir.

11 EDWARD J. GRUBB testified as follows:

12 DIRECT EXAMINATION BY MR. CIOTTONE:

13           Q.       Would you state your name, please.

14           A.       Edward J. Grubb.

15           Q.       Mr. Grubb, you have previously prepared and  
16 provided to the Commission your direct testimony which was  
17 Exhibit 1, your rebuttal testimony which was Exhibit 41, and  
18 your surrebuttal testimony, which is Exhibit 83; is that  
19 correct?

20           A.       That is correct.

21           MR. CIOTTONE: If they have not been offered,  
22 your Honor, at this time I would like to offer them.

23           JUDGE THOMPSON: Let me see. No. 1 has been  
24 offered and received, 41 has been offered and received, and  
25 83 has been offered and received.

1                   MR. CIOTTONE: Thank you, your Honor. Then I  
2 tender Mr. Grubb.

3                   JUDGE THOMPSON: Thank you. Ms. O'Neill?

4                   MS. O'NEILL: Thank you.

5 CROSS-EXAMINATION BY MS. O'NEILL:

6           Q.       Good morning.

7           A.       Good morning.

8           Q.       I hear you're the person I should talk to  
9 about American Water Resources.

10          A.       Yes, ma'am.

11          Q.       Okay. I just have a couple of questions.  
12 Well, okay, maybe more than two.

13                   How did Missouri-American decide to  
14 participate in the Service Line Protection Program offered  
15 by American Water Resources?

16          A.       Ms. O'Neill, I don't know if I can answer that  
17 question. I believe that discussion took place between AWR  
18 and our president, Mr. Thornburg. I was not involved in any  
19 of the discussions that led to that -- to that.

20          Q.       Okay. So would you also -- would you be aware  
21 of whether or not people at Missouri-American investigated  
22 whether another provider of the service line protection  
23 might be available to their customers on better terms or  
24 lower cost or anything like that?

25          A.       Not to my knowledge, but if -- if another

1 vendor was out there, they had every opportunity to offer  
2 those services to our customers in the same way that AWR  
3 could have offered those services by purchasing customer  
4 lists through various vendors.

5 Q. Could they have purchased a customer list from  
6 Missouri-American?

7 A. I don't know that.

8 Q. Okay. So you don't know whether or not any  
9 other service line providers were contacted regarding  
10 whether they wanted to provide service to Missouri  
11 customers?

12 A. Not at this time.

13 Q. Okay.

14 A. And not to my knowledge.

15 Q. And I think that we previously heard testimony  
16 that there was no compensation for a customer list from  
17 Missouri-American to American Water Resources regarding this  
18 offering; is that correct? Is that your understanding?

19 A. That is correct.

20 Q. Okay. Was there any compensation for  
21 Missouri-American for the use of its letterhead to promote  
22 this service line protection program?

23 A. I'm not sure we can place a cost on a single  
24 sheet of paper. I don't know what you mean by a cost.

25 Q. Do you know how many of these letters went

1 out?

2           A.       I believe I'm aware of four as of the end of  
3 November.

4           Q.       Four letters offering service line protection?

5           A.       There were four mailings.

6           Q.       Four mailings?

7           A.       Four mailings.

8           Q.       Okay.

9           A.       And those mailings were paid for by AWR.  
10 There was no cost to Missouri-American Water in that sense.

11          Q.       So they paid for everything from the paper to  
12 the postage to everything involved in preparing that?

13          A.       That is my understanding, yes.

14          Q.       Did they pay any of that money to  
15 Missouri-American?

16          A.       Did they pay any of that money for the postage  
17 and the paper to Missouri-American?

18          Q.       Did they pay any money to Missouri-American  
19 for any costs related to those mailings?

20          A.       No, they did not.

21          Q.       And I think just to -- I think, but I'm not  
22 sure, that there was also some testimony that said  
23 Mr. Thornburg had not received any compensation for his  
24 endorsement of the program. Is that your understanding?

25          A.       You'd have to ask Mr. Thornburg that question.

1           Q.       You're not aware of any compensation that was  
2 received to the company for his endorsement of the program?

3           A.       Not to my knowledge, no.

4           Q.       And have those mailings gone basically to all  
5 customers not covered by a statutory service line protection  
6 program at this point?

7           A.       It has been -- it is my understanding they  
8 have been delivered or sent to customers in residential in  
9 nature and they own their own dwellings, I believe, and that  
10 they may have gone to apartments. I'm not 100 percent sure.  
11 There was about 83,000 customers who were sent the mailings,  
12 out of the 112,000 customers that are comprised of all  
13 non-St. Louis district customer base.

14          Q.       Were the -- to your knowledge, were the  
15 mailings directed at the same people, same types of  
16 customers who would have been eligible for the statutory  
17 service line protection program that St. Louis County has?

18          A.       I'm not really knowledgeable about who's  
19 eligible in St. Louis. I know residential customers are. I  
20 think -- I'm just trying to think whether commercial  
21 customers are eligible in St. Louis or not. It was my  
22 understanding that AWR was targeted to the residential  
23 customer class.

24                   MS. O'NEILL: Okay. No further questions.

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

1 Mr. Bates?

2 CROSS-EXAMINATION BY MR. BATES:

3 Q. Good morning, Mr. Grubb.

4 A. Good morning, sir.

5 Q. I have a few questions for you, several  
6 probably actually.

7 First of all, were you in the hearing room  
8 Monday morning when Mr. Thornburg testified regarding  
9 Missouri-American's interactions with AWR?

10 A. I was here for some of the morning. Whether  
11 it was for that piece, there may have been a few questions I  
12 heard.

13 Q. Let me ask you if you heard this: Did you  
14 hear Mr. Thornburg say that, and this is not an exact quote,  
15 but to the effect that if it was not already given, he was  
16 sure that Missouri-American could provide information on the  
17 revenues that AWR had generated from Missouri-American Water  
18 customers?

19 A. I believe I heard that.

20 Q. Would you agree with me that the Staff had  
21 previously asked for this information in Data Request  
22 No. 277 on July 22nd of this year, which I believe was  
23 directed towards you?

24 A. Yes, it was. And the company objected to that  
25 initial data response. The Commission has since issued an

1 Order and with that a motion to compel, and I believe we  
2 sent a response to the Staff December 12th stating that that  
3 information is not in the possession of Missouri-American  
4 Water.

5 Q. So you still stand by -- the subsequent  
6 response of December 12 restates your earlier response that  
7 the company is not in possession of that information?

8 A. At the time we sent that response,  
9 December 12th, Missouri-American, to the best of my  
10 knowledge, was not in the -- did not have the information  
11 available to it. Now, Mr. Thornburg was on the stand  
12 December 15th. I don't know if anything changed between  
13 December 12th and December 15th. I don't know that.

14 Q. All right. Can you tell me if letters are  
15 still being issued to your Missouri-American Water customers  
16 that have not decided to use the AWR service?

17 A. If there were four mailings, I would have to  
18 state that if a customer had not signed up for the service  
19 after, like, the first mailing, it's very possible he or she  
20 received a second; if not signed up for it after the second,  
21 then a third. I can only assume that.

22 Q. Do you know how many letters have been sent to  
23 date to Missouri-American Water customers with regard to the  
24 company's endorsement provided for AWR's water line  
25 protection program?

1           A.       How many?

2           Q.       Uh-huh.

3           A.       I can only -- I know there were four as of the  
4 end of November. I don't know how many they sent out on  
5 each mailing.

6           Q.       Okay. Do you know if there were any  
7 additional mailings contemplated?

8           A.       I believe I understand there may be more in  
9 the near future.

10          Q.       Do you know how many?

11          A.       No, I do not.

12          Q.       And do you know what is contemplated by the  
13 near future?

14          A.       The January time frame.

15          Q.       All right. Do you -- would you agree with me  
16 that Missouri-American Water provided AWR with its customer  
17 list to introduce AWR service line protection to  
18 Missouri-American Water customers?

19          A.       That was the intent.

20          Q.       In each of the four mailings that you  
21 described to Missouri-American Water's customers, did  
22 Missouri-American Water pay the cost for these four mailings  
23 or did someone else pay for them?

24          A.       When you say costs, are you talking about the  
25 postage, the forms?

1 Q. Everything, I guess.

2 A. Those costs were not borne or paid by

3 Missouri-American Water.

4 Q. Do you know who paid them?

5 A. I can assume who paid them. I would assume

6 AWR paid for the mailings.

7 Q. Let me ask you this: Are you aware that

8 during the year 2003 there were four members serving on the

9 board of directors from Missouri-American Water?

10 A. I believe that sounds correct.

11 Q. Do you know if any of those boards of -- those

12 directors also served on the board for AWR?

13 A. I'd probably have to refresh my memory and

14 look at a Data Request that the company responded to.

15 Exactly who those members are, I don't recall.

16 Q. If you could do that for me, I would

17 appreciate it.

18 Do you know during 2003 if any of

19 Missouri-American Water's board of directors also served on

20 the board of American Waterworks Service Company?

21 A. Can you repeat that again, please?

22 Q. During 2003, do you know if any of

23 Missouri-American Water's directors also served on the board

24 of American Waterworks Service Company?

25 A. There may be one or two individuals who will

1 serve on both boards, but again, those are in Data Requests  
2 to the Staff.

3 Q. Okay. Could you check for later that  
4 information either with Mr. Thornburg, who I believe is in  
5 the building, or with those Data Requests?

6 A. Okay. Can you give me --

7 MR. CIOTTONE: Your Honor, I'd like to make an  
8 objection to this line of questioning. I think this is a  
9 controverted issue about whether or not the ownership or the  
10 directorships of these other companies are actually and are  
11 probably within the knowledge of Missouri-American Water  
12 Company. I think what Missouri-American Water Company is  
13 doing is saying, if we know, we'll tell. And it is not  
14 hitching its wagon to the technical distinctions between  
15 corporations, but frankly Missouri-American may think they  
16 know, may have guesses.

17 Mr. Grubb may think that he knows who the  
18 directorships are, but I don't and I suspect that he  
19 doesn't. So I don't think this witness is competent to  
20 answer those questions, and it is a matter of discovery that  
21 has been taken up formally prior to this.

22 JUDGE THOMPSON: The discovery order said, if  
23 you know, you've got to tell. So if Mr. Grubb knows, he can  
24 respond to the question. If he doesn't know, he can say I  
25 don't know. Proceed.

1                   MR. BATES: Thank you.

2 BY MR. BATES:

3           Q.       Do you know if during 2003 any of

4 Missouri-American Water's directors also served on the board

5 for American Water Company?

6           A.       Missouri-American and American Water?

7           Q.       Yes.

8           A.       The answer to that, I know, is no.

9           Q.       All right. Are you aware whether or not

10 Ms. Ellen Wolf and Mr. James McGivern served on the boards

11 of American Water, American Water Service Company, American

12 Water Resources and Missouri-American Water concurrently

13 during 2003?

14          A.       Mr. Bates, can I back up for one second to --

15          Q.       Sure.

16          A.       -- the previous question?

17          Q.       Sure.

18          A.       I may have misspoke. You said

19 Missouri-American directors or officers?

20          Q.       My question was --

21                   JUDGE THOMPSON: You're confusing me, and I'm

22 sure you're confusing the witness. Your questions are

23 compound and complex, and I would urge you -- in fact, I

24 would require you to break them down. Why don't you ask

25 about each individual at a time so that we can follow it

1 more clearly, please.

2 MR. BATES: Thank you, your Honor.

3 BY MR. BATES:

4 Q. I think the question that I asked you before  
5 that, which you may be referring to, if you knew during 2003  
6 if any of Missouri-American Water Company's directors also  
7 served on the board for American Water Company. Is that the  
8 question you were referring to?

9 A. Yes. I had in my mind officers, and that's  
10 why I said no. It is my understanding that during 2003, in  
11 my recollection in responding to some Data Requests to the  
12 Staff, that there were one or -- one or two, maybe three, as  
13 I recall, directors of Missouri-American that were serving  
14 on as a director of American Water.

15 JUDGE THOMPSON: American Water which?  
16 American Waterworks, American Water Service, American Water  
17 Resources?

18 THE WITNESS: I believe the question was  
19 American Water, so --

20 MR. BATES: My question was specifically  
21 American Water.

22 THE WITNESS: American Water.

23 JUDGE THOMPSON: The parent, correct?

24 MR. BATES: Yes.

25 JUDGE THOMPSON: Okay. We've got to keep

1 these straight or the record's not going to be useful for  
2 anyone.

3 MR. BATES: Thank you, your Honor.

4 THE WITNESS: To be 100 percent sure, I really  
5 would like to see the Data Request that the company  
6 responded to, so can I --

7 JUDGE THOMPSON: You certainly can refresh  
8 your recollection, if that's what's necessary. The  
9 question's addressed to what do you at this moment know.  
10 You either know or you don't know. If there's something  
11 that would refresh your recollection, then your counsel can  
12 ask for you to have an opportunity to do that.

13 THE WITNESS: To be 100 percent sure, make  
14 sure.

15 JUDGE THOMPSON: We're about at the time we  
16 need to break for the reporter anyway. Let's take ten  
17 minutes. You can refresh your recollection if there's  
18 something here that will permit you to do that, and we'll  
19 come back at quarter after ten and Mr. Bates will resume his  
20 questioning at that time. Thank you.

21 (A BREAK WAS TAKEN.)

22 JUDGE THOMPSON: Mr. Grubb, have you had a  
23 chance to refresh your recollection?

24 THE WITNESS: I have a number of sheets of  
25 paper here with various names and directors and who those

1 people are directors for. It's two Data Requests that the  
2 company responded to.

3 MR. BATES: Your Honor, may I go back and  
4 maybe I can reask some of the questions that Mr. Grubb  
5 wasn't sure of and he may be able to respond now?

6 JUDGE THOMPSON: Absolutely.

7 BY MR. BATES:

8 Q. Mr. Grubb, let me go back to this question.  
9 During 2003, do you know if any of Missouri-American Water  
10 Company's directors also served on the board for AWR?

11 A. Can I take a few minutes to --

12 Q. Sure. Yeah.

13 A. Missouri-American?

14 Q. Right.

15 A. And AWR?

16 Q. Right. And only directors I'm asking about.

17 A. From the response, there are two members, two  
18 individuals who are directors of AWR who are also a director  
19 of Missouri-American Water.

20 Q. And who are those persons?

21 A. I have the names of Ellen Wolf and James  
22 McGivern.

23 Q. Okay. And let me ask you this question:

24 During 2003, were there any directors for Missouri-American  
25 Water Company that also served on the board of American

1 Waterworks Service Company?

2           A.       If I have this right, to respond to your  
3 question, there are -- there are four individuals on  
4 Missouri-American's board that also is on the American  
5 Waterworks Service Company board.

6           Q.       Okay. Now, can you identify for us who those  
7 individuals are?

8           A.       Daniel Kellaheer, James McGivern, Ellen Wolf  
9 and Eric Thornburg.

10          Q.       Now, lastly, during 2003, were there any  
11 Missouri-American Water Company directors also serving on  
12 the board for American Water Company?

13                   JUDGE THOMPSON: Are you talking about  
14 American Waterworks, the parent?

15                   MR. BATES: Yes.

16                   THE WITNESS: I believe there are three  
17 individuals.

18 BY MR. BATES:

19          Q.       And who are they?

20          A.       James McGivern, Dan Kellaheer and Ellen Wolf.

21          Q.       Do you know of your knowledge whether the  
22 members of each of these boards we just spoke of receive any  
23 compensation for being board members?

24          A.       I can only speak to Missouri-American, that  
25 there are directors fees for the directors of

1 Missouri-American, with the exception, I believe, of  
2 Mr. Thornburg, who is a director but is also an employee of  
3 Missouri-American. I don't think he receives a director  
4 fee.

5 Q. Okay. And he would be compensated, then, as  
6 an employee?

7 A. With his salary, that's correct.

8 Q. Mr. Grubb, do you see any potential conflict  
9 of interest in having the common board members serving on  
10 the boards of both Missouri-American and AWR, given that  
11 there are close operational ties between those companies?

12 MR. CIOTTONE: Your Honor, I have to object to  
13 this. This witness has -- no foundation has been laid that  
14 would permit this witness to testify with respect to those  
15 things about corporate interactions. He's a financial man,  
16 and asking him to have an opinion about conflicts of  
17 interest with interlocking boards of directors is far beyond  
18 what he was offered and qualified to speak to.

19 JUDGE THOMPSON: I'm going to overrule the  
20 objection. He may answer if he's able.

21 THE WITNESS: I have no opinion. I don't  
22 know. I have never attended any of the meetings, so I don't  
23 know.

24 BY MR. BATES:

25 Q. Would you agree with me, though, that there

1 are close operational ties between Missouri-American Water  
2 Company and AWR?

3           A.       I don't know what you mean by close ties, in  
4 the sense of -- what sense are you talking about?

5           Q.       Well, would you describe what you believe is  
6 the relationship between Missouri-American Water Company and  
7 AWR?

8           A.       I believe they're an affiliate. They're both  
9 owned by American Water.

10          Q.       Let me switch to something else. Do you know  
11 the phone number for the call center?

12          A.       Not off the top of my head, I do not.

13          Q.       Okay. Would you happen to know the phone  
14 number for AWR's water line protection program?

15          A.       No, I do not.

16          Q.       You would agree, though, that there are phone  
17 numbers for those two things?

18          A.       Yes.

19          Q.       Okay. Thanks. Is it your understanding that  
20 AWR is now in separate facilities?

21          A.       I had heard that for the first time this  
22 morning. In discussions through the state, through the  
23 course of this case, I had an understanding in talking with  
24 call center folks that that would happen and that,  
25 obviously, it has occurred.

1           Q.       If I represented to you that on September 11th  
2 of this year, that you sent an e-mail to John Cassidy  
3 stating that you had not received any more information  
4 regarding when AWR would be moving out of the call center  
5 facilities and that you had a standing request to be advised  
6 when AWR would be moving to separate facilities, would you  
7 have any reason to doubt that?

8           A.       I can recall the conversations that we had,  
9 that I had with Mr. Cassidy and other Staff people on this  
10 issue, and it's possible that that's one little question  
11 that just never got answered or sent back to us.

12          Q.       Okay. But you did have a standing request,  
13 then, as of September to be advised when they'd be moving?

14          A.       That's correct.

15          Q.       Okay. Do you know if the telephone equipment  
16 at that site can switch calls automatically from AWR  
17 operations to the call center?

18          A.       I don't know that.

19          Q.       Do you know if there's any -- even though  
20 they're in separate facilities, if there is any line between  
21 them?

22          A.       I don't know that.

23          Q.       Is the AWR line staffed around the clock by  
24 AWR employees?

25          A.       I don't know that answer.

1 Q. Do you know if the AWR phone line is capable  
2 of being answered around the clock?

3 A. I don't know that answer.

4 Q. Do you happen to know if call center employees  
5 can answer AWR calls?

6 A. I know -- if you're saying that a customer of  
7 AWR calls in to the AWR phone and the call center person can  
8 respond to that, I don't know that answer.

9 Q. Okay. Let me ask you this: Do you agree that  
10 in response to a Data Request No. 441, that you responded  
11 that the company and the PSC Staff had agreed that a test  
12 year level of expense for the call center is \$3,669,378?

13 A. Are you referring to the Alton call center  
14 costs? When you say call center, I need to define call  
15 center.

16 MR. BATES: May I have just a moment?

17 JUDGE THOMPSON: You may.

18 BY MR. BATES:

19 Q. I think I'm asking about the Alton call center  
20 and the old call center.

21 A. Yeah, the -- in response of 441, the costs  
22 that were captured for that response refer to the cost of  
23 providing customer care to our customers both at the call  
24 center and locally at Missouri-American Water Company.

25 Q. Were you here this morning when

1 Mr. Van Den Berg -- excuse me -- I think it was Mr. Jenkins  
2 testified to a figure of approximately 4.9 million?

3 A. Yeah. I think -- in looking back and thinking  
4 about that, I think probably Mr. Jenkins misunderstood the  
5 question, that that may have been the pro forma number.

6 Q. What do you mean by that?

7 A. With all the adjustments to add to the level  
8 as a result of Missouri-American -- I'm sorry -- all  
9 districts of Missouri-American except St. Louis went to the  
10 call center after the test year, so obviously there is  
11 additional costs to be factored in, and that took that into  
12 consideration.

13 Q. If you happen to know, how many employees work  
14 for AWR that would be sponsoring -- excuse me -- responsible  
15 for answering calls?

16 A. I do not know.

17 MR. BATES: I think that's all I have right  
18 now. Thank you.

19 JUDGE THOMPSON: Thank you, Mr. Bates.

20 QUESTIONS BY JUDGE THOMPSON:

21 Q. With respect to the Belleville laboratory,  
22 what is the amount that the company would like to see in  
23 revenue with respect to that issue?

24 A. The test year -- the company's test year level  
25 that we have in the case and the number that I have

1 corresponds to Mr. Cassidy's adjustment. So the test year  
2 level is \$723,529.

3 Q. 723,529?

4 A. Yes, sir.

5 Q. And that's an adjusted test year figure?

6 A. That's purely the test year for allocated  
7 charges to Missouri-American from the Belleville lab.

8 Q. Okay. And that would go into -- and you're  
9 asking that that go into revenue requirement as an operating  
10 expense?

11 A. That's correct.

12 Q. Okay. Now, is there any amount that the  
13 company is requesting go into rate base with respect to the  
14 Belleville lab in order to receive a return on? Let me make  
15 sure I've got all the amounts in my mind.

16 A. No. I think this issue is simply --

17 Q. Purely an expense?

18 A. -- purely an expense item, yes.

19 Q. Great. And what is Staff proposing as the  
20 amount of expense with respect to the Belleville lab?

21 A. 377,192.

22 Q. Okay. Approximately half, roughly?

23 A. Yes.

24 Q. Okay. What is the basis, if you know, of  
25 Staff's lower figure?

1           A.       The basis is an allocation based upon test  
2 analyses versus the company allocation of customers.

3           Q.       So in other words, this issue turns on  
4 allocation method?

5           A.       That's correct.

6           Q.       The company wants to do it based on number of  
7 customers, they want to do it based on number of tests?

8           A.       We got a little -- test. I think the term is  
9 test analyses.

10          Q.       Okay. But it's purely allocation factors?

11          A.       That's correct.

12          Q.       All right. See, that was easy. Now, what  
13 about American Water Resources, what is the amount that the  
14 company wants in revenue with respect to American Water  
15 Resources? I'm speaking about Issue No. 8.

16          A.       Well, there's really no expense issue here. I  
17 can jump to the Staff, what the Staff wants to do. Staff is  
18 recommending to include in the company's revenues \$100,000.

19          Q.       So they want to increase revenue requirement  
20 by \$100,000?

21          A.       No. They want to decrease revenue requirement  
22 by increasing our revenues by \$100,000. It's sort of the  
23 opposite of the expense in the revenue requirement  
24 calculation.

25          Q.       So in other words, to help me understand this,

1 if this were a divorce court, they want to impute some  
2 income to the company?

3 A. That's correct.

4 Q. Okay. So we're talking about dollars that  
5 don't exist that they say you should ought to have earned by  
6 charging American Water Resources; is that correct?

7 A. That's correct.

8 Q. So we could consider this as a \$100,000  
9 negative revenue requirement item; is that correct? In  
10 other words, Staff wants to reduce revenue requirement by  
11 \$100,000?

12 A. That's correct.

13 Q. And so assuming you don't have another rate  
14 case for three years, that would be every year you would be  
15 having a negative \$100,000 item; is that right?

16 A. That's correct.

17 Q. Okay. See, that's easy to understand, too,  
18 now that we did that. And the company is saying that should  
19 be zero, right?

20 A. Well, our original case had zero in there for  
21 that issue, because we didn't know about that issue.

22 Q. Okay. So have you changed from that?

23 A. Well, the company in its rebuttal testimony  
24 did some research, and the Staff is contending that, you  
25 know, the company should be compensated for giving those

1 lists to AWR.

2 Q. I understand what they're contending. All I  
3 want to know is what the company right now today wants to  
4 put into this case for that issue?

5 A. If the company had said no to AWR, AWR could  
6 have gone out and bought those lists from third-party  
7 vendors and got the same basic -- same information from them  
8 for about \$8,400, so --

9 Q. So you're willing to reduce revenue by \$8,400?

10 A. That's correct.

11 Q. Okay. Thank you. But you'd really rather  
12 reduce revenue by zero, right?

13 A. I guess.

14 Q. I mean, I just want to know how sure, how hard  
15 you guys are on this \$8,400 reduction. Do you feel like  
16 you've got to do it, you're willing to do it?

17 A. I think the point that Staff raised, that had  
18 AWR gotten the list from a third party and the issue of  
19 affiliate rules and things of that nature, then the \$8,400  
20 would be the cost to purchase it and the AWR maybe -- and  
21 the company maybe should have asked for the \$8,400 from AWR  
22 at that point.

23 Q. Let me see if I can get to what I want  
24 differently. There's really two issues here as I see it.  
25 No. 1, should you -- should Missouri-American have required

1 some sort of compensation from AWR, and if so, what is the  
2 appropriate amount of that compensation?

3           So let's go to the first question. As far as  
4 you know, was there any statute or regulation or company  
5 policy that required Missouri-American to obtain  
6 compensation from American Water Resources?

7           A.     Not to my knowledge.

8           Q.     There's nothing that required it?

9           A.     That's correct.

10          Q.     So if you weren't required to do it, then we  
11 don't really need to go on to the next step, which is how  
12 much compensation you should have required; isn't that  
13 right?

14          A.     That would follow the logical sense.

15          Q.     Okay. So really you still would like to say  
16 zero, but you're willing to say 8,400?

17          A.     Yes.

18          Q.     Okay. Great. That's what I wanted to know.  
19 Your preferred position is zero. We didn't have to ask for  
20 compensation and we didn't. But if you're going to make us  
21 compensate them, then 8,400 is a reasonable amount, not  
22 100,000?

23          A.     That's correct.

24          Q.     And that's based on how much it costs to buy  
25 that information on the open market?

1           A.       But as you previously noted, Judge, that the  
2 \$100,000, if you went three years down the road, it would be  
3 \$300,000. The buying of the list is a one-time event.

4           Q.       Exactly.

5           A.       And so if in the company's case we're  
6 proposing a three-year amortization on the rate case  
7 expense, possibly you take the \$8,400 and divide it by three  
8 and include that as the adjustment in the case.

9           Q.       So what Staff really wants is \$100,000 flat  
10 applied every year to your next rate case reduction, right?

11          A.       That's correct.

12          Q.       And what the company wants is a one-time  
13 adjustment of minus 8,400 amortized over three to five  
14 years?

15          A.       Three years, similar to the rate case.

16                   JUDGE THOMPSON: Okay. Anybody have that  
17 8,400 divided by three handy?

18                   MS. O'NEILL: 2,800.

19 BY JUDGE THOMPSON:

20          Q.       \$2,800. Okay. So what the company's really  
21 proposing is, if you twist their arm, they'll agree to a  
22 \$2,800 figure, right?

23          A.       That's correct.

24          Q.       Okay. Great. That's what I need to know.

25 And I hate to sound like, you know, Mrs. -- someone's idiot

1 child, but I really have to get the actual numbers here so I  
2 understand how this thing goes together. Okay. And I  
3 appreciate very much your assistance with that.

4                   Now, if I wanted to ask somebody about -- and  
5 I don't think I've asked you this question -- call center  
6 statistics in terms of performance, how long you wait for an  
7 answer, that kind of thing, do you know that information?

8           A.       No, I do not.

9           Q.       Okay. Great. That's all I need to know.  
10 Now, there was a conflict of interest question from  
11 Mr. Bates that I thought was very interesting. I think you  
12 said that Missouri-American is owned by American Waterworks;  
13 is that right?

14          A.       That's correct.

15          Q.       And I think you also said that American Water  
16 Resources is owned by American Waterworks?

17          A.       That's correct.

18          Q.       Okay. So can there really be a conflict of  
19 interest in the dealings between two companies, both of whom  
20 are owned by the same entity? In other words, insofar as  
21 the interests of the owner is concerned, the owner doesn't  
22 care, does he?

23          A.       I think that that may be the case if one  
24 individual had full control of both legal entities, but I  
25 think you have multiple people as board members.

1           Q.       I'm not worried about board members. What I'm  
2 worried about is who owns the two corporations, and each of  
3 them, I believe, is wholly owned by American Waterworks,  
4 right?

5           A.       That's correct.

6           Q.       Because the duty, the fiduciary duty of the  
7 board members is to the owner, right? Isn't that correct?

8           A.       To the shareholders, yes.

9           Q.       And the shareholder happens to be American  
10 Waterworks?

11          A.       That's correct.

12          Q.       So from the point of view of the shareholders,  
13 there is no possibility of compromising any fiduciary duty,  
14 is there?

15          A.       That's correct.

16          Q.       So really all we're concerned about is whether  
17 the ratepayers are subsidizing anything, right?

18          A.       The ultimate end goal, yes.

19                 JUDGE THOMPSON: Okay. Thanks. I think  
20 that's all the questions I have for you. And what I'm  
21 going to do is let you sit down, because the Commissioners,  
22 when they come down, may have some questions for you.  
23 Okay. So we're going to hold over further questions from  
24 the Bench, recross and redirect until after agenda, so I  
25 think we're going to need our next witness, who I believe is

1 Mr. Cassidy.

2 Thank you very much for your testimony,

3 Mr. Grubb. I greatly appreciate it. Am I correct that

4 Cassidy is the next witness?

5 MR. BATES: Yes. Your Honor, may I have one  
6 minute?

7 JUDGE THOMPSON: You may have as many minutes  
8 as you want. I just urge counsel to please be sensitive to  
9 these numbers, which is what at this side of the bar we've  
10 got to have. Okay. We need to know how much each party  
11 wants in or out of rate base or in or out of revenue and how  
12 come.

13 MR. ENGLAND: Your Honor?

14 JUDGE THOMPSON: Yes.

15 MR. ENGLAND: Sorry. I didn't mean to startle  
16 you.

17 JUDGE THOMPSON: That's all right.

18 MR. ENGLAND: I appreciate your desire for  
19 numbers, and I think it's a good idea. My only caveat would  
20 be that, based on the true-up, which, of course, has not  
21 occurred.

22 JUDGE THOMPSON: Numbers will change.

23 MR. ENGLAND: Some of those absolute dollar  
24 differences may change. As you know, a lot of things depend  
25 on a lot of other things.

1 JUDGE THOMPSON: You know, Mr. England, it's  
2 my intention at the true-up to go down my list of all these  
3 numbers for every issue and ask whether or not they have  
4 changed, and I'm hoping someone in the room may be able to  
5 tell me. I may just swear everyone and let them answer from  
6 their seat.

7 MR. ENGLAND: Thank you for the warning, your  
8 Honor.

9 JUDGE THOMPSON: And I want to know when we're  
10 going to have some witnesses that I can ask about accounting  
11 schedules.

12 MR. ENGLAND: Hopefully we'll have some  
13 shortly.

14 JUDGE THOMPSON: Great. It's all about  
15 numbers.

16 MR. CIOTTONE: May I ask you one procedural  
17 question? Mr. Grubb has other concerns, and I know you want  
18 him to be available for the Commission when they come in.  
19 May we cease temporarily Mr. Cassidy's examination when the  
20 Commission comes in and put Mr. Grubb in so he can be done  
21 with and gone?

22 JUDGE THOMPSON: Sure. I don't see a problem  
23 with that. Yeah. he's also down here as a witness for  
24 acquisition premiums, AFUDC and the security AAO, which are  
25 the next issues we'll do today. So I don't know how

1 Mr. Grubb's going to be able to go home.

2 MR. CIOTTONE: He doesn't want to go home. He  
3 wants to go get ready for what you just said.

4 JUDGE THOMPSON: Oh, okay. We want him ready.  
5 In fact, he can leave now if he would like. Okay.

6 MR. CIOTTONE: You don't want him to testify  
7 when the Commission comes back in after their agenda  
8 meeting?

9 JUDGE THOMPSON: What I'm saying is we can  
10 continue with Mr. Cassidy and he can come back.

11 MR. CIOTTONE: Oh, fine. Thank you.

12 MR. BATES: Thank you, your Honor.

13 JUDGE THOMPSON: You are welcome.

14 MR. BATES: Does Mr. Cassidy need to be sworn?

15 JUDGE THOMPSON: Yes. Which company attorney  
16 is going to be cross-examining Mr. Cassidy? Okay.  
17 Mr. Ciottone.

18 And this is your issue, Mr. Bates?

19 MR. BATES: Yes.

20 JUDGE THOMPSON: Very well. Mr. Cassidy,  
21 would you please spell your last name for the reporter.

22 THE WITNESS: C-a-s-s-i-d-y.

23 JUDGE THOMPSON: Raise your right hand.

24 (Witness sworn.)

25 JUDGE THOMPSON: Please proceed.

1 MR. BATES: Thank you, your Honor.

2 JOHN CASSIDY testified as follows:

3 DIRECT EXAMINATION BY MR. BATES:

4 Q. Mr. Cassidy, did you prepare and cause to be  
5 filed in this matter direct and surrebuttal testimony that  
6 has been marked for purposes of identification as Exhibits  
7 No. 15 and 73HC and NP?

8 A. That is correct.

9 Q. I believe you have also sponsored an errata  
10 sheet for those exhibits; is that correct?

11 A. Yes.

12 MR. BATES: And, your Honor, I have provided  
13 that errata sheet to the other parties, to the Commissioners  
14 and to the reporter.

15 JUDGE THOMPSON: I even had one at one time.  
16 You wouldn't happen to have another one, would you?

17 MR. BATES: I think I gave away my last one,  
18 your Honor. I'm sorry.

19 JUDGE THOMPSON: That's okay.

20 MR. BATES: If I may approach and borrow  
21 Commissioner Gaw's for a moment and hand it to you.

22 JUDGE THOMPSON: Let's make this easy by  
23 marking the errata sheet as an exhibit so it's not going to  
24 get lost or overlooked. We'll just call this Exhibit 111,  
25 errata sheet to Cassidy's testimony. Does the errata sheet

1 contain any highly confidential information?  
2 MR. BATES: Mr. Cassidy?  
3 THE WITNESS: No, it does not.  
4 JUDGE THOMPSON: Okay. So that will be NP.  
5 Very well.  
6 (EXHIBIT NO. 111 WAS MARKED FOR IDENTIFICATION  
7 BY THE REPORTER.)  
8 BY MR. BATES:  
9 Q. In addition to that errata sheet, do you have  
10 any additional corrections, changes or additions to the  
11 testimony that you would make at this time?  
12 A. I have four additional wording changes to my  
13 surrebuttal testimony.  
14 Q. And would you go through those, please? By  
15 the way, is this NP or HC?  
16 A. These are NP.  
17 Q. Okay. Thank you. Just for the record.  
18 A. Turning to page 12, line 12 of my --  
19 JUDGE THOMPSON: Is this direct or --  
20 THE WITNESS: Surrebuttal.  
21 JUDGE THOMPSON: Surrebuttal. 12, 12.  
22 THE WITNESS: Change the word "no" to  
23 "little."  
24 JUDGE THOMPSON: Okay.  
25 THE WITNESS: Turning to page 17, line 22,

1 change "one time" to "annual."  
2 JUDGE THOMPSON: Okay.  
3 THE WITNESS: Page 30, line 14, the word  
4 "integrated" to "interactive."  
5 JUDGE THOMPSON: Very well.  
6 THE WITNESS: Page 45, line 23, after the word  
7 "savings," add "to the ratepayers."  
8 JUDGE THOMPSON: That was line 23?  
9 THE WITNESS: Correct.  
10 JUDGE THOMPSON: Very well. Thank you.  
11 BY MR. BATES:  
12 Q. Is that all?  
13 A. Those are all of my changes.  
14 MR. BATES: Your Honor, at this point, I would  
15 move into -- that Exhibits No. 15, No. 73NP and HC, and  
16 No. 111 be accepted into evidence.  
17 JUDGE THOMPSON: Okay. Do I hear any  
18 objections to the receipt of Exhibit 15?  
19 MR. CIOTTONE: No.  
20 JUDGE THOMPSON: Hearing no objections, that  
21 exhibit is received and made a part of the record of this  
22 proceeding.  
23 (EXHIBIT NO. 15 WAS RECEIVED INTO EVIDENCE.)  
24 JUDGE THOMPSON: Do I hear any objections to  
25 the receipt of Exhibit 73, which comes in both NP and HC

1 versions?

2 MR. CIOTTONE: No.

3 JUDGE THOMPSON: Hearing no objection, that  
4 exhibit is received and made a part of the record of this  
5 proceeding.

6 (EXHIBIT NO. 73NP AND HC WAS RECEIVED INTO  
7 EVIDENCE.)

8 JUDGE THOMPSON: Do I hear any objection to  
9 the receipt of Exhibit 111?

10 MR. CIOTTONE: No.

11 JUDGE THOMPSON: Hearing no objections, that  
12 exhibit is received and made a part of the record of this  
13 proceeding.

14 (EXHIBIT NO. 111 WAS RECEIVED INTO EVIDENCE.)

15 MR. BATES: Your Honor, at this point I would  
16 like to state that we have an additional exhibit that we  
17 would like to sponsor that I would like to ask Mr. Cassidy  
18 some questions on. This is in response to Exhibits No. 107  
19 through 110 which were introduced yesterday concurrent with  
20 Mr. Van Den Berg's redirect.

21 JUDGE THOMPSON: Sure. So this will be  
22 direct?

23 MR. BATES: This will be direct.

24 JUDGE THOMPSON: And Exhibit No. 112.

25 JUDGE THOMPSON: Shall we just call this AWW

1 IVR schematic?

2 MR. BATES: That will be fine.

3 (EXHIBIT NO. 112 WAS MARKED FOR IDENTIFICATION

4 BY THE REPORTER.)

5 MR. BATES: And, your Honor, at this point, I

6 would ask that Exhibit No. 112 be accepted into evidence.

7 MR. CIOTTONE: Your Honor, I have to reserve

8 objection until I hear a foundation.

9 JUDGE THOMPSON: I think you have to ask him

10 some questions about it, perhaps.

11 MR. BATES: I'll be glad to, and that was

12 going to be my next question, if you wanted me to ask those

13 at this time.

14 JUDGE THOMPSON: Fire away.

15 BY MR. BATES:

16 Q. Mr. Cassidy, can you identify what has been

17 marked for purposes of identification as Exhibit No. 112?

18 A. Yes. This exhibit represents a schematic of

19 the call center's call menu.

20 Q. And how did you -- did you prepare this

21 yourself?

22 A. No, I did not. This was provided to the Staff

23 from the company.

24 Q. Okay. Do you know who provided it to you at

25 the company?

1           A.       No, I do not.

2           Q.       How was it provided to you by the company?

3           A.       The company provided this information to Staff

4 Witness Debbie Bernsen, who provided it to me.

5           Q.       Okay. And do you know when it was provided?

6           A.       No, I don't.

7           Q.       All right. Do you know for what purpose it

8 was provided?

9           A.       I believe she wanted to see the call center's

10 scheme in terms of how calls are handled from customers.

11          Q.       So to your knowledge, was this provided in

12 response to a formal Data Request or an informal request?

13          A.       You would have to ask Ms. Bernsen that

14 question.

15                   MR. CIOTTONE: Your Honor, we have no

16 objection to the exhibit.

17                   JUDGE THOMPSON: Okay. Ms. O'Neill?

18                   MS. O'NEILL: I have no objection to the

19 exhibit.

20                   JUDGE THOMPSON: That's everybody that's here.

21 Exhibit No. 112 will be received and made a part of the

22 record of this proceeding.

23                   (EXHIBIT NO. 112 WAS RECEIVED INTO EVIDENCE.)

24                   MR. BATES: Your Honor, I don't know how you

25 would like me to proceed, if you would like me to ask some

1 direct questions about the meaning of this exhibit to the  
2 witness at this time or if you'd like me to reserve that for  
3 later.

4 JUDGE THOMPSON: Well, I think now would be  
5 the appropriate time, and I think it has to be direct  
6 examination. This is your witness.

7 MR. BATES: Thank you. This is a somewhat  
8 unusual procedural matter, so I wanted to get your ruling.

9 JUDGE THOMPSON: No, I appreciate that, and I  
10 think that's how it will need to be done. You can ask  
11 leading questions until people start to object.

12 MR. BATES: All right. Thank you, your Honor.

13 JUDGE THOMPSON: Which may be as soon as you  
14 start asking them. I don't know.

15 BY MR. BATES:

16 Q. Mr. Cassidy, could you identify again for the  
17 record and for the Commission what has now been marked and  
18 accepted into evidence as Exhibit No. 112?

19 A. Again, that is -- this exhibit is American  
20 Waterworks IVR schematic.

21 Q. And why do you feel that this schematic is  
22 significant?

23 A. I think that this schematic demonstrates  
24 that -- it will help to demonstrate how customer service  
25 representatives are able to answer calls under various

1 options in this scheme that relate to American Water  
2 Resources related calls.

3 Q. Okay. Would you explain to the Commission  
4 what you mean by that, explain how they are -- the process  
5 by which these calls can be answered.

6 A. When a customer calls the call center, the  
7 customer hears the following, with each of these options.  
8 Option No. 1 -- when the customer comes on, this is what he  
9 hears -- for information on your account, information  
10 regarding your bill, making a payment or reporting a meter  
11 reading, press one. If you look at Option 2 there, what  
12 they hear is, to start service, stop service or make other  
13 service requests, press 2.

14 Going to Option 3, what's heard from the  
15 customer's perspective is, to hear -- or to report a water  
16 emergency, press 3. Option 4 identifies all other requests,  
17 press 4.

18 What I'm attempting to show is that what a  
19 customer would have to go through to make a call about  
20 American Water Resources that would represent what  
21 Mr. Van Den Berg had identified in his schedules or  
22 Exhibits 107 through 110.

23 Q. Okay. Can you explain that further, please?

24 A. The Staff believes that call center  
25 representatives -- it's reasonable to believe that call

1 center representatives answer AWR-related calls in areas  
2 other than what's identified on Exhibit 112 under water line  
3 protection.

4 Q. Okay. And again, how does this exhibit  
5 demonstrate that to you?

6 A. The Staff believes it would be reasonable that  
7 an AWR customer who is experiencing a water leak might  
8 select emergency Option No. 3. Similarly, it would be  
9 reasonable for a customer to press Option 1 for information  
10 about their account or to select Option 2 to make another  
11 service request.

12 It also ignores the fact -- it shows that  
13 Mr. Van Den Berg's analysis ignores the fact that the rotary  
14 offers no choice, so that customers who have rotary  
15 telephones could not be identified in his analysis.

16 Q. Okay. Do you find anything else significant  
17 about it?

18 A. Mr. Van Den Berg also offered in his exhibits  
19 that there was an identification of AWR-related calls, but  
20 he didn't offer an explanation for how calls regarding  
21 multiple subjects would be accounted for. For example, a  
22 customer could call with a question about their bill by  
23 hitting Option 1, and then have another question answered  
24 by -- about American Water Resources offering.

25 Q. Let me ask you this: Looking at this exhibit,

1 starting with system greeting in the upper left-hand corner,  
2 could a caller be routed to No. 4, other inquiries?  
3           A.       Yes.  
4           Q.       And could he be routed from No. 4, other  
5 inquiries, down to the other inquiries block in the second  
6 level?  
7           A.       That's correct.  
8           Q.       And could he be routed from there to the water  
9 line protection program?  
10          A.       That is also correct.  
11          Q.       And is that what Mr. Van Den Berg was  
12 testifying about yesterday?  
13          A.       That is what Mr. Van Den Berg testified about  
14 regarding Exhibits 107 through 110.  
15          Q.       And what issues do you have with  
16 Mr. Van Den Berg's testimony regarding that?  
17          A.       I don't believe he has identified all of the  
18 AWR-related calls that customer service representatives  
19 handle.  
20          Q.       And what would those other calls be?  
21          A.       Those other calls would be those calls that  
22 come into Option 1 identified on the schedule, Option 2,  
23 Option 3, or the rotary choice.  
24          Q.       And why do you think it's important that he  
25 should have identified those?

1           A.       Because those were calls that are AWR-related  
2 calls that he has not identified.

3                   MR. BATES:   Okay.   Thank you very much.

4                   Your Honor, at this point I tender Mr. Cassidy  
5 for cross-examination on this and his other exhibits --  
6 excuse me -- testimony that's been prefiled, identified and  
7 now admitted into evidence.

8                   JUDGE THOMPSON:   Okay.   Ms. O'Neill?

9                   MS. O'NEILL:   Thank you.

10 CROSS-EXAMINATION BY MS. O'NEILL:

11           Q.       Good morning, Mr. Cassidy.

12           A.       Good morning.

13           Q.       Since we've just been talking about this  
14 Exhibit 112, let me ask you, you said that there were  
15 some -- some of these categories where the water line  
16 protection offering by AWR would not necessarily have been  
17 counted in Mr. Van Den Berg's calculations.   If a customer  
18 uses option No. 8, Spanish language services, do you know  
19 whether or not Mr. Van Den Berg's figures included those  
20 customers?

21           A.       I don't know that.

22           Q.       Do you know whether or not there have been any  
23 calls to the Spanish language customer service operators  
24 regarding AWR?

25           A.       I'm sure there have been.

1 Q. So that might be another area of  
2 undercounting?

3 A. It's possible.

4 Q. Now, as far as the way customers go through  
5 this schematic, other than AWR, would it be appropriate for  
6 me to talk to you about that or should I ask Ms. Bernsen?

7 A. I have a general knowledge, but Ms. Bernsen  
8 also would be a good witness to talk to.

9 Q. Okay. Just real briefly -- I'll save most of  
10 my questions for her, but it appears that the buttons that  
11 have the diagonal slashes through them are automated  
12 services; is that right?

13 A. That's correct.

14 Q. Okay. And that means that if a customer ends  
15 up in one of those boxes, they would not talk to a live  
16 operator?

17 A. Correct. They would -- that is considered an  
18 IVR or interactive voice response call.

19 Q. And just because my copy's not real clear and  
20 I want to make sure I know what all of those are, on the  
21 bottom line on the left side of the page, account  
22 information has those -- is automated?

23 A. Correct.

24 Q. Then what's the one next to that? I can't  
25 really read what that says.

1           A.       EFT form.

2           Q.       And what's EFT?

3           A.       I'm not certain.

4           Q.       Is that automated?

5           A.       Yes.

6           Q.       We don't know what it is, but you don't get to

7 talk to anybody about it?

8           A.       Correct.

9           Q.       And the next is meter reading?

10          A.       That's correct.

11          Q.       And that's automated?

12          A.       Yes.

13          Q.       And is that designed for customers who read

14 their own meters to report the meter reading?

15          A.       I believe so.

16          Q.       And payment locations is automated?

17          A.       Correct.

18          Q.       And report an emergency, moving to the other

19 bottom level, that's automated?

20          A.       That's correct.

21          Q.       Have you ever tried that one?

22          A.       No, I have not.

23          Q.       Do you know whether or not once you report an

24 emergency somebody actually talks to you?

25          A.       I'm certain that if you dial the emergency

1 number that you speak to a customer service rep.

2 Q. So we're not sure why reporting an emergency  
3 has slashes?

4 A. I don't know why.

5 Q. And I think I can read the rest of them, but  
6 the next level up it looks like turnoff service and merger  
7 info are automated?

8 A. Yes.

9 Q. And then the level above that, automated is  
10 seasonal issues?

11 A. Correct.

12 Q. And that's under other, for whatever reason.  
13 And it also looks like any time you want additional options  
14 in any of these categories, what you get is back to the main  
15 menu and you get to go back through the circle again?

16 A. Correct.

17 Q. Okay. All right. And I think I'll talk to  
18 Ms. Bernsen about some of those other issues, then.

19 In I think it was Mr. Jenkins' or Mr. Grubb's  
20 testimony earlier today -- I think it was Mr. Jenkins -- he  
21 said that one of the reasons for this consolidation into the  
22 consolidated customer call center was that the old call  
23 centers from the three components that are now  
24 Missouri-American were at the end of their useful life. Do  
25 you agree with that assessment?

1           A.       I don't believe that the company had done any  
2 measures based on their old call center. So I don't know  
3 how -- what the basis for the belief of that statement is.

4           Q.       Were you able to ascertain whether or not the  
5 company or whether Staff on its own could determine whether  
6 or not the decision to move to the Alton call center was the  
7 least cost alternative to continuing with the old call  
8 centers and maybe doing some upgrades?

9           A.       I'm sorry. I didn't understand your question.

10          Q.       I'm sorry. It was kind of a long question.  
11 Let me see if I can break it up.

12                   Are you aware of any cost studies that  
13 Missouri-American undertook before deciding to move their  
14 customer call services to the call center in Alton?

15          A.       I'm aware of a cost study that was conducted  
16 by American Water Resources, and that cost study is conduc--  
17 is contained in my surrebuttal testimony as Schedule A.

18          Q.       And is that the part that's HC?

19          A.       Correct.

20          Q.       I'm going to try to not have you answer the HC  
21 questions.

22                   JUDGE THOMPSON: What was the part that's HC?

23                   MS. O'NEILL: It's Schedule 8 of the  
24 surrebuttal.

25                   THE WITNESS: My surrebuttal.

1 JUDGE THOMPSON: Which concerns? Can you even  
2 tell me what it concerns?

3 THE WITNESS: That is the American Water  
4 Resources cost study to support their decision to join -- or  
5 to form the call center.

6 JUDGE THOMPSON: Okay.

7 BY MS. O'NEILL:

8 Q. And if you can answer this without delving  
9 into the HC specifically, are you aware of any other -- of  
10 any cost studies that looked at whether there were any other  
11 options other than going to Alton?

12 A. No, I am not.

13 Q. And as far as the shared services center that  
14 they have with American Water Services Company, that  
15 Missouri-American has, are you aware of any cost studies  
16 that led to the decision to go to the shared services center  
17 as opposed to keeping those operations in Missouri?

18 A. Yes, I am.

19 Q. And were those -- and where are those at in  
20 your testimony?

21 A. Those are included in my testimony attached  
22 to surrebuttal testimony at -- attached as schedule --  
23 Schedule 12 to my surrebuttal testimony.

24 Q. Is that also HC?

25 A. No, it is not.

1 Q. Okay. In that study, was -- were there any  
2 other options considered other than leaving operations in  
3 Missouri or moving to the shared services center?

4 A. No, there were no other alternatives studied.

5 Q. Are you aware of what level of transition  
6 costs the company incurred on the movement to the call  
7 center in the test year?

8 A. In the test year?

9 Q. Yeah.

10 A. Related to the call center?

11 Q. Yes.

12 A. The information that I have suggests \$239,027  
13 during the test year.

14 Q. And have you been able to determine whether or  
15 not those expenses could have resulted in cost savings to  
16 the company's customers?

17 A. No, they have not.

18 Q. Is there any kind of net savings related to  
19 the transition to the Alton call center versus staying with  
20 operations in the state of Missouri that you've been able to  
21 identify?

22 A. I found that there have been no cost savings  
23 associated with that move.

24 Q. And in regard to the shared services center,  
25 do you know what transition costs were incurred during the

1 test year to move operations over there?

2           A.       In the test year, there were \$1,182,285.

3           Q.       And do you know whether or not that change has

4 resulted in cost savings to Missouri customers?

5           A.       The transition to the national shared services

6 center has achieved cost savings.

7           Q.       And do you know what the level of cost savings

8 were in the test year?

9           A.       Yes, I do. That amount is identified in

10 surrebuttal testimony on page 52. The annual amount would

11 be \$2,575,688.

12          Q.       Okay. Annual amount of savings?

13          A.       Correct.

14          Q.       Okay. And that's recognized in the

15 recommendation the Staff has made regarding revenue

16 requirement?

17          A.       Correct. That's part of the amount that's

18 recognized.

19          Q.       There is a difference in recommended figures

20 between the company and the Staff regarding the amount of

21 expense regarding the Belleville lab. Are you -- you've

22 provided that testimony; is that correct?

23          A.       That's correct.

24          Q.       And could you explain why you believe customer

25 number is an inappropriate method of allocating those

1 expenses?

2           A.       Customer numbers do not reflect -- customer  
3 allocations do not reflect the nature of the work that's  
4 being performed at Belleville labs. Test analysis best  
5 reflects the nature of work that is being performed at  
6 Belleville labs. For ratemaking purposes, the key to  
7 allocating Belleville labs' indirect costs is trying to  
8 determine what drives the cost.

9           Q.       And what is it that drives that cost?

10          A.       Test analysis.

11          Q.       And are there some areas in the American Water  
12 organization that have more intensive testing costs than  
13 Missouri does, if you know?

14          A.       Yes. The company identified -- let me see if  
15 I understand your question. In what sense are you saying  
16 that, do some states have more strict testing requirements  
17 than other states?

18          Q.       Well, whether or not their requirements are  
19 higher, perhaps there may be some reasons why some states  
20 have higher testing costs, some operations like, for  
21 example -- and I don't know if they do, because American  
22 might have higher -- or Arizona-American might have higher  
23 than Missouri for reasons other than customer numbers. Is  
24 that sometimes the case?

25          A.       Yes, that's correct. And in my testimony I've

1 identified four states where -- let me identify those states  
2 for you.

3 Q. That would be great.

4 A. Whereas California, Illinois, Indiana and  
5 New Jersey all have fewer customers, fewer customers than  
6 Missouri, each of these states have higher levels of test  
7 analysis than Missouri requires.

8 Q. And is it your -- in determin-- in  
9 determining -- excuse me -- what the appropriate allocation  
10 of expense the Belleville lab should be for Missouri, are  
11 you considering the actual cost of test analysis done on  
12 behalf of Missouri-American, as opposed to just a customer  
13 allocation?

14 A. That's correct.

15 Q. So this would be an allocation of true cost,  
16 as opposed to some proportional share based on customer  
17 numbers?

18 A. Correct. My -- my allocation is driven by the  
19 reality of the work that's being performed at Belleville  
20 labs.

21 Q. So you're not suggesting that  
22 Missouri-American not recover the costs it actually incurs  
23 by having water tested, you just don't want Missouri  
24 customers to pay more than their fair share?

25 A. Correct. By allocating based on customers,

1 it's causing Missouri customers to subsidize the other  
2 states.

3 Q. Okay. And I want to talk to you about -- a  
4 little bit about American Water Resources. American Water  
5 Resources is an unregulated affiliate of Missouri-American;  
6 is that correct?

7 A. That's correct.

8 Q. Both owned by American Waterworks Company or  
9 American Water Company. I don't remember what their name is  
10 right now. But they're sister corporations, for lack of a  
11 better term; is that fair to say?

12 A. Correct. American Water Resources and  
13 Missouri-American are both owned by American Waterworks.

14 Q. And when two different companies are owned by  
15 the same parent, is there sometimes a concern about whether  
16 or not the transactions between those customers are done at  
17 arm's length?

18 A. That's correct.

19 Q. And is there a concern if those transactions  
20 are not done at arm's length that customers may be  
21 inappropriately subsidizing some aspect of the unregulated  
22 company's functions?

23 A. That's correct.

24 Q. And this line service protection offering of  
25 American Water Resources is an unregulated service; is that

1 correct?

2           A.       That's correct.

3           Q.       And if Missouri-American received payment for  
4 resources that it provides to American Water Service, that  
5 would help in our analysis of this transaction, whether or  
6 not it was truly at arm's length?

7           A.       Given the customer list that was provided on  
8 two occasions, and given that that list can be accessed  
9 unlimited by American Water Resources, and given the  
10 credibility that Missouri-American has lent to American  
11 Water Resources' offer because of the significant amount  
12 of trust that customers place in the Missouri-American name,  
13 and given that Missouri-American has provided its  
14 endorsement, it has provided its company name at the top of  
15 the letter, on the outside of the envelope that was sent to  
16 the customer, I believe that Missouri-American's entitled to  
17 significant compensation for those services.

18          Q.       So this goes beyond a -- well, first of all,  
19 let me ask you, is providing customer services a one-time  
20 cost or is that something that could be considered an  
21 ongoing cost, at least to the extent there may be changes in  
22 the customer business?

23          A.       The company has, as Mr. Grubb has explained,  
24 believes that -- he believes that the customer list has an  
25 85 -- \$8,400 value. The Staff contacted the two entities

1 that he provided that supports that amount.

2           The first entity was Experion, the second was  
3 Amerilink. Upon discussing -- or upon discussions with  
4 people at those entities, the Staff learned that neither of  
5 those organizations could provide a customer list like the  
6 one that Missouri-American provided to American Water  
7 Resources. So the Staff believes that that analysis is  
8 inappropriate.

9           Q.       Would one of the reasons that those lists  
10 wouldn't be comparable is that AWR has targeted its mailing  
11 to residential customers who either own or have some sort of  
12 interest in the property where they'd be able to use this  
13 protection or apply for this protection?

14          A.       That's correct. And only Missouri-American  
15 can provide that type of list. No other entity is able to  
16 provide such an exacting list.

17          Q.       So it's a pre-qualified customer list, as  
18 opposed to general list that has all the customers,  
19 including industrials and sale for resale, whatever?

20          A.       Correct. It's an entirely, fully complete  
21 list that no other entity can provide. And another aspect  
22 is that American Water Resources has unlimited access to  
23 this list, and to the extent customers sign up for the  
24 program, the list is updated.

25          Q.       So it is a recurring cost, as opposed to a

1 one-time cost?

2           A.       That's correct.

3           Q.       And in addition to that recurring cost, I  
4 think you also testified to the fact that there is a value  
5 in Missouri-American's apparent endorsement of this Service  
6 Line Protection Program?

7           A.       There is a significant value to that. Without  
8 that endorsement, American Water's -- American Water  
9 Resources' offer does not have the credibility that it  
10 carries with the Missouri-American Water Company's name.

11          Q.       And, in fact, if you know the answer to this,  
12 is -- have at least some customers indicated to you or to  
13 the Staff that they believe that this was something that  
14 Missouri-American was requiring them to purchase?

15          A.       I have read the transcripts of some of the  
16 public hearings, and I'm aware that some of the customers --  
17 I believe it was in the Joplin public hearing -- were  
18 confused that this offering was made by Missouri-American  
19 Water Company. So I believe by putting Missouri-American's  
20 name at the top of the letter and on the outside of the  
21 envelope has created an amount of confusion among customers  
22 as to who is offering this program.

23          Q.       And trying to eliminate that type of confusion  
24 is one of the reasons that the regulated utility and the  
25 unregulated affiliate should conduct business at arm's

1 length; is that correct?

2           A.       I believe that's correct.

3           MS. O'NEILL: No further questions.

4           JUDGE THOMPSON: Let's see. Mr. England. And  
5 before you start, let me just address a question to counsel.  
6 With respect to the capital structure issue, I don't believe  
7 that I elicited from anyone the kind of fundamental numbers  
8 questions that I have on these other issues. Is there going  
9 to be some request to provide that information or should I  
10 wait for true-up to get that?

11           MR. ENGLAND: I think the short answer is  
12 true-up would probably give you the most accurate numbers,  
13 because our case had some projected numbers based on what we  
14 believed it to be at 11/30, November 30th. I think Public  
15 Counsel Witness Burdette may have had more accurate data at  
16 that period of time, and -- but in an abundance of caution,  
17 I'd say let's wait for true-up.

18           JUDGE THOMPSON: Great. That's all I needed  
19 to know. Thank you.

20           You may proceed, Mr. Ciottone.

21 CROSS-EXAMINATION BY MR. CIOTTONE:

22           Q.       Good morning, Mr. Cassidy.

23           A.       Good morning.

24           Q.       You and I go back some years, don't we? I  
25 think I first cross-examined you after you got out of school

1 in '91, right?

2 A. I don't recall.

3 Q. Well, you show that in your rate case  
4 preceding participation in Case WR-91-361, which was the  
5 St. Louis County Water Company case, I think.

6 A. I don't believe that case went to hearing.

7 Q. The number -- let's go through the number of  
8 the adjustments and what's at stake here, the adjustments  
9 that you have made in round numbers, if we may. In labs  
10 you've disallowed how much? I've got 346,337. Does that  
11 sound right?

12 A. That's correct.

13 Q. In O&M costs for the transition center, you've  
14 disallowed 1.6 million, give or take?

15 A. The transition cost I have disallowed.

16 Q. No, sir, the O&M. I asked you about the O&M.  
17 The transition is next. What's the transition cost?

18 A. The O&M costs associated with what?

19 Q. With the call center.

20 A. Oh, with the call center. The difference  
21 between company's position and Staff's position is \$840,000,  
22 approximately.

23 Q. And if I may, I'm going to ask you about the  
24 totality of your adjustments, but with respect to this  
25 number, one of your errata changes I did not understand,

1 which I think is related to this number, and you can explain  
2 it to me.

3           On page 2 of 2 of Exhibit 111, the change to  
4 your surrebuttal, page 35, line 22, you changed 965,774 to  
5 840,305. That's the removal of a \$125,000 adjustment you  
6 had previously made. Can you explain what's that about? We  
7 don't know.

8           A.       Sure. The Staff made that correction because  
9 the \$125,000 of nonrecurring amount would only need to be  
10 adjusted should the company's position be adopted by the  
11 Commission, because that amount would remain in the test  
12 year and would need to be adjusted out. So the difference  
13 between the Staff and the company is 4.1 and the 3.2, which  
14 represents the 840,000.

15          Q.       So you were previously removing it, now you're  
16 putting it back in?

17          A.       The 125 would be handled -- if the Staff's  
18 position is adopted, there would be no other adjustment  
19 needed. If the company's position was adopted, the Staff  
20 contends that the 125,000 represents nonrecurring costs that  
21 must be taken out of the case.

22          Q.       All right. I understand.

23                   JUDGE THOMPSON: Is this on Belleville?

24                   THE WITNESS: National call center.

25                   JUDGE THOMPSON: Can I just ask a quick

1 question? What's the 125 represent?

2 THE WITNESS: That represents costs that  
3 occurred at the old pre-existing call center functions at  
4 non-St. Louis district locations that occurred during the  
5 test year that no longer exist, because those districts have  
6 now transitioned to the existing call center.

7 BY MR. CIOTTONE:

8 Q. And this is with respect to O&M costs?

9 A. That's correct.

10 Q. So you're saying reduce the company's proposed  
11 number of 4,102,145 by the 125,000?

12 A. That's correct.

13 Q. Okay. Is it 125 even?

14 A. \$125,469.

15 Q. Thank you. And that's -- there's two  
16 employees that drive that number, aren't there, that were in  
17 place off site?

18 A. Those costs represent what the company  
19 identified in Data Request 298.

20 Q. All right. Now, in transition costs, you've  
21 disallowed costs associated with the call center in what  
22 amount?

23 A. The company identified \$5,263,822 related to  
24 the call center.

25 Q. And then the transition costs to the shared

1 service center, how much have you disallowed?

2 A. \$4,488,827.

3 Q. And then you have imputed income of \$100,000

4 with respect to the AWR program, so that's another -- that's

5 a negative \$100,000 to revenue?

6 A. That's correct, to the revenue requirement.

7 Q. So for 13 years since you got your degree in

8 '89, and as soon as we first met back in '91, have you done

9 any other type of work other than auditing for the Staff?

10 A. I've been with the Commission that entire

11 time.

12 Q. And your role has consistently been

13 recommending disallowances?

14 A. My role has been in the -- to audit utility

15 companies under the PSC's mission statement.

16 Q. Would you describe your charge as being

17 something other than disallowing -- making disallowances of

18 company expenditures and costs? Would you describe it

19 differently than that?

20 A. My role is not to just make disallowances.

21 Q. Have you ever taken the stand and recommended

22 an increase in a company's costs because of a different type

23 of allocation you thought was appropriate?

24 A. After 13 years, I don't recall.

25 Q. So largely your role is to criticize what

1 management has done by disallowing management decisions  
2 they've made?

3           A.       I disagree with that characterization.

4           Q.       How would you describe it?

5           A.       I attempt to look at the areas that I examine  
6 to determine what would be reasonable ongoing levels.

7           Q.       All right. And making this determination of  
8 what would be a reasonable ongoing level, how did you learn  
9 how to do this?

10          A.       Through my experience with 13 years working at  
11 the Commission, I've participated in any number of audits  
12 which are referenced in my schedules. I've had a lot of  
13 interaction with senior auditors on the Staff who have  
14 extensive experience in regulation. I have attended  
15 numerous ratemaking regulatory functions, and also through  
16 reviews of trade journals and that sort of thing.

17          Q.       So in 1991 when you first made disallowances  
18 and you and I first met, you would say you did not have  
19 those skill sets at that time?

20                 MS. O'NEILL: Your Honor, I'm going to object  
21 to this continued description of the auditing function as  
22 making disallowances unless Mr. Ciottone also recognizes  
23 that auditing in general is intended to determine whether or  
24 not expenditures a company makes are appropriate. It sounds  
25 like he's being unduly pejorative.

1                   MR. CIOTTONE: I don't understand the  
2 objection.

3                   JUDGE THOMPSON: Well, let me respond. We  
4 understand that the company doesn't like what he does and  
5 thinks that he's meanspirited and picky, and with that  
6 understood, if you would move on, I think it would help us.

7                   MR. CIOTTONE: May I respond? Let me tell you  
8 where I am moving on to.

9                   JUDGE THOMPSON: Sure. Tell me that.

10                  MR. CIOTTONE: I think in the analysis  
11 process, one of the things that we are accusing Mr. Cassidy  
12 of not doing is evaluating the ramifications and the  
13 consequences of his adjustments, and I'm working toward  
14 asking him to explain whether or not he has done that.

15                  And if he has done that, I'd like to know what  
16 he has decided and with -- from whom he got advice to do  
17 that, because parts of the basis of this case is that while  
18 these adjustments can be looked at technically in isolation  
19 and may have some reasonable propriety, if either the  
20 appropriate research and comparison of alternatives was not  
21 done or if the consequences were not trued, that's relevant.

22                  That's what Mr. Thornburg's testimony was that  
23 opened this case, that's what Mr. Jenkins' testimony was,  
24 and I'm trying to get Mr. Cassidy to concede that he simply  
25 chooses adjustments that result in disallowances and is

1 content to do so.

2 JUDGE THOMPSON: That's very fair, and I bow  
3 to the wisdom of your response. Please proceed.

4 BY MR. CIOTTONE:

5 Q. I asked you in a data request whether your  
6 work -- you speak in the collective all the time. You talk  
7 about the Staff this and the Staff that, as if the entire  
8 Staff were behind your recommendation for a certain  
9 disallowance. But when I asked you in DR 6, I said, does  
10 the direct testimony of Mr. Cassidy represent only his  
11 opinions or is it the result of the analysis, research and  
12 opinions of other Staff members, your answer was, my direct  
13 testimony is a product of my work.

14 A. That's part of my answer that's listed there.

15 Q. All right. Do you make your -- do you make  
16 your recommendations in isolation? Is there someone you  
17 have to get them by?

18 A. As my response says, my supervisors review the  
19 adjustments contained in my testimony.

20 Q. What do they review them for? What is the  
21 standard by which they are reviewed?

22 A. To determine if they're correct, if they're  
23 reasonable and if they're appropriate.

24 Q. Reasonable or -- and appropriate?

25 A. Correct.

1 Q. Were all of your adjustments here reviewed by  
2 senior staff with respect to that?

3 A. Yes.

4 Q. Was there a review of the potential  
5 consequences of an adjustment, each adjustment?

6 A. I'm sure that was assessed.

7 Q. Now, by consequences I mean ramifications  
8 necessarily flowing from a change. All right?

9 A. Okay.

10 Q. All right. Now, I'm going to ask you about  
11 this with respect to each one of your adjustments, but  
12 starting with labs, will you tell me what potential  
13 ramifications of your adjustment were analyzed and  
14 discussed?

15 A. For labs, are you asking me what was discussed  
16 between myself and other individuals, or are you asking what  
17 I determined upon my own?

18 Q. You said they're the same. You've said all of  
19 your determinations were the result of, first, your  
20 opinions, which were then agreed upon by your senior staff  
21 members. So I don't know. I'm asking you who reviewed the  
22 consequences and what did you see?

23 A. Senior auditors reviewed my -- my work  
24 product. They determined there was no indication that what  
25 I had done was incorrect or unreasonable.

1 Q. So there were no consequences likely to be  
2 flowing from your adjustment of \$346,337, or you did not  
3 review those consequences?

4 A. When I made my adjustment, I made it in a way  
5 that determined -- for Belleville labs, it was to determine  
6 what is the most appropriate method for allocating those  
7 costs. Test analysis represented the most appropriate  
8 method of work that is performed at Belleville labs.

9 Q. But my question to you, sir, is what happens  
10 next? Let us presume that you prevail on this adjustment.  
11 Did you or did anyone look at the consequences, what that  
12 would cost, or is that part of the analysis in determining  
13 what disallowance should be run up the flagpole?

14 A. For ratemaking purposes, we are charged with  
15 determining what is the most appropriate method to allocate  
16 costs to Missouri.

17 Q. Consequences. What are the consequences of  
18 the adjustment, if you know?

19 A. My assessment of the consequences are that if  
20 the management chose to change their allocation method --  
21 but that is entirely up to the management -- that it would  
22 not require a great deal of effort to substitute test  
23 analysis with customer counts as the allocation methodology.

24 Q. So your determination and that of your  
25 superiors is that the consequences would be minimal?

1           A.       That is correct.

2           Q.       All right. Thank you. Let's start -- as we  
3 go through the lab, I'm going to go through several points,  
4 and I'll try to tell you which ones I'm trying to look at so  
5 you don't feel like I'm leading you down some path. First  
6 I'd like to talk about what the lab does, so we all  
7 understand. What are the functions of the lab?

8           A.       I attended a tour of Belleville labs and  
9 the tour was conducted by the director at that facility,  
10 Mrs. Cheryl Norton. She indicated to the Staff during that  
11 tour that the lab is divided into two functions, one a  
12 testing and research function. There's also another  
13 function, a testing function, and the other function is the  
14 research function.

15                    So there's two functions; testing representing  
16 70 percent of the employees, of the work that's performed  
17 there, research function representing 30 percent.

18          Q.       All right. And I believe you testified that  
19 you believe the testing flow -- or pardon me -- the research  
20 applications flow from the testing. Isn't that part of your  
21 opinion?

22          A.       And that's what Mrs. Norton had identified to  
23 the Staff during that tour.

24          Q.       And that's why you tied things to test  
25 analyses?

1           A.       That's why the research function was tied to  
2 test analyses.

3           Q.       Despite the fact that there's a 70/30 split,  
4 that's how you tie them together? You think one flows from  
5 the other?

6           A.       Correct. She gave indication that much of  
7 their work would impact future test analysis.

8           Q.       Now, how many jurisdictions are served by this  
9 lab? And by jurisdictions, I mean regulatory jurisdictions.

10          A.       Operating companies, I will have to count  
11 them. As of June 30, 2003, there were 19.

12          Q.       Now, all of these states are billed based on  
13 customer counts, correct?

14          A.       Currently, that is the allocation method  
15 proposed and used by the company.

16          Q.       And you think that the test analysis basis  
17 should be used in Missouri?

18          A.       Because test analysis represents what drives  
19 the costs at Belleville labs.

20          Q.       And I believe you were even candid in your  
21 testimony in suggesting that the rest of the company should  
22 change to what you think is correct?

23          A.       The Staff is not suggesting that the  
24 company -- the Staff is not in the business of managing the  
25 company. That is a management decision left to

1 Missouri-American Water Company and the service company.

2 The Staff is suggesting, for the purposes of setting rates,  
3 test analysis represents the most appropriate method.

4 Q. But you see, this gets back to the  
5 consequences. You're suggesting -- or maybe you didn't look  
6 at this. If Missouri is billed based on the number of test  
7 analyses and the other 18 jurisdictions are billed based on  
8 the customer counts, what is the necessary consequence of  
9 that?

10 A. Missouri and the service company would need  
11 to assess whether or not an allocation change would be  
12 needed. I will say that the company has not indicated any  
13 quantifiable evidence to support what such a change would  
14 entail.

15 Q. So you didn't look at that?

16 A. From my perspective, there should be no --  
17 little or no additional cost associated with merely  
18 substituting test analysis in a formula, instead of  
19 inputting customer numbers.

20 Q. Well, but someone's going to be short  
21 \$346,337. Where would that -- what is the consequence of  
22 the absence of those dollars? Where would they come from?

23 A. As I've said, for ratemaking purposes, test  
24 analysis represents the most appropriate method. If the  
25 company chooses not to adopt that, that's their choice.

1 Q. Well, but the Commission's going to dictate  
2 the amount of dollars that we can recover. Again, to  
3 consequences, or did you look at it or do you know, where  
4 would the \$346,337 come from if it's disallowed here, if you  
5 know?

6 A. As I've stated, my -- the test analysis  
7 methodology is the most appropriate methodology. To the  
8 extent that the Commission rules in my favor or in the  
9 Staff's favor, the company will need to make some  
10 determination as to whether it wants to maintain its  
11 existing methodology or it should change its methodology.

12 Q. Which company?

13 A. Missouri-American Water Company and the  
14 service company.

15 Q. So if the service company changes to Missouri,  
16 it would have to change -- to be whole, it would have to be  
17 changed to the 18 other states?

18 A. That would be the most appropriate.

19 Q. That's the consequence, isn't it?

20 A. I don't know that I'd characterize it as a  
21 consequence. It's a choice.

22 Q. Is there any other choice that would allow the  
23 service company, the lab, to be made whole?

24 A. I don't believe there's any other allocation  
25 methodology that would best represent the nature of work

1 that's performed at Belleville labs.

2           Q.       So if the Commission adopts your  
3 recommendation here, the only choice the lab has and the  
4 shared service operation to be made whole on its lab  
5 services is to go into every one of these jurisdictions and  
6 get them to agree with your recommendation, right?

7           A.       I don't know that they would have to go into  
8 each jurisdiction. I think they would -- the service  
9 company could choose to implement the Staff's methodology.

10          Q.       Let's talk about the assumption that the lab  
11 is a good thing, that we don't -- we may or may not want to  
12 mess with it. Is the concept of shared services with  
13 respect to the lab operations a good thing, economically,  
14 for everyone? Is it a good thing to have a shared lab  
15 service?

16          A.       The company has indicated that it believes  
17 that by having a centralized lab function, that it is able  
18 to create lower costs for all of its operating companies.

19          Q.       Mr. Baryenbruch testified in his rebuttal at  
20 page 7, he said in a year 2000 comparison, a comparison of  
21 26 major tests found other alternatives 15 percent more  
22 expensive. Do you recall his testimony?

23          A.       Could you point me to what page you're  
24 referring to?

25          Q.       Baryenbruch rebuttal, page 7.

1           A.       And what was the statement?

2           Q.       Well, he has -- he shows three years.  If I'm  
3 correct, the first year is a typo.  He shows two entries for  
4 year 2001.  Actually, the first is year 2000.  But his point  
5 is that in analyzing comparable costs of having the tests  
6 done elsewhere, he says in year 2000, 26 major tests found  
7 others 15 percent more expensive; in 2001, a comparison of  
8 25 major tests found the others 20 percent more expensive;  
9 in 2002, a comparison of 25 tests found others 10 percent  
10 more expensive.

11          A.       I would agree with those statements.  I don't  
12 have any reason to believe they're not correct, but they are  
13 irrelevant to the issue that's at hand.

14          Q.       Well, they're -- let's -- let me ask you this:  
15 Is the lab a good thing, something we should not discourage,  
16 the shared services lab?  Can we agree on that?

17          A.       I would agree with that.

18          Q.       It is not something that we would recommend  
19 that this Commission do anything unintentionally to disrupt  
20 or discourage?

21          A.       I'm not suggesting any other -- that the  
22 company undertake testing under any other scenario.

23          Q.       We all want the shared services lab to  
24 continue in operation?

25          A.       Right.  We just --

1 Q. We just want the allocation to be lower?  
2 A. We just have trouble determining how to  
3 allocate those costs.  
4 Q. All right. Let's move on to your use, then,  
5 of the number of test analyses as a measure. All right.  
6 Moving on to that.  
7 A. I'm sorry.  
8 Q. I'm changing subjects.  
9 A. Okay.  
10 Q. I'm just warning you.  
11 A. Okay.  
12 Q. Okay. On your testimony on page 4, you say --  
13 A. Which testimony?  
14 Q. Surrebuttal. You say that the Staff's test  
15 analysis allocation methodology best represents the true  
16 nature of the work that is performed at Belleville labs for  
17 MAWC and for all of American Water's other operating  
18 companies.  
19 A. Which line is that on?  
20 Q. I don't have a line. I'm reading it from  
21 something I prepared for myself. It's page 4.  
22 MR. BATES: Would you repeat it again, if you  
23 could.  
24 BY MR. CIOTTONE:  
25 Q. The Staff's test best represents the true

1 nature of work that is performed at Belleville labs for MAWC  
2 and for all of American Water's other operating companies.

3 MR. BATES: Line 13.

4 BY MR. CIOTTONE:

5 Q. All right?

6 A. Okay. I found it.

7 Q. And you stand by that statement?

8 A. Yes.

9 Q. That's the basis of your position, correct?

10 A. That's part of the basis.

11 Q. Now, I want to challenge your verb.

12 MR. CIOTTONE: I'm getting criticism from the  
13 Internet watchers who say they can't hear me. So I've  
14 adjusted the microphone.

15 JUDGE THOMPSON: Thank you.

16 BY MR. CIOTTONE:

17 Q. I want to call attention to your verb "is."

18 All right. All you really know is what was; isn't that  
19 correct? You know what has happened in the past; you really  
20 don't know what is.

21 A. I know what has occurred through the known and  
22 measurable period.

23 Q. Correct. You don't know what's happening now,  
24 true?

25 A. As with any other expense beyond the known and

1 measurable period.

2           Q.       Exactly. You don't know if one jurisdiction  
3 has had a significant increase in testing obligation --  
4 obligations or testing analyses obligations. You don't know  
5 if they've had difficulty with contaminants having been  
6 found. You don't know if local government requirements have  
7 changed now. You know nothing about the now; isn't that  
8 true?

9           A.       I don't agree with that.

10          Q.       Can you tell me how many numbers of test  
11 analyses are being performed in these 19 jurisdictions right  
12 now?

13          A.       I don't agree that I don't know what  
14 regulations are occurring, because I've asked that  
15 information from the company.

16          Q.       What changes, if any, have taken place in the  
17 testing requirements in New Jersey in the last year?

18          A.       As far as your concern about what is taking  
19 place in the future, Ms. Norton indicated that the lab would  
20 get a test analysis report from each of the operating  
21 companies that would represent their expected levels of test  
22 analysis for the future year. She also indicated that those  
23 levels generally don't vary from year to year. So I think  
24 that the lab has a way to look at the upcoming test for the  
25 upcoming year.

1           Q.       You're talking about the projections that the  
2 lab issues with respect to tests expected in the future?

3           A.       I'm talking about the reports that each  
4 operating company supplies to the labs in the mid November  
5 to December, early December time frame, which the labs can  
6 examine to assess the testing requirements for the upcoming  
7 year.

8           Q.       Did you subsequently ask Ms. Norton whether  
9 any of those projections actually materialized?

10          A.       Given that it's mid December right now and  
11 that I just did the tour two to three weeks ago, no. I'm  
12 not certain if that -- for this upcoming year those  
13 projections have been completed yet.

14                   MR. CIOTTONE: Your Honor, I'd like to have  
15 marked as Exhibit -- I guess we're at 113?

16                   JUDGE THOMPSON: Yep, 113.

17                   MR. CIOTTONE: -- a comparison of projected  
18 sample counts and actual experience, please.

19                   JUDGE THOMPSON: Yes.

20                   (EXHIBIT NO. 113 WAS MARKED FOR IDENTIFICATION  
21 BY THE REPORTER.)

22 BY MR. CIOTTONE:

23           Q.       Mr. Cassidy, let me hand you what has been  
24 marked as Exhibit 113, and this purports to be data which we  
25 received last night, in fact, in response to your contention

1 that -- in your testimony that the projections you received  
2 in your most recent visit to the lab were reasonable  
3 estimates, allowing you to project the testing that would  
4 take place in the future. Can you understand, is this  
5 self-explanatory to you of what it purports to show?

6           A.       My first problem with this document is that it  
7 indicates that this is sample counts. It's not comparative  
8 of two test analyses. And sample counts are much lower, as  
9 you'll see. I see 15,000 sample counts listed there.  
10 Sample counts will be a lower amount than test analysis. So  
11 the sample counts do not address the test analysis needs of  
12 each state. So this is not a good comparison.

13           Q.       All right. We will get to that point, but you  
14 drew the distinction when we were confused and started  
15 throwing around the number of tests versus the number of  
16 test analyses, and you very astutely drew the distinction  
17 that you were talking about the number of test analyses and  
18 not the number of tests being sent; is that correct?

19           A.       That's correct. It's in my testimony.

20           Q.       And you're making that same distinction here?

21           A.       That's correct.

22           Q.       If the number of tests, if the prediction of  
23 the number of tests, i.e. the number of samples, varies  
24 inordinately, varies from projections, does it not  
25 necessarily follow that to some extent the number of

1 analyses on those tests will vary to the same extent or more  
2 or less?

3           A.       I can't agree with that assertion, because the  
4 number of test analyses may have different factors than the  
5 number of test samples.

6           Q.       Do you have any evidence or any reason to  
7 believe that the projections materialize with any degree of  
8 accuracy or whether they're just used, as this seems to  
9 indicate, as a planning forecast?

10          A.       I think they could be used for a planning  
11 forecast. I don't believe these numbers could be used to  
12 determine rates, because they're not known and measurable.

13          Q.       I'm not suggesting that. I'm simply asking  
14 you how we can follow your conclusion that what took place  
15 in the past is likely to take place in the future with the  
16 number of test analyses? And you said, well, I had -- I got  
17 the projections from the lab.

18                   Now, what I'm asking you -- and to look at  
19 this exhibit and I'm asking you -- is how can you make that  
20 leap from the projections made at the lab to what is going  
21 to occur in the future with any likelihood?

22          A.       If I had the test analyses to look at, I could  
23 maybe make a better determination, but I'm comparing apples  
24 and oranges with this document.

25          Q.       So you don't know whether the projections

1 actually materialize in the future?

2           A.       Because the information hasn't been supplied  
3 to me.

4           Q.       Right.

5                   JUDGE THOMPSON: Mr. Cassidy, you need to  
6 answer yes, no or I don't know.

7                   THE WITNESS: I don't know what the future  
8 from that test analysis are, because I don't have that  
9 document.

10 BY MR. CIOTTONE:

11           Q.       We do know, do we not, from the testimony  
12 that's been presented in Mr. Baryenbruch's testimony and in  
13 your own analysis, that historically the number of tests and  
14 test analyses have varied?

15           A.       That's his assertion.

16           Q.       You disagree with that? It's in your test--

17                   MS. O'NEILL: Your Honor, I'm going to object  
18 to discussions about Mr. Baryenbruch's testimony. It hasn't  
19 been admitted into evidence yet.

20                   JUDGE THOMPSON: Objection's overruled.

21 Please proceed.

22 BY MR. CIOTTONE:

23           Q.       Do you disagree with the assertions in that  
24 testimony and, I think, even in your own, do you not put  
25 testimony in your own -- data in your own testimony with

1 respect to the variability of tests in jurisdictions?

2           A.       There's two points to be made to that.

3           Q.       Do you -- do you put evidence in your own  
4 testimony with respect to variability?

5           A.       I believe I say that the elimination of  
6 variability is not a proper -- let me turn to my testimony  
7 and tell you what I do say.

8                   JUDGE THOMPSON: While he's turning to that,  
9 let me make a point for the benefit of this and all other  
10 expert witnesses who may be in the room. Counsel perhaps  
11 can pass it on to their experts that aren't in the room.

12                   The purpose of cross-examination is for the  
13 examining counsel to ask you to agree or disagree with the  
14 proposition that you do not want to agree or disagree with.  
15 Often the question is posed in such a way that the proper  
16 answer is a yes, no or I don't know question. And I urge  
17 you, however reluctant you are to agree or disagree with the  
18 proposition that counsel has set up for you, your answer  
19 must take the form of yes, no or I don't know. You may then  
20 offer such explanation as you wish, and if no one objects,  
21 it will go into the record.

22                   Okay. So he has asked you, for example, here,  
23 do you put evidence in your own testimony with respect to  
24 variability? That question calls for a yes, no or I don't  
25 know response. Now, I understand you want to explain the

1 response, and that's okay if no one objects, but you do need  
2 to answer yes, no or I don't know.

3                   Please proceed.

4                   THE WITNESS: Variability is mentioned in my  
5 testimony.

6 BY MR. CIOTTONE:

7           Q.       In fact, it's in your surrebuttal testimony on  
8 page 8 and page 10. You put charts in there, do you not?

9           A.       I see a chart. I see the word "vary" on  
10 page 8. I see the word "vary" on page 10, and I see the  
11 word "variability" on page 11.

12          Q.       Well, let's make this easier, then, or more  
13 difficult, I guess, depending on how you look at it. On  
14 page 8 of your surrebuttal testimony, you say, and I'm  
15 quoting, the following chart reflects the consistent set of  
16 data for test analyses allocations for New Jersey for the  
17 time period Mr. Baryenbruch examined in his rebuttal  
18 testimony based on information supplied by the company to  
19 the Staff in response to Data Request No. 266402 and 409.  
20 You then show that the anal-- test analyses for the state  
21 of New Jersey between '99 and the year 2003 varied from  
22 16.09 percent to 21.7 percent.

23          A.       That's what the chart shows.

24          Q.       So there is historical variability, according  
25 to you?

1 JUDGE THOMPSON: What page are we on?

2 MR. CIOTTONE: 8.

3 JUDGE THOMPSON: Thank you.

4 THE WITNESS: The June number would be

5 calculated using the summer levels. So I'm not certain that

6 that year is comparative to the other four years. When you

7 examine the four calendar years ending 1999 through 2002,

8 the variability doesn't seem that great, and if you were to

9 take an average of those four years, the variability would

10 be 21.9 percent, and that would only represent a 2 percent

11 difference from the test year level.

12 BY MR. CIOTTONE:

13 Q. We will get to averages in just a moment. On

14 page 10 of your surrebuttal testimony, you speak with

15 respect to the state of Missouri. You say, the following

16 chart shows an historical analysis of Missouri test analyses

17 and respective customer count allocations, and then you show

18 for the 12 months of year 2000 through 2003 that test

19 analyses numbers for Missouri vary between 11.03 percent and

20 6.65 percent.

21 A. That's what the chart shows, yes.

22 Q. That's variability?

23 A. It shows that Missouri has required less tests

24 than in the past.

25 Q. All right. Now, let's -- do we agree that

1 what we're trying to do here is to come up with a cost  
2 allocation reflective of what is likely to recur in the  
3 future? That's how we set rates? We're trying -- we're  
4 using the test year, certainly, but the goal is to set rates  
5 for the future and we're using the test year to illustrate  
6 what is likely to recur?

7       A.       A test year is restated to reflect ongoing  
8 levels that are expected to occur at the time the rates are  
9 in effect.

10       Q.       Now, historically, in your 13 years of  
11 auditing, when you have run into issues where you have  
12 variability, over time, what do you usually do?

13       A.       In other areas of expense, the Staff has the  
14 tool of normalization.

15       Q.       What does that mean?

16       A.       Normalization is done to produce reasonable  
17 ongoing levels of expense.

18       Q.       And you have -- in your normalization process,  
19 that has many variations in and of itself, does it not? It  
20 has weighted averages, it has variation in the number of  
21 years you can use, it has trends, and there are all sorts of  
22 devices to which the Staff has resorted to deal with  
23 variations, true?

24       A.       Normalizations eliminates nonrecurring events  
25 and those types of events.

1           Q.       Well, it's designed not to deal with  
2 nonrecurring events, is it not? It's designed to deal with  
3 fluctuations?

4           A.       It can also address those types of situations.

5                   JUDGE THOMPSON: Mr. Ciottone, if I can break  
6 in. You're going to be going for some time, are you not?

7                   MR. CIOTTONE: Yes, sir.

8                   JUDGE THOMPSON: We'll go ahead and take the  
9 noon recess now in order to maintain some regularity. We'll  
10 be back at 1:15, and you'll be on the stand and you'll be  
11 continuing with your examination.

12                   Thank you. We are in recess until 1:15.

13                   (A BREAK WAS TAKEN.)

14                   JUDGE THOMPSON: You're back on the stand  
15 there, Mr. Cassidy, and I believe you were inquiring,  
16 Mr. Ciottone.

17                   MR. CIOTTONE: Thank you, your Honor.

18 BY MR. CIOTTONE:

19           Q.       I think we had just finished the topic of our  
20 agreement that we were trying to set rates that were likely  
21 to reflect what will happen in the future, and we agreed on  
22 that. Okay?

23           A.       The test year.

24           Q.       Well, just conceptually. We were trying to  
25 create rates that are reasonably representative of what's

1 going to take place during the period of time rates are in  
2 effect?

3           A.       Correct.

4           Q.       Okay. And I was challenging you on the issue  
5 of variability and asking you whether or not the Staff's  
6 historic traditional response to variability was  
7 normalization, averaging, trending or some sort of  
8 adjustment to compensate for variations. And I don't  
9 particularly recall your response. You could make it again,  
10 if you'd like.

11          A.       Yes. If there's significant variations in  
12 certain expense items, the Staff uses normalization as the  
13 technique to address those concerns.

14          Q.       Okay. Now, earlier, when I was questioning --  
15 at the very outset of our discussions when I was questioning  
16 the reasons you made your adjustment, challenging you on  
17 failure to evaluate the ramifications of it, I also, I  
18 think -- if I did not I'm going to now -- talked to you  
19 about the analysis you made before you made the adjustment.  
20 All right?

21          A.       Okay.

22          Q.       Just bringing you up to speed. All right.  
23 What investigation of variability with respect to test  
24 analyses did you undertake before you filed your direct  
25 testimony on, what was it, October 2nd?

1           A.       With regard to variability to what?

2           Q.       Of the likelihood that the number of test

3 analyses performed in the test year are reflective of

4 historical patterns and thus likely to recur in the future.

5 What analyses of that did you perform before you made your

6 adjustment on December 2nd or -- yes, October 2nd?

7           A.       When I filed my direct testimony, I used the

8 test year levels. I hadn't -- I didn't have historic test

9 analyses at that point in time. Since then, I've obtained

10 that.

11          Q.       On October 2nd and prior thereto, it's a

12 fact, is it not, that you had not made any investigation

13 whatsoever of the historical variability of testing analyses

14 by year?

15          A.       That's correct. I didn't have the information

16 at that point in time.

17          Q.       All right. Then what was the criteria that

18 led you to believe that this was an appropriate adjustment,

19 just that when applied it would reduce the allocation to

20 Missouri?

21          A.       No. I had spoken with representatives at the

22 Missouri Department of Natural Resources. They indicated to

23 me that testing requirements are mandated by EPA and that

24 they are consistent across states. Given that assumption,

25 there didn't seem to be much likelihood of a lot of variance

1 to occur from year to year, given universal drinking water  
2 standards.

3 Q. So at that point you thought that analysis was  
4 unnecessary?

5 A. At that point in time, that's correct.

6 Q. All right. Now, we sent you a DR after  
7 receiving your testimony, DR 15, and we said, did  
8 Mr. Cassidy perform an historical analysis of whether and to  
9 what extent MAWC's number of test analyses used by him in  
10 this adjustment compared to all other operating companies,  
11 is a number or ratio likely to recur? If so, please provide  
12 that analysis and all supporting work papers.

13 And your answer was -- correct me if I'm  
14 wrong -- the Staff did not perform a historical analyses of  
15 test analysis that occurred prior to January 1, 2002 or the  
16 beginning of the year. And then you said, the Staff has  
17 requested that the company provide historical as well as  
18 future sample and test analysis data in Staff Data  
19 Request 439.

20 A. That's correct.

21 Q. All right. Now, when you got that Data  
22 Request from the company, Data Request 15, you had not yet  
23 at that time made any request of the company, true?

24 A. Upon getting the Data Request, I submitted my  
25 Data Request after that point.

1 Q. When you got the Data Request, then you said,  
2 well, I'd better look at this historical data?  
3 A. Because -- yes.  
4 Q. All right. Why had you not looked at it  
5 before then?  
6 A. As I just said, I believe that universal  
7 drinking water standards as mandated by EPA shouldn't have  
8 created any cause for variance between a state from year to  
9 year.  
10 Q. Then why did you bother subsequent to the Data  
11 Request?  
12 A. Because of the inference of the Data Request.  
13 Q. So you wanted to try to validate the  
14 adjustment you had already made?  
15 A. I wanted to make sure that the test year was  
16 representative of what had occurred in the past.  
17 Q. All right. Was it?  
18 A. Yes.  
19 Q. Let's go, then, to your -- to the variability,  
20 and make that -- well, first, if we might regress for just a  
21 moment, did we not establish just before lunch that, in your  
22 own testimony, you spoke about varying levels of tests?  
23 A. I recall speaking about varying levels in  
24 tests. I wouldn't characterize the New Jersey or Missouri  
25 levels as being varying.

1 Q. All right. New Jersey-American's relative  
2 number of analyses varied from 16.09 percent to  
3 23.9 percent, correct?

4 A. Correct. That's what that chart shows.

5 Q. That's a 44 percent increase. That's not a  
6 significant fluctuation from 16 percent to 23.9?

7 A. As I've stated earlier, I don't believe that  
8 using June to compare against those other years is  
9 appropriate.

10 Q. So that didn't trouble you at all that there  
11 was that degree of historical variation?

12 A. Because of the summer months that would occur  
13 in 2003 might swing that percentage upwards.

14 Q. And then in your surrebuttal on page 10,  
15 you said, the Missouri test analyses varied from  
16 11.03 percent to 6.65 percent. 11.03 is 70 percent more  
17 than 5.65 percent. That's a 70 percent variation. That  
18 didn't trouble you?

19 A. I wouldn't -- I wouldn't classify this as a  
20 variance. It's a declining cost trend is what it shows.

21 Q. What do you think -- what do you believe is  
22 the cause of this variability?

23 A. I don't know that I could pinpoint exactly  
24 what has created the declining trend that's occurred in  
25 Missouri.

1           Q.       Now, you distinguish between the number of  
2 samples collected and the number of test analyses on those  
3 samples, correct?

4           A.       That's correct.

5           Q.       What do you think drives, if you know, the  
6 numbers of samples that are collected in any particular  
7 jurisdiction?

8           A.       That is mandated by U.S. EPA safe drinking  
9 water rules and can be also amended by state's additional  
10 rules. Missouri's rules are always consistent with EPA.  
11 They don't require additional testing.

12          Q.       Is it also necessarily related to incidents  
13 that occur in a particular jurisdiction; for example, heavy  
14 rains causing runoff and taste and odor complaints?

15          A.       I don't know about that example specifically.

16          Q.       Melting snow? I'm going to ask you, is your  
17 answer you don't know what causes the numbers of samples to  
18 vary?

19          A.       An example of what could cause the number to  
20 change would be if a state went in total noncompliance with  
21 the testing requirements.

22          Q.       A municipality, a state, a problem in a  
23 municipality, a massive snowfall with melting snow changing  
24 the taste and odor, customer complaints, that does not  
25 influence sampling, or you don't know?

1           A.       I don't know about that specifically.

2           Q.       All right. Now, what influences the number of  
3 tests performed on a particular sample? Does that also vary  
4 depending on the cause of the sample taking? Do you  
5 understand what I'm --

6           A.       I would say that the number of tests performed  
7 on a sample is more accurately driven off what EPA requires  
8 of the testing, of their testing requirements.

9           Q.       Would the number of tests that might be  
10 performed on a sample necessitated due to customer taste and  
11 odor complaints following some snow runoff or the number of  
12 samples that might be performed on a test necessitated by  
13 the discovery of cryptosporidium, might they not differ  
14 significantly?

15          A.       If a contaminant was found in the drinking  
16 water supply, that would necessitate additional tests based  
17 on EPA requirements.

18          Q.       So you've got the variability in the reason  
19 that the sample was taken and you've got the variability in  
20 the nature of the sample that was taken related to the  
21 cause. Those are two different levels of variabilities, am  
22 I incorrect?

23          A.       I don't agree with your statement in its  
24 entirety.

25          Q.       Which part don't you agree with?

1           A.       That there's a variability between the samples  
2 and the tests.

3           Q.       You think regardless of the reason that a  
4 sample is taken, the number of tests performed on that  
5 sample will be a constant?

6           A.       I don't think that there would be much  
7 variability between those two.

8           Q.       Did you perform any investigation of that?  
9 Did you discuss that with anyone to whom you could cite your  
10 knowledge?

11          A.       Based on receiving the sample numbers from the  
12 company and looking at that with the test analysis.

13          Q.       You related the cause for the sample taking to  
14 the number of analyses associated with that cause to  
15 determine if they tracked?

16          A.       I looked at the two consistently. I looked at  
17 the two and saw that there was consistency there.

18          Q.       Did you ever see a sample taken for the  
19 finding of cryptosporidium?

20          A.       I never saw that specifically in the  
21 information.

22          Q.       Did you ever see a sample taken because of a  
23 local taste and odor complaint?

24          A.       No, I never saw that in any of the information  
25 that was provided.

1           Q.       Can a local government insist on testing as  
2 compared to a state government or an EPA?

3           A.       It's my understanding that only a state  
4 government can enforce additional testing requirements, and  
5 to my knowledge, based on information that company has told  
6 me, California and Arizona represent the two states that do  
7 that.

8           Q.       It is your experience and understanding that a  
9 municipality cannot call up the company and say, I want this  
10 water tested in this area?

11          A.       I don't know.

12          Q.       Is it your understanding or belief or do you  
13 know whether a customer complaint with respect to water  
14 quality can initiate and cause testing and sampling?

15          A.       I don't know.

16          Q.       All right. Now, let's suppose that -- and I'm  
17 still on the issue of variability here. Let's suppose that  
18 we have an incident in a state and, in fact, Mr. Baryenbruch  
19 testifies, I think, about an -- exactly such an example in  
20 his rebuttal testimony at page 4. He says, in 2002,  
21 industrial contaminants TCE and PCE were detected in  
22 New Jersey-American's water source. This required more  
23 frequent sampling to ensure that the equipment, carbon  
24 contractors that removed these substances was working  
25 properly.

1           A.       Could you point me to where you're referring?

2           Q.       It's Baryenbruch rebuttal, page 4. I don't

3 have a line.

4           A.       During the tour, I asked Ms. Norton about

5 New Jersey specifically and about the contamination event,

6 if any had occurred there, and she didn't recall anything

7 significant happening in New Jersey during 2002.

8           Q.       The fact that she did not recall it, does that

9 give you reason to doubt the veracity of Mr. Baryenbruch's

10 statement?

11          A.       I don't know the basis for his statement,

12 given that he states that he spoke to Ms. Norton to gain his

13 information.

14          Q.       So you don't know if that's true or false?

15          A.       Correct. I don't know what the basis for it

16 is.

17          Q.       Is it not reasonably likely that such an event

18 will occur at one of these 18 jurisdictions at some time in

19 the future, if it has not already; that is to say, the

20 discovery of a contaminant?

21          A.       I don't know. I can't speculate on future

22 contamination events.

23          Q.       Is it not reasonably likely that a contaminant

24 will be discovered somewhere in the 18 jurisdictions? That

25 doesn't require you to speculate.

1           A.       I don't know.

2           Q.       Let me extend to you a hypothetical.

3 Hypothetically, if in Missouri a contaminant is discovered,

4 such as cryptosporidium, what is that likely to trigger? Do

5 you think it would be testing as usual or do you think there

6 would be an accelerated necessity to deal with that at the

7 lab?

8           A.       Certainly if cryptosporidium was found in the

9 drinking water, that would necessitate additional tests.

10          Q.       And that then would be a number of tests that

11 would be historically dissimilar to the number of tests that

12 took place in the preceding year when they had not had the

13 crypto experience; doesn't that necessarily follow?

14          A.       It's possible that one round of additional

15 testing might satisfy the testing requirements that would be

16 needed to ensure that cryptosporidium was no longer in the

17 water supply.

18          Q.       Even if it were one round, that would be one

19 round that had not taken place the year before, true?

20          A.       That's true.

21          Q.       So my only point, sir, is all this floats,

22 sir, does it not?

23          A.       I don't believe that it -- that is changes --

24 test analysis changes significantly based on the historical

25 analysis that I looked at, and I would state that the

1 histor-- that the test analysis best represents the work  
2 that's going on. So it seems that if testing changed, the  
3 allocation of the testing should follow test analysis.

4 Q. So whatever happened in the test year, you  
5 would treat unadjusted as biblical and then make your  
6 allocation into the future based on that, in that single  
7 jurisdiction. Is that what you just said?

8 A. I don't think I would characterize it as  
9 being biblical. I would say that the test year is a  
10 representative level of testing expense based on my  
11 comparison to prior years and based on my comparison through  
12 the update period.

13 Q. All right. Let's say Missouri has such an  
14 incident that -- let's say hypothetically that that incident  
15 provokes a significant amount of testing. That differs in  
16 amount of sampling and numbers of associated test analyses  
17 on that sampling, a significant number, significantly  
18 different than the preceding year.

19 Let's assume hypothetically that that's a test  
20 year. You then would recommend that that number of test  
21 analyses formed in that year should be the basis for the  
22 Missouri allocation?

23 A. If the number had varied significantly,  
24 normalization techniques can be used to smooth out variances  
25 to make them -- to restate them on reasonable, ongoing

1 levels.

2 Q. So then you would start the normalization once  
3 you had a change in Missouri's number?

4 A. Or in any other state's number.

5 Q. All right. This is interesting. Now, so  
6 since we agreed earlier that we want to encourage the use of  
7 this shared services organization, true?

8 A. The shared services -- true. Yes. Correct.

9 Q. And we agreed that it necessarily follows,  
10 then, that we don't want them to underrecover their actual  
11 operating costs or overrecover their actual operating costs?

12 A. That's correct. And if you use a consistent  
13 allocation methodology, Belleville labs will always recover  
14 their costs.

15 Q. Belleville labs, but now you're going -- now  
16 you're not only going to take the number of test analyses in  
17 a particular test year, as would be necessary for each of  
18 the other 18 jurisdictions to agree with you, now you're  
19 going to normalize that as well?

20 A. I will look at Missouri's number. I will look  
21 at the test analysis that occurs, determine if it's  
22 reasonable and ongoing -- could you rephrase your question  
23 again? I'm not --

24 Q. You're suggesting that not -- before you  
25 suggested that all the jurisdictions could simply adopt your

1 methodology because we don't want the lab to underrecover  
2 and we don't want the lab to overrecover. We simply want to  
3 allocate on some fair and equitable basis. And you're  
4 saying that the only fair and equitable basis in your mind  
5 is based on the number of test analyses?

6           A.       That's correct.

7           Q.       And I have shown to you that the number of  
8 test analyses fluctuate and vary, and you had testified to  
9 that in your own testimony and you said it's not  
10 significant, right? Are we together so far?

11          A.       Yeah.

12          Q.       But then you said, but if it should be  
13 significant in one jurisdiction, you would normalize it. In  
14 Missouri you would normalize it?

15          A.       If, for instance -- this is hypothetically  
16 speaking -- that I saw in 2002 that Missouri's number was  
17 40 percent, then I would have to do some type of  
18 normalization to restate that to a reasonable, ongoing  
19 level.

20          Q.       So now if we want to make sure the lab  
21 recovers only its actual costs and does not underrecover,  
22 which would discourage them, or overrecover, which would be  
23 unfair to everyone, all 18 jurisdictions have to now switch  
24 over from customer count to using test analyses numbers,  
25 correct?

1           A.       That's -- that's a decision that, as I said  
2 before, the service company management and Missouri-American  
3 Water Company's management would have to make.

4           Q.       Well, I asked you earlier, is there any other  
5 way to make it come out even? And you couldn't suggest any.

6           A.       I think that if Missouri-American were to look  
7 at testing -- I can't think of any other reason, but I would  
8 say that if Missouri-American Service Company looked and  
9 examined how -- at what took place, the work that takes  
10 place at Belleville labs, that there is no other way to  
11 allocate the cost of Belleville labs other than using test  
12 analysis. Customer counts do not address testing  
13 requirements of states. They are -- they have little to do  
14 with that.

15          Q.       I understand your speech, but I'm talking  
16 about where we started, at the very stage or beginning stage  
17 of our questioning, the consequences of your adjustment.  
18 That's what we're talking about, the consequences.

19          A.       And the consequences of my adjust -- of  
20 adjusting and using my allocation process is, if  
21 Missouri-American chooses not to, if the Commission rules  
22 test analysis is the way to go, if Missouri-American then  
23 chose not to adopt test analysis, the shareholders of  
24 Missouri-American would have to pay for that.

25          Q.       That's how you make the lab whole, you take it

1 off the shareholders, off the bottom line?

2           A.       That's -- but that's the decision that  
3 Missouri-American and American Service Company has to make.

4           Q.       That's all you needed when you made your  
5 adjustment to begin with. You had \$340-some-thousand that  
6 you can stick on the bottom line.

7           A.       I disagree with that.

8           Q.       Is there any other way the lab can be made  
9 whole?

10          A.       Yes. If the -- if the methodology is changed  
11 to test analyses.

12          Q.       Throughout the country?

13          A.       That's correct.

14          Q.       And then we have another problem, because you  
15 said you might normalize if you have a severe event in your  
16 state, true?

17          A.       However, I haven't seen any indication that  
18 that has occurred in the past, and Ms. Norton has told me on  
19 the tour that historically test analyses have stayed  
20 constant.

21          Q.       And you said you were unwilling to agree that  
22 you thought it was speculative to suggest that such an event  
23 might happen in one of the 19 states, and I asked you to  
24 hypothetically assume that it could, so we got past that.

25                   But now you've added another thing. You've

1 said not only would every state have to agree to use test  
2 analyses, you're going to normalize, so every state also has  
3 to agree to normalize and normalize the same way you do?

4           A.       I disagree.

5           Q.       That doesn't follow?

6           A.       I disagree with that.

7           Q.       Is there any other way they can make the lab  
8 whole without taking it off the shareholders' bottom line?

9           A.       I can't help but -- I can think of no other  
10 way, no other choice. It's a decision that  
11 Missouri-American and the service company has to make,  
12 because there's two alternatives. And I'm saying that for  
13 ratemaking purposes.

14          Q.       I understand.

15          A.       My adjustment without question is driven by  
16 the work that's being performed at Belleville labs.  
17 Customer counts have nothing do with that.

18          Q.       I've got one more for you. Not only does  
19 every jurisdiction have to agree with you and do -- and make  
20 their adjustment based on customer -- on the analyses, not  
21 only do they have to normalize identically to the extent  
22 that you do, but their test years have to be identical, too.  
23 They have to have identical rate case scenarios and have  
24 identical test years or it's not going to come out even  
25 either, is it?

1           A.       I can't make a decision for all of those  
2 companies as to when they should file their rate cases.  
3 That's up to their management to make that determination.  
4           Q.       I'm going to finish off with you here, but  
5 where we started off, I want to finish where we started.  
6 Did you look at what the consequence of your adjustment is?  
7 I understand you feel in your own mind that this is a good  
8 adjustment and conveniently it's very attractive because it  
9 would lower the costs in this particular year, in the  
10 historical test year. Even though we know there's  
11 variability in testing, it would result in a reduction this  
12 year. The consequences of your adjustment, can you find any  
13 way that the company can take your adjustment and run with  
14 it without the lab coming up short \$300-some-thousand or  
15 taking the money off the bottom line?  
16          A.       Missouri-American is not going to come up  
17 short by my changing the cost allocation process. The  
18 change won't occur until after it's set in rates. So it  
19 would take a significant amount of time before the impact  
20 would be felt. The company would have time to make its  
21 decision as to whether it should change its cost allocation  
22 process.  
23          Q.       And refuse to pay the lab? Just say we're not  
24 going to pay you that because the Commission didn't give it  
25 to us?

1           A.       Because rates won't be reestablished, you will  
2 have time to make your decision.

3           Q.       And what's the decision, what other choice?

4           A.       The choice is allocate testing costs based on  
5 test analysis or allocate testing costs based on customers,  
6 which have nothing to do with test analysis. They have  
7 little -- it has little correlation to test analysis. And I  
8 can think of several examples and provide for you several  
9 examples of how customer counts don't address the type of  
10 work that takes place, if you'd like to hear them.

11          Q.       But my question to you, sir, is just about the  
12 consequences of your adjustment. I asked you if you looked  
13 at them. You said they were minimal. And now I'm  
14 demonstrating to you what they are, and you're saying, what,  
15 doesn't bother you?

16          A.       My -- the purpose of my examining your costs  
17 is to determine what's the appropriate amount that should be  
18 assigned to Missouri.

19          Q.       Do you understand why they used the customer  
20 count?

21          A.       I've read the reasons as stated in  
22 Mr. Baryenbruch's testimony.

23          Q.       The aspect about it being straightforward and  
24 understood by commissions?

25          A.       And that, in and of itself, does not make it a

1 proper cost assignment process.

2 Q. And the fact that the other 17 jurisdictions  
3 find it acceptable, that means nothing either?

4 A. Given that -- given that it ignores what's  
5 driving the cost, it's inappropriate.

6 Q. Could it be that they don't want the lab to  
7 overrecover as well as underrecover?

8 A. As I stated before, I don't believe that. As  
9 I stated before, if you have a consistent allocation  
10 methodology, Belleville lab won't over or underrecover.

11 MR. CIOTTONE: Your Honor, I'm finished with  
12 labs, do you want to go to the recross now? There's five.  
13 This is going to go on a long day. Do you want to break  
14 this up into the sections? I'm about to move on to the call  
15 center O&M.

16 JUDGE THOMPSON: Commissioner Murray, what's  
17 your preference?

18 COMMISSIONER MURRAY: Might be better to ask  
19 the questions about each issue as we go along.

20 MR. CIOTTONE: I'd like to offer 113.

21 JUDGE THOMPSON: 113 was?

22 MR. CIOTTONE: The comparison of the sample  
23 counts with the actual experience, the sample count  
24 estimates, projections with actual experience.

25 JUDGE THOMPSON: Okay. Do I hear any

1 objections to the receipt of Exhibit 113?

2 MS. O'NEILL: Your Honor, I'm concerned about  
3 the foundation on this. I realize that Mr. Cassidy may have  
4 found it somewhat helpful for reference as an example, but  
5 if it's being entered into evidence as actual numbers, we  
6 don't have a foundation. I would object on that basis.

7 JUDGE THOMPSON: Okay. Mr. Ciottone?

8 MR. CIOTTONE: I can't respond. I have no  
9 foundation. I pulled it off an e-mail, and she's right,  
10 there is no foundation. It was used only for  
11 cross-examination and to challenge the witness on his  
12 unsupported belief that the projections did, in fact,  
13 materialize. I have no way to put anything on beyond that.

14 JUDGE THOMPSON: This is generated by  
15 Ms. Bade?

16 MR. CIOTTONE: No. It was sent to Ms. Bade.  
17 It was generated by the lady at the plant whose name -- or  
18 at the lab whose name is Norton, Ms. Norton.

19 JUDGE THOMPSON: Well, I'm going to sustain  
20 the objection. Exhibit 113 will not come in.

21 Questions from the Bench on the issue of the  
22 Belleville laboratory and the allocation formula.  
23 Commissioner Murray?

24 COMMISSIONER MURRAY: Thank you.

25 QUESTIONS BY COMMISSIONER MURRAY:

1 Q. Good afternoon, Mr. Cassidy.

2 A. Hi.

3 Q. I want to be sure I'm understanding what

4 Staff's position is on the issue of the Belleville lab. And

5 is it Staff's position that Missouri-American should not pay

6 any of the costs of the lab other than exactly what it cost

7 to perform the actual test year test analysis for that?

8 A. It's Staff's position that to allocate costs,

9 it's more appropriate to use test analysis.

10 Q. Can you -- can you answer the question that I

11 asked?

12 A. I'm not certain that I understood it.

13 Q. Okay. Is it Staff's position that

14 Missouri-American should not pay any of the costs of the lab

15 other than those costs that were incurred in the test year

16 to perform the actual test analyses for Missouri-American?

17 A. That's Staff's position, to allocate the cost

18 based on the test analysis that occurred during the test

19 year.

20 Q. And that's all that Staff is saying should be

21 included for recovery?

22 A. Correct.

23 Q. Okay. Now, aren't there overhead costs

24 associated with the laboratory?

25 A. The costs that are being allocated are the

1 overhead costs, the indirect costs. During the test year  
2 there were approximately \$3,000 of direct costs that were  
3 charged to Missouri, and the Staff's not questioning that.

4 Q. Okay. So it's the overhead cost you're  
5 talking about?

6 A. It's the allocation of the indirect costs,  
7 which includes the overheads.

8 Q. And does that include the costs of performing  
9 research, an allocation of the research that is performed by  
10 the laboratory?

11 A. It does, but I can't identify what amount of  
12 that represents research department cost.

13 Q. Why can't you? If you know the actual cost  
14 for performing the tests during the test year for Missouri,  
15 why can't you identify?

16 A. I know the -- I know the costs that would be  
17 allocated -- the overhead costs that would be allocated by  
18 using test analysis as a percentage of the total. That's  
19 what I know. I don't know specifically the direct cost. If  
20 I knew the direct cost, then the cost could be assigned  
21 directly. If I knew the test analysis costs, I could assign  
22 them directly to Missouri.

23 These are -- what's happening is that  
24 Belleville labs, there's a pool of indirect costs that must  
25 be distributed to all the various operating companies. And

1 the issue is should those -- that pool of costs be allocated  
2 based on customers or should it be allocated based on test  
3 analysis.

4           And I'm saying that this pool of costs is  
5 driven by testing, and test analysis best represents the  
6 work that's done at Belleville labs, and that this  
7 represents the best way to allocate those costs to the  
8 states.

9           Q.       And in the past and currently in other  
10 jurisdictions it's allocated based on number of customers;  
11 is that correct?

12          A.       That is the current allocation process.

13          Q.       And is it -- you're not denying, are you, that  
14 the number of tests required for a specific group of  
15 customers would vary from year to year, depending upon the  
16 circumstances that took place in those customers'  
17 jurisdictions, are you?

18          A.       I'm not denying that the number of customers  
19 hasn't varied during the test year, but --

20          Q.       That's not my question. My question is, are  
21 you denying that the number of test -- the number of tests  
22 that would have to be performed for a specific group of  
23 customers would vary from year to year, depending on  
24 circumstances?

25          A.       I don't know what those circumstances -- what

1 effect those circumstances might have on testing.

2 Q. Is that an I don't know?

3 A. I don't know.

4 Q. Do you know how a potential variability in

5 number of tests required would compare to the likely

6 variation in number -- total number of customers from year

7 to year?

8 A. I don't know that, but the elimination of

9 variability is not a factor in proper cost assignment.

10 Q. Not even a factor?

11 A. Because the cost should be -- no, because the

12 cost should be allocated by what drives the costs, and test

13 analysis best determines that.

14 Q. So there would never be a situation in which

15 you would normalize?

16 A. No, I wouldn't agree with that. I'd say it's

17 possible that Staff could have to normalize, but --

18 Q. Would that be based on a factor of

19 variability?

20 A. It would have to be significant variability.

21 Q. But it would be variability?

22 A. Yes.

23 Q. That would be considered?

24 A. Yes.

25 Q. And you just said it's never a consideration

1 in cost analysis, variability should not be?

2           A.       Well, if a cost increased, it would not  
3 represent -- if it increased significantly or decreased  
4 significantly in the test year, it wouldn't represent an  
5 ongoing level. So you would have to do something to smooth  
6 it out, which is normalize it, but --

7           Q.       So is it accurate to say that variability is a  
8 factor that is considered in cost allocation?

9           A.       No, I don't agree with that.

10          Q.       So in a year when you normalize, you're not  
11 considering variability?

12          A.       I believe I'm attempting to smooth out a  
13 nonrecurring situation.

14          Q.       Is that variability? If you don't know,  
15 just --

16          A.       Yeah. I don't know.

17          Q.       Let's move on to page 21 of your direct  
18 testimony. You speak there about Staff -- let me see if I'm  
19 on the same -- I may not be on the same subject. I want to  
20 make sure. No, I'm not.

21                    Have to go to your surrebuttal testimony. On  
22 page 5, the second paragraph of your answer to the first  
23 question on the page, beginning with test analysis.

24          A.       Okay.

25          Q.       Represents the majority of the work actually

1 being performed at the Belleville labs. Is that your  
2 testimony there?

3 A. That's correct.

4 Q. What percentage of that -- what percentage of  
5 the work actually being performed at the Belleville labs is  
6 represented by test analysis, if you know?

7 A. I believe that to be, as Ms. Norton indicated  
8 to me, 70 percent.

9 Q. You agree with the 70 percent?

10 A. Yes.

11 Q. All right. And then your next sentence is,  
12 using a measure of the work done is a more accurate measure  
13 of cost causation than using customer counts, which does not  
14 reflect the work being performed for a given operating  
15 company at Belleville labs. That's what your testimony  
16 says, correct?

17 A. Yes.

18 Q. Now, in that statement you're talking about a  
19 measure of the work done, assuming -- I assume you're  
20 talking about the testing being done?

21 A. Correct.

22 Q. And are you saying that the other 30 percent  
23 of the work done by the laboratories is also more accurately  
24 measured by applying the measurement of the test analyses  
25 done to that other work that's also known?

1           A.       Yes.  As Ms. Norton indicated to the Staff  
2 during the tour, much of the -- much of the work at the  
3 research department level is performed to come up with new  
4 ways to treat raw water, and that would in the future impact  
5 test analysis.

6           Q.       I'm sorry.  I'm missing the relevance there.  
7 Would you explain that?

8           A.       For example, one of the current issues that  
9 they're dealing with in their research department is the  
10 treatment, finding new treatment methodologies and  
11 treatments for cryptosporidium.  To the extent they can  
12 improve and enhance their treatment for that contaminant or  
13 that microorganism contaminant, that would impact -- that  
14 could impact the number of test analyses that the labs will  
15 have to perform in the future, because they will have  
16 improved upon the treatment for that particular contaminant.  
17 And EPA may base the treatment -- based on the improved  
18 treatment, EPA may require less test analysis in the future  
19 for that.

20          Q.       On page 6, the sentence about the middle --  
21 well, it's line 9, Ms. Norton indicated to the Staff that  
22 the testing department performed 70 percent of the work at  
23 Belleville labs while the research department performs the  
24 remaining 30 percent.  That's what you're talking about with  
25 70 percent of the work being done is testing; is that right?

1           A.       That's correct.

2           Q.       And then at the end of that paragraph, you

3 say, this clearly shows that a significant majority of the

4 work is performed at Belleville -- of the work performed at

5 Belleville labs pertains to testing and sampling work.

6 You're not saying there that the other 30 percent is

7 insignificant; is that right?

8           A.       The 30 percent isn't insignificant, no.

9           Q.       And you're not suggesting that it be

10 disallowed?

11          A.       Oh, no. I'm just suggesting it should be

12 allocated based on test analysis instead.

13          Q.       And is this the first time you have suggested

14 that costs of this nature should be allocated based on test

15 analysis versus customer numbers within each jurisdiction?

16          A.       Personally, this is the first time I've made

17 this recommendation. I'm not aware from Missouri-American

18 that this recommendation had been made before.

19          Q.       And what would be the rationale for making

20 that recommendation now if the customer -- if allocation

21 based on customer numbers was the preferred method in the

22 past?

23          A.       I don't know that the Staff had ever examined

24 this area before.

25          Q.       You think they just allowed the company to

1 indicate how they wanted to allocate the costs and said  
2 okay?

3           A.       No, I just don't -- I don't believe the Staff  
4 ever examined these costs to determine what was driving  
5 them, and it just -- it hadn't been something that had been  
6 examined or looked at by the Staff in the past.

7           Q.       Do you feel that the other jurisdictions have  
8 not looked at -- have not examined what's driving these  
9 costs?

10          A.       I don't know.

11          Q.       You indicated earlier when you were being  
12 cross-examined that the company would have plenty of time to  
13 make its decision, I believe is what you stated, before the  
14 rate case takes effect if the Commission adopts Staff's  
15 proposal here; is that right?

16          A.       Correct.

17          Q.       And as I understand it, that decision would  
18 have to be how to allocate costs company-wide, not just in  
19 Missouri, would it not?

20          A.       That's correct, to change the entire cost  
21 allocation process.

22          Q.       And how could the company make the decision to  
23 allocate costs in the various jurisdictions in a manner that  
24 is different than those jurisdictions have approved for  
25 ratemaking purposes?

1           A.       Given that service company is formed to serve  
2 the regulated functions, it seems that it should attempt to  
3 make its best attempt to allocate its costs in a most fair  
4 manner and based upon what's driving the cost.

5           Q.       If there's a rate case -- there's not a rate  
6 case pending in all 17 jurisdictions at the same time, how  
7 could the company change those allocations?

8           A.       I don't know that I've considered that aspect.

9           Q.       Well, would that cause the company to not  
10 recover some of its costs if, in fact, it had to change the  
11 allocation in one jurisdiction, resulting in fewer costs  
12 being allocated to that jurisdiction, but it had to operate  
13 under the same allocations in all the other jurisdictions  
14 that it had been operating before, which covered them all?

15          A.       I don't know the answer to that.

16          Q.       You can't answer intuitively?

17          A.       I just don't know.

18                   COMMISSIONER MURRAY: All right. I think  
19 that's all. Thank you.

20                   JUDGE THOMPSON: Thank you, Commissioner  
21 Murray.

22 QUESTIONS BY JUDGE THOMPSON:

23          Q.       Mr. Cassidy, so if I understand this  
24 correctly, you are proposing that the amount of 377,192 be  
25 recognized in revenue for the Belleville lab?

1           A.       That's correct.

2           Q.       And that amount includes roughly \$3,000

3 representing direct costs that are not in dispute?

4           A.       Let me refer to my work paper. The Staff's

5 annualized position is \$380,552, of which --

6           Q.       Just a moment. Could I have that number

7 again?

8           A.       The Staff's annualized Belleville lab position

9 is \$380,552.

10          Q.       Okay.

11          A.       That includes both direct and indirect costs.

12          Q.       Okay. So where did I get the 377,192?

13          A.       That is the indirect portion.

14          Q.       That is only the indirect portion?

15          A.       That's only indirect cost.

16          Q.       Right. And the company wants to have, as I

17 understand, 723,529?

18          A.       That's correct.

19          Q.       Does that include the indirect?

20          A.       Yes, that's correct, and indirect.

21          Q.       Great. Thank you. Now, who operates the

22 Belleville lab, if you know?

23          A.       That is a service company function.

24          Q.       Okay. And is the relationship between

25 Missouri-American and service company with respect to the

1 Belleville lab defined by a contract between the two  
2 corporations?

3           A.       Yes, they -- they have a contract.

4           Q.       And does the contract set up how  
5 Missouri-American will be charged and allocated a portion of  
6 indirect costs with respect to the services provided by that  
7 lab?

8           A.       I don't know that. I've looked at this  
9 contract, but I don't recall specifically looking at that.

10          Q.       So is the contract silent as to how  
11 Missouri-American will be charged?

12          A.       If you can give me just a moment.

13          Q.       Absolutely, because I do want an answer to  
14 this question.

15          A.       I'm looking at the service company agreement  
16 that's in Mr. Grubb's attached testimony, and I don't see  
17 any reference of the cost allocation between -- for  
18 Belleville labs and the company in that agreement.

19          Q.       Okay. Could you tell me where exactly that  
20 is? Is that in Mr. Grubb's Exhibit 1?

21          A.       It's Appendix A in his direct testimony.

22          Q.       Okay. So really what we're talking about,  
23 since these are charges presented to Missouri-American by a  
24 distinct corporation, we're really talking about vendor  
25 charges, right?

1           A.       I'm not certain what you mean by vendor.

2           Q.       Well, for example, one of the -- when we talk

3 about allocation formulas in a rate case, we usually are

4 talking about how -- for example, in this case how some

5 portion of corporate overhead may be allocated by a formula

6 to each of the service districts?

7           A.       Correct.

8           Q.       Right?

9           A.       Okay. I follow.

10          Q.       And that's allocation within the regulated

11 utility?

12          A.       That's correct.

13          Q.       Okay. Now, when you talk about allocation

14 with respect to this laboratory issue, you're actually

15 talking about how service corporation is calculating the

16 bills that it is sending to Missouri-American for the

17 services that it's providing under a contract?

18          A.       There is a contract that -- I agree with that,

19 and the contract states that services are to be provided on

20 page -- I believe that's addressed under Item L on page 4 of

21 6 of Appendix A to Mr. Grubb's testimony. But, however, I

22 don't see any agreement as to how those costs should be

23 allocated, and --

24          Q.       Under the contract, if you have an opinion, is

25 Missouri-American obligated to pay the bills that are

1 tendered?

2           A.       I don't believe -- I don't agree that they  
3 should have to pay as they are tendered in that sense, in  
4 that the service company is supposed to supply its services  
5 to the regulated companies and that the service company has  
6 an obligation to provide those services at the most  
7 reasonable and fair cost.

8           MR. CIOTTONE: Your Honor, in the interest of  
9 expediency, we just pulled up the contract to do the same  
10 search that Mr. Cassidy did. He is correct. It's in the  
11 Appendix A to Mr. Grubb's testimony. It's Article 2.4.  
12 2.4, and it does -- it's in evidence, and it does specify  
13 per customer allocation. It's in the cost allocation  
14 manual.

15           JUDGE THOMPSON: Thank you.

16 BY JUDGE THOMPSON:

17           Q.       Do you see that? Do you see that provision  
18 2.4? This is on page 5 of 6 in Appendix A to Mr. Grubb's  
19 Exhibit 1.

20           A.       Although that may be contracted, I don't  
21 believe it's appropriate, and Missouri-American, even though  
22 they agreed to it, it may not have represented a good  
23 agreement.

24           Q.       Hang on just a minute. Okay. Now, you  
25 responded saying that, even though it's contracted that

1 Staff believes the contract may not be -- what did you say?

2 JUDGE THOMPSON: Could you read that back for  
3 me?

4 THE REPORTER: "Answer: Although that may be  
5 contracted, I don't believe it's appropriate, and  
6 Missouri-American, even though they agreed to it, it may not  
7 have represented a good agreement."

8 BY JUDGE THOMPSON:

9 Q. Okay. So is it Staff's position that the  
10 contract is not legally binding?

11 A. No.

12 Q. Okay. Is it Staff's position that the  
13 contract was imprudent?

14 A. After attending the tour on -- and seeing how  
15 costs were assigned -- how costs were driven at Belleville  
16 labs on test analysis, that it would seem to me that it  
17 would be imprudent to accept costs driven off of -- I  
18 believe it would be imprudent for the company to accept  
19 costs allocated based on customers.

20 Q. Okay. The question is whether, at the time  
21 Missouri-American entered into the contract, management on  
22 the basis of what it knew at that time made an imprudent  
23 decision in binding itself to pay in that manner?

24 A. I believe this contract -- and the company can  
25 correct me if I'm wrong, but I believe this contract is,

1 like, renewed every year.

2 Q. Okay.

3 A. So it seems that in the last four years that  
4 I've looked at test analysis, in each of those four years it  
5 would have been inappropriate to assign costs based on  
6 customers as opposed to test analysis.

7 Q. Has Staff ever questioned allocation of costs  
8 on the basis of customer numbers in the past?

9 A. I'm sorry?

10 Q. Has Staff questioned allocation of laboratory  
11 costs based on customer numbers in the past?

12 A. No. I'm not aware of, in speaking with any  
13 Staff member who has worked on Missouri-American previously,  
14 that they had looked at that particular issue.

15 Q. Has the Staff approved such allocation in the  
16 past?

17 A. I don't -- I mean, by approved, do you mean  
18 have they looked at it and said, oh, it's okay, or has it  
19 just gone into rates maybe unexamined?

20 Q. Either one.

21 A. I don't think it had been looked at and  
22 approved as okay. It has gone into rates, although it  
23 hadn't been examined.

24 Q. Okay. So it's been an issue in past cases and  
25 was not raised by Staff as being an invalid or, I think your

1 language was, inappropriate allocation method?

2           A.       I don't know that it was an issue. It was  
3 just something that wasn't looked at.

4           JUDGE THOMPSON: I think that's all the  
5 questions I have for you, sir.

6           Do you have more, Commissioner Murray?

7           COMMISSIONER MURRAY: Thank you.

8 FURTHER QUESTIONS BY COMMISSIONER MURRAY:

9           Q.       On the Staff schedule, Staff accounting  
10 schedules --

11          A.       Okay. I don't have a copy of those with me.

12          Q.       Okay. Maybe you can answer the question just  
13 in general.

14          JUDGE THOMPSON: I can lend him the one I have  
15 here.

16          COMMISSIONER MURRAY: All right.

17 BY COMMISSIONER MURRAY:

18          Q.       I looked under total company, and I saw that  
19 S14 -- S14 was zero. So Staff's not making any adjustment  
20 in that location; is that correct?

21          A.       No.

22          Q.       And neither is it in total water?

23          A.       Let me find which adjustment number it is.  
24 Did you say it was S14?

25          Q.       In Schedule 10. Basically my question is,

1 is the only place that it is reflected in the schedules  
2 under --

3 A. You will find it under --

4 Q. -- corporate?

5 A. -- under corporate, that's correct.

6 Q. And the number there was 346,337, but that's  
7 changed since you filed this; is that right?

8 A. No, there hasn't been a change that I'm aware  
9 of.

10 Q. Okay. Then I don't know what the number of  
11 380,055 you gave to the Judge is.

12 A. That's -- that's my annualized amount. This  
13 represents the adjustment to the company's level.

14 Q. All right. Then I have another question.  
15 Just a second. If -- if Missouri were to change the  
16 allocation method as Staff suggests here for the Belleville  
17 lab, it would lower Missouri's percentage of those lab  
18 costs; is that right?

19 A. Yes. It would lower the amount of lab costs  
20 that would be assigned to Missouri.

21 Q. And then those costs would be -- if Staff's  
22 analysis is correct and that's the proper way to allocate  
23 those costs, then some jurisdictions are not paying enough;  
24 is that right?

25 A. I'm sorry. Could you repeat the question?

1 Q. Well, if Missouri's been paying too much under  
2 Staff's analysis, then somebody else is not paying enough;  
3 is that logical?

4 A. That's correct.

5 Q. And if that is another regulated jurisdiction  
6 that has not been paying enough -- let's assume it is -- and  
7 assume you're a Staff member in that jurisdiction, and the  
8 company comes to you and says -- comes to that jurisdiction  
9 and says, we want to change our allocation method. We'd  
10 like it now, rather than being based on number of customers,  
11 we'd like it to be based on the -- what is it -- number of  
12 test analyses performed in this jurisdiction, and that will  
13 result in a higher revenue requirement for us than we've had  
14 in the past. As a Staff member there, what would be your  
15 recommendation?

16 A. If it was demonstrated to me that the costs  
17 were following that, that the costs followed the work, based  
18 on test analysis, perhaps I would allow that adjustment. I  
19 mean, if you can't -- it just depends on the situation, but  
20 if it was demonstrated that clearly the nature of the work  
21 followed the test analysis, the Staff would have to allow  
22 that cost.

23 Q. So would it be your position that it's just  
24 totally unreasonable to base an allocation on customer --  
25 number of customers, there's no support for that?

1           A.       That's the Staff's position, yes.

2           Q.       And if you were in another jurisdiction and

3 that's -- the company were asking to apply the analysis that

4 Staff is now applying, you wouldn't have an argument that

5 allocating on number of customers is even reasonable, even

6 if it results in a lower revenue requirement in that

7 jurisdiction?

8           A.       It would be -- would always be the Staff's

9 position in Missouri to allocate the costs based on what's

10 driving those costs. That's the key in determining what's

11 the proper cost allocation methodology. Customer numbers

12 don't take into account a number of factors that determine

13 test analysis.

14          Q.       But the Staff has never found that to be a

15 problem in the past; is that correct?

16          A.       That's correct. The Staff hasn't examined it.

17                   COMMISSIONER MURRAY: All right. That's all I

18 have. Thank you.

19                   JUDGE THOMPSON: Do you have any questions,

20 Commissioner?

21 QUESTIONS BY COMMISSIONER CLAYTON:

22          Q.       Good afternoon.

23          A.       Good afternoon.

24          Q.       I was watching you on TV upstairs on the

25 Internet and was listening in and supposed to be meeting

1 with someone. That hasn't happened yet. But I did want to  
2 come down and ask you some questions, and I want to clarify  
3 on my score sheet here the position of Staff, position of  
4 the company and everything else on a number of these issues.

5           First of all, on the lab costs, just to  
6 clarify, the company's position is it is requesting a cost  
7 amount of 723,529, and Staff has reques-- or Staff is  
8 suggesting a cost base of 380,552?

9           A.     Yes, that's correct.

10          Q.     Are those figures accurate?

11          A.     Those are correct.

12          Q.     Staff's figures are based on the number of  
13 test analyses, while the company is based on a customer  
14 count?

15          A.     Customer count allocation, yes.

16          Q.     Okay. And how long have you been with the  
17 Commission?

18          A.     13 years.

19          Q.     13 years. So you've participated in the  
20 last -- a number of the last rate cases with  
21 Missouri-American Water?

22          A.     I was on a Missouri-American Water rate case  
23 in the last case.

24          Q.     The year 2000?

25          A.     But I was removed from that audit on to the

1 AmerenUE complaint case.

2 Q. Okay. What was the method that Staff used in  
3 the last rate case for this issue?

4 A. The Staff did not propose any adjustment to  
5 company's methodology.

6 Q. What was the company's methodology?

7 A. Allocating based on customers.

8 Q. Customer count?

9 A. Customer counts.

10 Q. Okay. Why does Staff feel that this is an  
11 issue now, or I guess maybe that -- maybe I should start,  
12 did Staff feel that it was an issue in the year 2000 rate  
13 case?

14 A. Based on my discussions with Staff members who  
15 participated in that case, it wasn't an area that was  
16 necessarily looked at.

17 Q. Do you know what the amount -- what the dollar  
18 amount was in the 2000 rate case?

19 A. No, I don't.

20 Q. Could you give me an estimate?

21 A. I have no idea.

22 Q. Okay. And why does Staff now feel that the  
23 methodology should be changed?

24 A. Because after looking at the costs and how  
25 they were assigned, it was determined that the customer

1 count allocation methodology ignored a lot of things that  
2 actually drives the costs.

3           Customer counts, I can give you some examples  
4 of why customer counts would not be appropriate, if that  
5 would help.

6           Q.       I just want you to tell me why the methodology  
7 changed. If you want to answer it that way, that's fine,  
8 but -- and I know this is in the testimony. I know you've  
9 talked about it, and I apologize for having to ask  
10 repetitive questions, but answer the question, why has the  
11 methodology changed from Staff's point of view since 2000?

12          A.       Because customer counts don't address what is  
13 driving the cost at Belleville labs.

14          Q.       What drives the cost?

15          A.       Test analysis.

16          Q.       Okay. It's not the -- and test analyses would  
17 be the number of types of tests? Is it by type of test?  
18 It's not by sample. You said it was not by number of  
19 samples tested. Could you define what test analyses is?

20          A.       For example, at the lab all of the tests come  
21 in in a container, and that is considered a sample. That  
22 container may have ten different test analyses performed on  
23 it. That is what the Staff is using, the number of test  
24 analysis performed on all the samples that come into the  
25 facility.

1 Q. Okay. Did Staff do a review of test analyses  
2 over a number of years or did it just use the test year?

3 A. The Staff has adopted the test year as being a  
4 reasonable, ongoing level. The Staff has also looked at the  
5 prior years. It looked at '99, 2000, 2001, and also looked  
6 through June of 2003.

7 Q. How did those prior non-test year test  
8 analyses compare with each other?

9 A. For Missouri, it represented a declining  
10 trend. If you turn to page 10 of my surrebuttal testimony,  
11 the chart shows where in 2000 there was 11 percent assigned  
12 to Missouri based on test analysis. It declined to  
13 8.71 percent in 2001.

14 Q. Would it be a fair statement that Staff's  
15 position on this issue is that the states that have either  
16 the most problem or require the most work should cover that  
17 higher percentage of the bill for this service?

18 A. Yes. That's correct.

19 Q. Did you look at the trends in other states?

20 A. Yes.

21 Q. And how many states did you review?

22 A. I believe there's 19 operating companies as of  
23 June that assign cost.

24 Q. And you've looked at all 19 of those  
25 subsidiaries?

1           A.       That's correct.

2           Q.       Over how many years?

3           A.       From -- I believe from January 1st, 1999

4 through June 30th, 2003.

5           Q.       What was the last date there?

6           A.       June 30th, 2003.

7           Q.       Okay. So you followed the usage of the

8 Belleville lab over -- for 19 different subsidiaries over a

9 roughly 3.5 year period from '99 to 2003?

10          A.       In some of the prior years there were

11 additional operating companies that dropped out, but, yeah,

12 basically that's the case.

13          Q.       And were you able to identify trends with each

14 of those companies, each of those subsidiaries?

15          A.       Yes. And I would point out that -- that the

16 New Jersey example that Mr. Baryenbruch points out in his

17 testimony represented the most significant level of

18 variation. So he selected a state that had what he

19 considered to be the most significant level of variation.

20                 However, in looking at that, in Staff's

21 looking at New Jersey, it found that a four-year average

22 only exhibited a 2 percent difference. If you use a

23 four-year average of the test analysis of New Jersey, you

24 obtain a 21.9 percent test analysis allocation factor, which

25 would only be 2 percent less than what occurred in the test

1 year.

2 Q. What percent was -- what percent did you say  
3 New Jersey had over the four-year period?

4 A. It would be 21.9 percent, and that's taken by  
5 looking at the numbers on page 8 of my surrebuttal  
6 testimony.

7 Q. I've got some testimony out, but this is your  
8 direct testimony. Surrebuttal, page what?

9 A. Page 8.

10 Q. And you said that the average of those -- of  
11 that period, that annual average over that period would be  
12 21.9 percent?

13 A. From -- from January 1st of 1999 through  
14 December 31st, 2002. The 2000 -- the June 2003 year would  
15 include some of the same data, so I didn't include that in  
16 my average.

17 Q. Okay. And can you tell me in either your  
18 testimony -- well, let's ask about your testimony. Do you  
19 have a chart of the number of customers for each of the  
20 subsidiaries to indicate the number, the customer count?

21 A. I don't have that in my testimony, but I do  
22 have the customer counts.

23 Q. Okay. How does the 21.9 percent compare to  
24 New Jersey's customer count?

25 A. It is consistently higher than its customer

1 count.

2 Q. What is New Jersey's customer count?

3 A. Approximately 13 percent.

4 Q. What percent did you say?

5 A. 13 percent.

6 Q. And what is Missouri's customer count

7 percentage?

8 A. Missouri's customer count percentage is 15.2

9 percent.

10 Q. So Missouri's larger than the New Jersey

11 operation?

12 A. Yes, customer-wise.

13 Q. Is Missouri the largest customer-wise, largest

14 subsidiary of American Waterworks?

15 A. No, it's not. Pennsylvania is larger.

16 Q. And then Missouri?

17 A. Give me a moment. Yes, Missouri would be

18 second.

19 Q. In customer count?

20 A. In customer count.

21 Q. What was Missouri's five-year test analysis

22 usage in the same time period as New Jersey's?

23 A. I don't have that with me.

24 Q. Did you look at it?

25 A. It was something I had looked at.

1 Q. What is the percentage in the test year that  
2 you use? The 380,552 is what percentage of the overall  
3 total?

4 A. It is 8.13 percent.

5 Q. 8.13 percent?

6 A. Correct.

7 Q. And you say that you don't know what the  
8 average would be over the five-year period?

9 A. I don't have that with me.

10 Q. But you did review the previous five years?

11 A. Yes.

12 Q. Is that correct?

13 A. That's correct.

14 Q. You mentioned that there was a trend where  
15 Missouri's share was declining over that period, did you  
16 not?

17 A. Missouri has exhibited a declining trend since  
18 2000.

19 Q. Since 2000. Did it go up from '99 to 2000?

20 A. I think that was because --

21 Q. Well, answer the question first. Yes or no?

22 A. Let me refer to one of my schedules.

23 Q. Yeah. Be accurate. Let's answer the  
24 question, and then you can give me a reason. Sometimes  
25 people jump to the explanation before we get the answer.

1           A.       Yes, it did go up, but that was -- that was  
2 because there was a difference in the operations in '99.  
3 Missouri-American had just acquired St. Louis County Water  
4 and United Water Missouri of Jefferson City.

5           Q.       So there probably would be a fairly  
6 significant jump from '99 to 2000?

7           A.       Yeah, based on the customer allocation.

8           Q.       Can we find that out? Is that something that  
9 you have somewhere in your work papers or your notes  
10 somewhere?

11          A.       I don't have that customer al-- that customer  
12 allocation percentage when that occurred. So I can't -- no,  
13 I don't have that.

14          Q.       So -- but you said that you studied the '99,  
15 2000, 2001, 2002, up to June 30th, 2003.

16          A.       But the customers -- I only have the customers  
17 as if it was at the end of '99.

18          Q.       The end of '99. I'm sorry. I wrote down  
19 January 1, '99 through June 30, '03.

20          A.       My test analysis did start at January 1, '99.  
21 I was able to do that.

22          Q.       For Missouri?

23          A.       Correct.

24          Q.       So you do have -- that's what I'm asking about  
25 is the test analyses figures beginning January 1, the same

1 period of time where you took that average for New Jersey.

2           A.       I'm sorry. I'm not following. I'm sorry.

3 I'm not following.

4           Q.       Well, sometimes I ask a question, and really,  
5 I ask many questions and you're not the first person to roll  
6 our eyes or give me a kind of a blank stare, because  
7 sometimes I don't ask them the right way. So I'll ask it  
8 again.

9                    I asked what the annual average of test  
10 analyses for the state of New Jersey, which was an example  
11 that was brought up by the company, and it's also mentioned  
12 in some of your testimony, and you answered to me that the  
13 average usage based on test analyses for the state of  
14 New Jersey for the American Waterworks subsidiary in  
15 New Jersey was 21.9 percent.

16          A.       And that's correct.

17          Q.       What I want to know is what that Missouri  
18 equivalent would be? How can we look at New Jersey without  
19 looking at Missouri?

20          A.       You want to know a four-year average of  
21 Missouri?

22          Q.       The annual average over the same time  
23 period --

24          A.       Okay.

25          Q.       -- for Missouri-American Water.

1           A.       Okay. I can do that.

2           Q.       Apples to apples.

3           A.       Okay.

4           Q.       I'm sorry if I wasn't being clear on that.

5                   JUDGE THOMPSON: While he's calculating that,

6 it's about time for a break for the reporter. We'll take

7 five minutes at this time and come back.

8                   COMMISSIONER CLAYTON: Before we go on a

9 break, Mr. Cassidy, while you're working on that, what I'd

10 like to come back to is compare those figures and I'd also

11 like to do a comparison of the number count between '99 and

12 2000 when Missouri-American took over St. Louis County

13 Water. So if you could be prepared to talk about that as

14 well.

15                   THE WITNESS: Okay.

16                   COMMISSIONER CLAYTON: Thank you.

17                   (A BREAK WAS TAKEN.)

18 BY COMMISSIONER CLAYTON:

19           Q.       You were going to do that average over that

20 five-year, four-and-a-half-year period, three-and-a-half-

21 year period for Missouri, was the first thing.

22           A.       Right. A four-year average for Missouri,

23 based on test analysis, would represent 8.44 percent.

24           Q.       Missouri's average is 8.44 percent?

25           A.       That's correct.

1           Q.       Did you -- what is the difference in  
2 percentage between '99 and 2000, where the merger -- do you  
3 have that?

4           A.       Yes.

5           Q.       Just to get an idea of the difference.

6           A.       In '99, Missouri's test analysis was  
7 5.93 percent.

8           Q.       Okay. And then in 2000?

9           A.       11.03 percent.

10          Q.       So it hopped up quite a bit, and now it's  
11 declined by about 2.5 percentage points?

12          A.       That's correct.

13          Q.       Now, in determining how to use test analyses  
14 versus sample numbers versus number count versus any other  
15 method, how did you come up with test analyses?

16          A.       Because that is the final end product. Based  
17 on looking -- when you go to the Belleville labs and go  
18 through the tour, the first place they take you to is to the  
19 receiving area where the samples are collected. And the  
20 sample is assigned a ticket number for all the test analysis  
21 that is to be performed on that particular sample, and the  
22 sample proceeds through the testing department with that  
23 ticket attached to it.

24                   That is, without question, the most detailed  
25 and appropriate way to track the nature of the work that's

1 being performed. It represents everything that's done in  
2 the testing department.

3 Q. In your analysis, did you find any -- I want  
4 to use the term either catastrophes that would increase a  
5 state's usage or a subsidiary's usage or could you give me  
6 examples of instances where a subsidiary would have a  
7 surprise increase in test analyses versus regular and  
8 ongoing usage? Is that an occurrence in using this method?

9 A. An example where test analysis might change  
10 would be a significant contamination event, where a state or  
11 operating plant of some kind went completely out of  
12 compliance and had to incur several additional rounds of  
13 testing, or something along those lines.

14 Q. So as an example, if we had an oil spill on  
15 the Missouri River and Missouri-American for Jefferson City  
16 takes its water from the river, would that be an example of  
17 contamination?

18 A. Yes, it would.

19 Q. Could you give me other examples of  
20 contamination that you're aware of?

21 A. I'm sure if cryptosporidium was found, that  
22 that would be something that would be monitored for a time  
23 period, a significant time period.

24 Q. With all due respect to my good friends in  
25 New Jersey -- and I do have some friends there and other

1 states -- but does usage through test analyses indicate that  
2 a state's water is cleaner or not? The fact that the state  
3 of New Jersey has a 21.9 percent usage --

4           A.       I don't think it gives any indication that  
5 New Jersey's water is cleaner than Missouri's.

6           Q.       Or dirtier?

7           A.       Or dirtier. It just -- it just represents the  
8 amount of work that New Jersey requires of Belleville labs.

9           Q.       Well, what requires that work then? If they  
10 don't have water source issues or something like that, what  
11 would cause such an increase in test analyses, considering  
12 that New Jersey's customer count is less than Missouri's?

13          A.       The number of connections to the distribution  
14 system that an operating company, an operating plant might  
15 have would be -- would impact the number of test analyses  
16 that are required.

17          Q.       Did you look at --

18          A.       State --

19          Q.       I'm sorry?

20          A.       State-specific regulations would be -- source  
21 water, raw water conditions would also be things that would  
22 impact that.

23          Q.       And that -- okay. Did you look at the number  
24 of gallons used overall by New Jersey-American Water versus  
25 Missouri-American Water?

1           A.       No, I did not.

2           Q.       In terms of customer count, Missouri's No. 2  
3 on the list, and has roughly 15 percent?

4           A.       Yeah, roughly 15 percent.

5           Q.       Are you personally aware of what other states  
6 and other state commissions have done in this regard? Have  
7 each of the other states adopted this method?

8           A.       I don't know that.

9           Q.       Did you look at it or you couldn't get the  
10 information or --

11          A.       I just don't know. I don't know what the  
12 other states have proposed.

13          Q.       Did you look for that information?

14          A.       No, I did not.

15          Q.       Do you know of any other states that have  
16 rejected this method?

17          A.       I do not.

18          Q.       And you don't know how many states have  
19 adopted this method?

20          A.       I just don't know that.

21                COMMISSIONER CLAYTON: Okay. Changing gears,  
22 okay. Well, then, I think that's all I'm going to ask on  
23 the Belleville lab. I have questions on the other issues  
24 that were supposed to be up for today, but I think we're  
25 going to go in order for those.

1 JUDGE THOMPSON: We're doing this witness  
2 issue by issue. I think, in fact, Mr. Ciottone had  
3 indicated the call center was the next issue he was going to  
4 take up.

5 FURTHER QUESTIONS BY JUDGE THOMPSON:

6 Q. Do you know how many test analyses the lab  
7 performed for Missouri-American during the test year?

8 A. Yes. 1,873.

9 Q. Okay. Now, do you know whether or not the  
10 amount that Service Company billed Missouri-American under  
11 the contract with respect to that level or that number of  
12 tests, how does that compare to the prices from third-party  
13 vendors for that level of testing, if you know?

14 A. I don't know particularly what that is.

15 Q. Because I thought I saw in Mr. Baryenbruch's  
16 testimony an indication that they had compared to private  
17 providers and found that, in fact, the Belleville cost was  
18 lower?

19 A. That is the company's contention.

20 Q. And Staff has done no checking of its own to  
21 determine if that's true or not?

22 A. No, I have not.

23 JUDGE THOMPSON: Thank you. I have no further  
24 questions for you. Other questions from the Bench on the  
25 Belleville lab? Okay.

1 COMMISSIONER CLAYTON: Yes, I do, if I could.  
2 JUDGE THOMPSON: Absolutely.  
3 FURTHER QUESTIONS BY COMMISSIONER CLAYTON:  
4 Q. The Judge just asked you regarding a  
5 comparison of expenses for similar services outside of the  
6 Belleville lab; is that correct?  
7 A. Correct.  
8 Q. And you-all didn't compare any of the costs  
9 for third-party labs?  
10 A. Right. I had no basis for believing that  
11 Belleville labs was more expensive than an outside vendor.  
12 COMMISSIONER CLAYTON: Okay.  
13 JUDGE THOMPSON: Ms. O'Neill?  
14 MS. O'NEILL: Thank you.  
15 RECROSS-EXAMINATION BY MS. O'NEILL:  
16 Q. Good afternoon, Mr. Cassidy.  
17 A. Good afternoon.  
18 Q. You said you worked briefly on the 2000  
19 Missouri-American rate case; is that correct?  
20 A. That's correct.  
21 Q. Are you aware of what the primary issue was in  
22 contention in that case?  
23 A. I believe it was the St. Joe treatment plant.  
24 Q. The new St. Joe treatment plant that got built  
25 and what should be allowed?

1           A.       That's correct.

2           Q.       Is that a higher dollar kind of dispute than  
3 the Belleville lab issue?

4           A.       Yes.

5           Q.       Okay. Now, your testimony is basically that  
6 you believe that the reason this allocation method should  
7 change from customer count to on a basis -- percentage basis  
8 of test analyses performed is basically one -- or at least  
9 my understanding of your testimony is that the people who  
10 cause the most cost should pay the most. Is that basically  
11 it?

12          A.       Fundamentally, yes.

13          Q.       And when we're talking about the cost  
14 allocation, you're looking at all the indirect costs at the  
15 Belleville labs, including the research costs; is that  
16 right?

17          A.       Correct.

18          Q.       So you're allocating by percentage of test  
19 analysis but all indirect cost?

20          A.       Correct.

21          Q.       You're not leaving 30 percent out?

22          A.       No, that's not the case.

23          Q.       And the purpose of your allocation is to make  
24 sure that Missouri customers pay their fair share but only  
25 their fair share of the costs of Belleville lab?

1           A.       That's correct.

2           Q.       And your allocations that you're proposing  
3 would allow the company to recover the amount caused by --  
4 amount of cost caused by Missouri even if the percentage of  
5 those costs related to Missouri goes down between rate  
6 cases? You come up with this figure even if it's a  
7 declining number, they get the same allocation until the  
8 next rate case?

9           A.       That's correct.

10          Q.       That's an example of potential regulatory lag  
11 that could benefit the company; is that correct?

12          A.       That's correct.

13          Q.       And if there was some event that caused the  
14 company to suddenly have to do a lot of additional testing,  
15 that would make this an inadequate amount to cover the costs  
16 being caused, would they be able to come to the Commission  
17 and ask for some sort of relief?

18          A.       Yes. The company always has that option to  
19 file a rate case.

20                   MS. O'NEILL: If I may have a moment, I forgot  
21 to bring my testimony with me.

22                   JUDGE THOMPSON: You may.

23 BY MS. O'NEILL:

24          Q.       Mr. Cassidy, if you'd look at page 10 of your  
25 surrebuttal testimony, at the chart at the top of the page.

1 Are you there?

2 A. Yes.

3 Q. It appears -- and I think you've referred to  
4 this in your testimony -- that percentage-wise Missouri's  
5 share of allocation based on test analysis is kind of on a  
6 declining trend?

7 A. That's correct.

8 Q. And that if the Staff then adopted the level  
9 from the test year of 8.13 percent as the allocation factor,  
10 that would be -- if the declining trend continues, that  
11 would be more than adequate to cover the costs assignable to  
12 Missouri?

13 A. Yes, that would be correct.

14 Q. The company wouldn't be out of any of the  
15 actual costs caused by Missouri operations if the trend is  
16 steady or continues?

17 A. That's correct.

18 Q. Okay. Now, whatever your opinion about what  
19 should happen with American Water Service Corporation  
20 regarding cost allocation in general, what this Commission  
21 can decide here today is how much Missouri customers should  
22 have to pay regarding those testing services?

23 A. That's correct.

24 Q. And under the company's proposal, Missouri  
25 customers would be paying \$346,000 difference between your

1 recommendation and theirs in these costs?

2           A.       That's correct.

3           Q.       So it would be the Missouri customers that  
4 would be short the \$346,000 if the Commission adopts the  
5 company's proposal?

6           A.       Right. Missouri would be subsidizing other  
7 states by that amount.

8           Q.       And American Water Services Corporation is not  
9 regulated by this Commission?

10          A.       That's correct.

11          Q.       American Water Service Corporation is an  
12 affiliate company of Missouri-American?

13          A.       That is correct.

14          Q.       And so any discussion we may have previously  
15 had about affiliate -- transactions between business  
16 affiliates would still apply in this situation?

17          A.       Correct.

18          Q.       There were some questions from the Judge  
19 regarding whether or not there was a contract that required  
20 payment based on customer counts. Do you recall that?

21          A.       Yes.

22          Q.       Okay. And based on your experience as an  
23 auditor for the Staff, if a regulated utility company enters  
24 into a contract and the term of that contract's imprudent,  
25 should the company's customers be forced to pay those

1 increased costs?

2           A.       No, they should not.

3           Q.       And the Commission would need to allow full  
4 recovery of those costs from the customers in rates; is that  
5 correct?

6           A.       Correct.

7                   MS. O'NEILL: I think that's all I have.

8 Thank you.

9                   JUDGE THOMPSON: Thank you, Ms. O'Neill.  
10 Mr. Ciottone?

11                  MR. CIOTTONE: Thank you, your Honor.

12 RECROSS-EXAMINATION BY MR. CIOTTONE:

13           Q.       Mr. Cassidy, when Commissioner Clayton asked  
14 you about the relative costs of the Belleville lab, the  
15 relative charges of the Belleville lab for services as  
16 compared to others, your answer was, I have no reason to  
17 believe they are more expensive. Is that what you told him?

18           A.       Yes. That's correct.

19           Q.       In our earlier conversations, did I not direct  
20 you to Mr. Baryenbruch's testimony in rebuttal at page 7  
21 where he gave statistics of studies he had made showing they  
22 were 15 percent less, 20 percent and 10 percent less  
23 expensive than his comparison groups, and in response to my  
24 questions to you about that, you said, I have no reason to  
25 disbelieve that?

1           A.       I don't doubt that what he said there was  
2 incorrect. I believe what he said there must be correct.

3           Q.       So when you say to Commissioner Clayton that  
4 you have no reason to believe they're more expensive, you  
5 actually do have reason to believe they're less expensive?

6           A.       I -- the Staff has never questioned whether or  
7 not Belleville labs was a cheaper alternative than outside  
8 vendors.

9           Q.       Well, just making that clear, because that's  
10 not what you led Commissioner Clayton to believe.

11          A.       No. If that's what -- no. The implication of  
12 my answer was that Belleville -- I have no reason to believe  
13 that Belleville labs isn't the cheaper alternative.

14          Q.       All right. Now, the shared services  
15 organization provides many services other than the  
16 Belleville labs?

17          A.       Yes, that's correct.

18          Q.       All of which -- the costs for all of which are  
19 allocated based on a per-customer usage?

20          A.       Yes.

21          Q.       In fact, there are 12 others, right?

22          A.       12 others?

23          Q.       Services. Let me read them to you:  
24 Accounting, administration, communications, corporate  
25 secretarial and legal, customer services, engineering,

1 financial, human resources, information systems, operations,  
2 rates and revenue, and risk management. Does that sound  
3 right?

4 A. Yes, those are the cost-tracking categories.

5 MS. O'NEILL: Your Honor, just for  
6 clarification, have we moved on from Belleville labs?

7 MR. CIOTTONE: No.

8 MS. O'NEILL: Mr. Ciottone can do what he  
9 wants on his cross-examination, but I thought we were going  
10 in order by issue.

11 MR. CIOTTONE: This is on Belleville labs.

12 MS. O'NEILL: Okay.

13 BY MR. CIOTTONE:

14 Q. Now, you did not look at any of them with  
15 respect to whether or not they should be charged on some  
16 basis other than a per-customer allocation?

17 A. I did look at some other factors to determine  
18 if other allocation methods could be applied instead of  
19 customer counts.

20 Q. So you selected one of the 13 and made a  
21 reduction?

22 A. I only -- the Staff would contend that there  
23 are two cost allocation issues in this case. One is the  
24 Belleville labs, the other is the call center.

25 Q. All right. Mr. Baryenbruch in rebuttal at

1 page 6 -- and I want you to respond to his contention. He  
2 suggests -- he said, in bringing to your attention or to the  
3 Commission's attention that you had overlooked these and  
4 selectively, opportunistically chosen only one, he said  
5 this --

6 MR. BATES: I apologize for interrupting but,  
7 your Honor, I think I will object. I think this is beyond  
8 the scope of anything that came from the Bench.

9 MR. CIOTTONE: It's based on his disrepute of  
10 the per-customer allocation, saying that this is an  
11 injustice to the Missouri ratepayers, and he has selectively  
12 chosen one aspect of 13, and I think that's critical to both  
13 his motives, the legitimacy of his study and the impact that  
14 it will have on the ratepayers of the state.

15 JUDGE THOMPSON: Mr. Ciottone, I think the  
16 objection is well taken.

17 MR. CIOTTONE: All right. I'll move on.

18 BY MR. CIOTTONE:

19 Q. Mr. Cassidy, there was a -- Commissioner  
20 Murray questioned you about the 70/30 split in activities.

21 A. Yes, I recall that.

22 Q. What is the 30 percent split? What do they  
23 do?

24 A. That was Ms. Norton's breakdown of cost of the  
25 labs, and that 30 percent represented the work that the

1 research department did.

2 Q. All right. Now, why does not that benefit all  
3 of the jurisdictions equally?

4 A. No, I don't agree with that.

5 Q. What is your logical connection, if you can  
6 explain it to me, between the number of test analyses that  
7 may be ticketed in for a particular jurisdiction and the  
8 research activities that are performed for all of the  
9 subsidiaries? How do you make the link from one to another?

10 A. As I had explained earlier, Ms. Norton  
11 indicated to the Staff at the time it took its tour that the  
12 great majority of the work that the research department does  
13 is to improve and enhance raw water treatment techniques.  
14 And to the extent that those improvements are made, that  
15 will impact future test analysis.

16 Q. For all the jurisdictions?

17 A. That's correct.

18 Q. So it benefits everyone. It may be driven by  
19 a particular jurisdiction in the first instance, but do not  
20 the results benefit everyone?

21 A. I agree they benefit everyone, but they don't  
22 benefit everyone equally.

23 Q. Now, let me just -- one final point, because  
24 this is stating the obvious, but it seems to be lost in some  
25 of the debates about percentages. If Missouri's number of

1 test analyses in any particular year, the number of analyses  
2 were a constant, all right, let's say it's 1,873 every  
3 single year for five years in a row. Okay?

4 A. Okay. You're saying that 18.73 percent?

5 Q. No. No. The number of tests. The number of  
6 test analyses in Missouri, that that were a constant.

7 A. If you're saying test analyses, the counts of  
8 test analysis didn't change for five years?

9 Q. I'm asking you to assume that's a constant.

10 A. Okay.

11 Q. All right. Now, depending on what happens in  
12 all of the other jurisdictions, the Missouri allocable  
13 percentage, using your arithmetic, is going to flow, isn't  
14 it, because it's got to come out to 100 percent?

15 A. But that is true of any cost allocation  
16 process.

17 Q. Exactly. I'm just simply making the point  
18 here that that is true here also. If the number of costs  
19 were constant, the percentage is going to flow based on what  
20 happens in some other jurisdiction?

21 A. That's just the nature of the cost allocation  
22 process.

23 Q. Commissioner Clayton asked you if there were  
24 any suggestions or evidence of incidents in any particular  
25 jurisdiction, and your answer to him was you were unaware of

1 any incidences causing an increased number or an  
2 extraordinary number of tests?

3 A. Right. I am unaware of any, and Ms. Norton  
4 could not identify any for me.

5 Q. And Mr. Baryenbruch's testimony then, which  
6 you and I discussed earlier, about the TCE discoveries in  
7 New Jersey, you disbelieve?

8 A. I don't have any reason to believe or  
9 disbelieve that number.

10 Q. And that testimony from Mr. Baryenbruch,  
11 page 4, he said, quote, in 2002 industrial contaminants TCE  
12 and PCE were detected in New Jersey-American's source water.  
13 This required more frequent sampling to ensure that the  
14 equipment carbon contractors that removes these substances  
15 was working properly. You have no reason to disbelieve  
16 that?

17 A. I don't have any reason to disbelieve that.  
18 But as I stated earlier, I asked Ms. Norton about that state  
19 and what the -- if there was any particular contamination  
20 event that she was aware of, and that -- given that she  
21 reviews all of the documentation for all of the states,  
22 she seemed to be the best person to ask that. And she said  
23 that she was unaware of any situation in New Jersey during  
24 2002.

25 MR. CIOTTONE: Thank you, Mr. Cassidy.

1 JUDGE THOMPSON: Okay. Mr. Bates, redirect?  
2 MR. BATES: Thank you, your Honor.  
3 REDIRECT EXAMINATION BY MR. BATES:  
4 Q. Mr. Cassidy --  
5 A. Yes.  
6 Q. -- isn't it a true statement that prior to  
7 this case, Missouri-American was just a very small piece of  
8 the totality of American Water?  
9 A. That's correct. Prior to acquiring St. Louis  
10 County and United Water, Missouri-American was a  
11 significantly smaller operation in comparison to American  
12 Water's total operations.  
13 Q. So the service company costs flowing to  
14 Missouri were significantly less; would that be correct?  
15 A. That's correct. And also, given that  
16 additional -- that services that used to be in the regulated  
17 function have now been transferred into this service company  
18 function, that has also impacted that further.  
19 Q. Now, after adding St. Louis County and  
20 Jefferson City, isn't Missouri the second or third largest  
21 state, I believe second after Pennsylvania; is that what I  
22 understood you to say?  
23 A. In number of customers, based on a work paper  
24 that the company supplied to me, Missouri has the second  
25 largest percentage of customers.

1 Q. Okay. And who supplied that to you?

2 A. It's in a -- it's in a Baryenbruch work paper,  
3 which summarizes customer counts from '99 to 2003.

4 Q. And now, therefore, doesn't Missouri receive  
5 more service company cost?

6 A. I'm sorry?

7 Q. Doesn't Missouri receive more service company  
8 cost?

9 A. That's correct.

10 Q. Okay. Now, because of this, hasn't the Staff  
11 devoted more audit time and applied a higher level of  
12 scrutiny to service company cases in -- costs in this case  
13 than before?

14 A. Yes, that is certainly true.

15 Q. Do you have an idea of how much more?

16 A. My entire work was devoted towards looking at  
17 these types of issues.

18 Q. Okay. Well, regardless of whether the  
19 projections are met, based upon the representations made by  
20 Ms. Norton, isn't it true that you had no reason to believe  
21 that the number of test analyses fluctuate significantly  
22 from year to year?

23 A. That's correct. Ms. Norton indicated that the  
24 number of test analyses historically has not fluctuated  
25 significantly in any way.

1           Q.       Okay. With regard, then, to Missouri's number  
2 of test analyses, does the data show a steady decline or  
3 downward trend?

4           A.       Yes, it does. And that's identified in my  
5 surrebuttal testimony.

6           Q.       And does the number of states move up or down  
7 from year to year or not?

8           A.       The actual number of tests?

9           Q.       Yes. Does it remain relatively constant, move  
10 up and down, what?

11          A.       For Missouri? It moves -- the number of tests  
12 was consistent with the percentage. There were more tests  
13 in 2000, there were less tests in 2001, and there were even  
14 less tests in 2002.

15          Q.       So rather than fluctuating levels which may  
16 require an average, you really used the test year which is  
17 the most representative of ongoing levels; isn't that true?

18          A.       Yes, that's correct.

19          Q.       And isn't it also true that if incidents occur  
20 and drive test year analysis, doesn't this highlight the  
21 inappropriateness, really, of using customers rather than  
22 test analysis?

23          A.       Yes, it would.

24          Q.       Okay. And tell me again why test analysis  
25 would be more appropriate.

1           A.       Test analysis is the key to allocating the  
2 cost, because it best represents what drives the costs of  
3 Belleville labs.

4           Q.       Isn't it a true statement that no matter  
5 what -- let me ask it this way: In any year for any state,  
6 isn't it true that the costs incurred by a state is  
7 different from the costs included in rates?

8           A.       Yes, that would be true.

9           Q.       And why is that true?

10          A.       Because in part companies don't file rate  
11 cases each and every year, would be one reason.

12          Q.       Okay. Would it also be true that it's  
13 affected because customers are continually being added by  
14 American Water?

15          A.       I think that would be true.

16          Q.       If the total lab cost was being recovered in  
17 rates and hypothetically a new state was added, would the  
18 amount collected for Belleville labs be in excess of the  
19 total lab's cost until allocations were adjusted?

20          A.       I'm sorry. You're going to have to repeat  
21 that for me.

22          Q.       Hypothetically, if the total lab cost was  
23 being recovered in rates and a new state was added, would  
24 the amount collected for Belleville labs be in excess of the  
25 total lab's cost until allocations were adjusted?

1           A.       In that situation, yes, that would occur.

2           Q.       Okay. Does the concept that companies may

3 save money by having centralized testing in any way change

4 your position in how the lab costs should be allocated?

5           A.       That has no bearing on how costs should be

6 allocated.

7           Q.       Okay. And why not?

8           A.       Because it's not a factor. It's irrelevant to

9 determining what it is that drives the cost. It's

10 irrelevant to that.

11          Q.       And I appreciate that, but why is it

12 irrelevant?

13          A.       Because it doesn't address -- it doesn't

14 impact the number of test analyses in any way.

15          Q.       Will you tell me again when Staff toured the

16 Belleville labs?

17          A.       I believe it was in the late November time

18 frame.

19          Q.       So very recently, in other words?

20          A.       Yes.

21          Q.       Do you have any reason to believe that the

22 scope of work has changed at the lab since then?

23          A.       No, I do not.

24          Q.       Did you inquire of Ms. Norton if the

25 information provided during the November/December time frame

1 was a stable estimate of the tests that will be performed?

2           A.       Yes, I asked her that, and she indicated that  
3 would be the case.

4           Q.       Okay. Did you -- didn't you rely on the  
5 statements made by Ms. Norton to support your position?

6           A.       Yes.

7                   MR. CIOTTONE: Your Honor, I will object to  
8 this line of questioning only because my exhibit to refute  
9 this was not admitted into evidence. If you will reconsider  
10 your refusal to accept my Exhibit 113, which refutes this  
11 line of questioning with respect to hearsay, I will let it  
12 continue.

13                   JUDGE THOMPSON: And your objection is --  
14 apart from the deal that would need to be made, what is your  
15 objection?

16                   MR. CIOTTONE: Unsubstantiated hearsay.

17                   JUDGE THOMPSON: Mr. Bates?

18                   MR. BATES: Excuse me just a second. That's  
19 an interesting proposition.

20                   JUDGE THOMPSON: It's so interesting that, in  
21 fact, I'm going to sustain the objection. I think we're  
22 eager to get on to the next issue, if that hint means  
23 anything at all. Thank you. Please proceed.

24                   MR. BATES: All right. If you'd give me just  
25 a second.

1 BY MR. BATES:

2 Q. Let me ask you one last question. Would you  
3 agree that Ms. Norton is the best possible and most  
4 knowledgeable source at the labs for information regarding  
5 the lab functions?

6 A. Yes, I would.

7 MR. BATES: Thank you. I think that's all,  
8 your Honor.

9 JUDGE THOMPSON: Thank you, Mr. Bates.  
10 Okay. Let's see. Now we're going to hear  
11 from Mr. Cassidy on what issue? What is our next issue?

12 MR. CIOTTONE: It's the O&M costs of the call  
13 center, then next would be the transition costs for the call  
14 center.

15 JUDGE THOMPSON: Can we do the O&M and the  
16 transition costs together?

17 MR. CIOTTONE: It has problems that way. I  
18 think it would be unwise.

19 JUDGE THOMPSON: Okay. Very well. Let's do  
20 the O&M costs for the call center. And Ms. O'Neill?

21 MS. O'NEILL: Your Honor, I think that when I  
22 initially did my cross-examination of Mr. Cassidy way back  
23 this morning, I think it was, or yesterday, I don't  
24 remember, I think I tried to cover everything. So I don't  
25 have any more questions.

1 JUDGE THOMPSON: Fine. You are a fine human  
2 being. Very well.

3 Mr. Ciottone?

4 CROSS-EXAMINATION BY MR. CIOTTONE:

5 Q. Mr. Cassidy, let's start out with quantifying  
6 this again, just so we get caught up. How much money's at  
7 stake here in this disallowance?

8 A. The difference between the company and the  
9 Staff's position is \$840,305.

10 Q. Now, my characterization of this issue -- and  
11 I want you to correct me if I'm wrong -- is that the Staff's  
12 position is that the only costs that should be allowed are  
13 the actual costs of the legacy center as increased by -- the  
14 pre-existing legacy centers as increased by wage increases?

15 A. That's correct, and given overall cost savings  
16 that had occurred by American Water in their calculation and  
17 the decision that they used to rely on making the decision  
18 to form the call center.

19 Q. That reduces the other end of the calculation?

20 A. That that calculation showed that by forming  
21 the call center, that an overall cost savings would -- would  
22 occur.

23 Q. And so your total disallowance is how much?

24 A. I wouldn't characterize my issue as a  
25 disallowance. It's to address an inappropriate assignment

1 of costs to Missouri-American.

2 Q. The total amount in reduction of the company's  
3 requested revenue requirement attributable to what you said  
4 is?

5 A. The difference between the company --

6 Q. Dollars. Dollars.

7 A. The dollars difference between the company and  
8 the Staff's position is \$840,305.

9 Q. Thank you. That's all I was trying to do. I  
10 think we have to start off first here with some confusion,  
11 at least in the company's mind, about what the Staff feels  
12 about the call center. We're hearing inconsistent things.

13 In your testimony at -- in your surrebuttal  
14 testimony on pages 41 to 43, you seem to be suggesting --  
15 correct me if I'm wrong -- that the call center is  
16 superfluous, unnecessary?

17 A. Pages 41 --

18 Q. 41 to 43. In that testimony you ask whether  
19 the company performed any study or analysis of quantifiable  
20 benefits associated with 24/7?

21 A. The purpose of that testimony and that section  
22 that you've identified was to address the fact that, even if  
23 you considered -- first of all, the company didn't  
24 previously measure its customer service function prior to  
25 forming the new call center.

1                   After forming the new call center, it believes  
2 now it has created improved service. The Staff doesn't know  
3 what level of improved service occurred because the company  
4 didn't measure that improved level of service previously.

5           Q.       Couldn't?

6           A.       Couldn't or didn't. I don't know which, but  
7 there is no basis to make a comparison for how much the  
8 level of service improved. Now, given that the company has  
9 incurred additional costs while ignoring the fact that  
10 American Water stated in that -- in the documentation that  
11 it relied on to form the call center, it believed it would  
12 receive an overall cost savings, and furthermore, based on  
13 the additional documentation that was supplied to the Staff  
14 the day it filed this surrebuttal testimony, that overall  
15 cost savings was allocated to all of the states except  
16 Missouri. Missouri was the only state out of 20 --

17          Q.       Forgive me, Mr. Cassidy, but I asked you a  
18 very simple question and you're stating your entire case.  
19 All I'm asking you is, is -- I understand what you're  
20 saying. I understand --

21          A.       But I'm just trying to lead up to what this  
22 piece --

23          Q.       Does the Staff think that the call center is a  
24 good thing?

25          A.       The Staff doesn't know because the company

1 didn't measure or couldn't measure before.

2           Q.       So you take no position on whether the call  
3 center actually is an improvement of service, at whatever  
4 cost or no cost, you take no position whatsoever about  
5 whether it's good or bad?

6           A.       The Staff doesn't have a position on whether  
7 it's improved or not, at least from my perspective.  If --  
8 even if it was an improved level of service, the Staff is  
9 saying that the company didn't ask its customers if it  
10 wanted that improved level of service, and furthermore, it  
11 didn't ask its customers if it would have been willing to  
12 pay for that improved level of service.

13          Q.       In DR 21 which we sent to you, we asked you  
14 this question.  We said, with respect to Mr. Cassidy's  
15 direct testimony at pages 26 and 27 regarding transition  
16 costs, please state those portions of the statements in the  
17 cited 10K filing of AWW that Mr. Cassidy does not agree are  
18 true.

19                   And the statements that you cite in your  
20 testimony from the 10K statement by the company is this,  
21 quote, the new national call center in Alton, Illinois that  
22 began operation in the second quarter of 2001 will increase  
23 the company's current focus on high quality customer  
24 service.  This center can be more cost effectively staffed  
25 and equipped to provide a higher level of service than can

1 concurrently be provided with the numerous existing centers.

2           And your answer to that DR was -- correct me  
3 if I'm wrong -- the Staff has no reason to believe that any  
4 of the cited statements are untrue.

5           A.       Correct. I have no reason to question the  
6 statement that you've identified.

7           Q.       All right. So then we -- we agree, then, that  
8 the center can be more cost effectively staffed and equipped  
9 to provide a higher level of service than can currently be  
10 provided with the numerous existing centers?

11          A.       I have no -- correct. I have no reason to  
12 dispute.

13          Q.       And that is not good?

14          A.       It may be good, but again, the company didn't  
15 ask the customers if it wanted that or needed that or was  
16 willing to pay for the additional improvement.

17          Q.       In the Stipulation & Agreement from Case  
18 No. WM-2001-309 to which you've referenced in your testimony  
19 as well, are you familiar with that document?

20          A.       Yes, I am.

21          Q.       All right. Under -- on page 4, under  
22 Section 3 -- and this document was signed by all the  
23 parties, including the Staff, correct?

24          A.       That's correct.

25          Q.       This statement appears in there: The American

1 Waterworks system is currently in the process of opening a  
2 new call center in Alton, Illinois. This facility will  
3 include several improvements from the joint applicants'  
4 current call centers, such as state-of-the-art telephony  
5 systems -- is that how you say that -- advance customer  
6 information database systems, a more functional and  
7 ergonomically correct building layout design, and the  
8 technology and resources to track key performance  
9 statistics.

10                   This facility is scheduled to begin operations  
11 for the SLCWC customers in the third quarter of 2001 and  
12 will begin to come online for MAWC and JCWWC customers in  
13 late 2002.

14                   Do you disagree with any of that?

15           A.       I don't disagree. I don't disagree with  
16 anything you've stated.

17           Q.       And is that all -- are all those good things?

18           A.       You may -- you can characterize them as good  
19 things. I don't know to what extent they improved from  
20 previous levels of service.

21           Q.       Well, here's our difficulty. We understand  
22 that you do not want to allow any O&M increased costs  
23 because you say there should have been cost savings, but we  
24 are surprised and now feel that the Staff is indifferent  
25 toward the value of this call center when we thought you

1 were very much in favor of it and online with it. Was that  
2 a misconception on our part?

3           A.       I don't know that the Staff ever gave you any  
4 indication that we were online with your decision. The  
5 company came to the state after it had already made its  
6 decision to form and develop and join the call center. That  
7 decision was made by American Water and Missouri-American  
8 during August of 2000.

9                   The company approached the Staff after  
10 that time to present its presentation that it had made  
11 this decision to form this call center, and all the  
12 documentation -- I wasn't present at those meetings, but in  
13 all the documentation that was given to the Staff, there was  
14 never any suggestion that there would be increased levels of  
15 cost because of this move and, in fact, we have  
16 documentation that showed that there would be reduced cost.

17           Q.       You're moving on to cost. I'm not at -- we'll  
18 get to cost, trust me. We're just talking about now, we  
19 thought this was a good thing and that Staff felt the same  
20 way. You're telling me that's not the case?

21           A.       I wouldn't characterize it that way, no,  
22 because I think it was something that the company came and  
23 said, we're doing this --

24           Q.       All right.

25           A.       -- and we can do these measurements, and the

1 Staff said, okay, give us these measurements if you're doing  
2 them.

3           Q.       DR 23 to you, are the call center and the  
4 national shared services center beneficial to the customers  
5 of MAWC? Answer, the call center provides customer service  
6 and national services center provides accounting and  
7 administrative functions. These activities are necessary to  
8 provide service and to operate a utility. These activities  
9 also benefit both the company and its customers. And then  
10 you go on to say that has nothing to do with your decision  
11 with respect to the transition costs. That's not a positive  
12 statement?

13           A.       Yes, that's a positive statement. However, I  
14 would also add to that that your previous call center in --  
15 and your accounting functions were also beneficial to your  
16 customers.

17           Q.       So when Mr. Van Den Berg states in his  
18 rebuttal at page 16, you will disagree with this statement?  
19 He said, today's customers have expectations that are driven  
20 by industry standards for customer service. The Alton call  
21 center meets these standards, and today's customers require  
22 flexibility in when and how they access customer service  
23 agents. When a customer speaks to an agent, they expect the  
24 calls to be answered quickly and all of their issues handled  
25 efficiently. The Alton center is using technology that

1 enables them to satisfy the demands of today's customers.

2 You don't accept that?

3           A.       I don't dispute that the Alton call center  
4 doesn't meet its customers' expectation. I do dispute the  
5 fact that the industry standards that Mr. Van Den Berg used,  
6 compared the call center to are inappropriate standards to  
7 make a comparison.

8           Q.       Now, when we asked you about specific aspects,  
9 we sent you DRs No. 7 through 13 asking you about specific  
10 aspects associated with call centers that are new. Do you  
11 recall those? We asked you, can you quantify the value of  
12 the ability to track an average abandoned call rate which  
13 the company could not before do, and your answer was?

14          A.       No, I cannot.

15          Q.       Can't quantify any value to that. Does that  
16 mean there is no value to it or you're just uncomfortable  
17 attempting to quantify a value to it?

18          A.       That doesn't -- there may be value, but I  
19 can't determine what that value is. I have no way to  
20 determine.

21          Q.       So there may be absolutely no value to that?

22          A.       It is an advantage to the company.

23          Q.       There is value to it?

24          A.       There's value to it, but I can't quantify it  
25 because there was no -- no basis to compare it to. There

1 was no measurements taking place previously.

2 Q. And DR 8 with respect to the ability to track  
3 average speed of answer, your answer was the same, and I  
4 assume if I asked you the same three or four questions, your  
5 answer would be, again, that there is value, you just are  
6 uncomfortable attempting to quantify it?

7 A. That is correct.

8 Q. And the same would be true with the ability to  
9 track first call effectiveness?

10 A. That is correct.

11 Q. And the same would be true with the ability to  
12 track average customer inquiry response time?

13 A. That's correct.

14 Q. And the same would be true with the ability to  
15 use the interactive voice response customer satisfaction  
16 server?

17 A. That's correct.

18 Q. And the same would be true with respect to  
19 24-hour answering capability?

20 A. Correct.

21 Q. And the same would be true with respect to the  
22 availability of the multi-language capabilities?

23 A. That's correct.

24 Q. So you agree there's some value there, you  
25 just don't want to put a value -- quantify it?

1           A.       I have no way to quantify that.

2           Q.       So does the Staff, if we --

3           A.       Can I finish?

4           Q.       Sure.

5           A.       I believe it would be more appropriate for the

6 company to identify that quantifiable value, and I've asked

7 the company if they did, if they were able to quantify that

8 value, and they also were unable to.

9           Q.       So now since your -- since the Staff's

10 position is essentially that the company should have no

11 increased dollars for this change, that they should only

12 have in their cost of service legacy costs, you would give

13 them nothing for this?

14          A.       Because all of these things ignore and are

15 irrelevant to the fact that American Water identified

16 overall cost savings, and that every other operating company

17 achieved cost savings and were assigned cost savings. And

18 that was the documentation that was relied upon by American

19 Water to do that decision. Only Missouri-American was

20 assigned additional cost. That's an inappropriate cost

21 allocation process.

22                   MR. CIOTTONE: Your Honor, I do understand and

23 appreciate his position and his desire to restate it as

24 often as possible. If we can just stay on the questions, he

25 will get his opportunity. Will you admonish him, please, to

1 answer the question?

2 JUDGE THOMPSON: I will, Mr. Ciottone. Mr. --

3 THE WITNESS: I'm sorry. If I misunderstood  
4 the question, I'm sorry.

5 JUDGE THOMPSON: Misunderstanding is okay.  
6 Everybody's allowed to misunderstand. We do that all the  
7 time. But what you need to do is answer questions yes, no,  
8 I don't know.

9 THE WITNESS: I apologize.

10 JUDGE THOMPSON: And if you want to give  
11 explanation, then Mr. Bates will have an opportunity to  
12 elicit those explanations from you on redirect, to say  
13 something like, when you answered yes to Mr. Ciottone's  
14 question such and such, is there something you'd like to  
15 explain about that, and then you'll have a chance to do  
16 that. Okay?

17 MR. BATES: Your Honor, if I may, I'm sure you  
18 don't mean by that that he has to answer only yes, no, or I  
19 don't know with no explanation whatsoever.

20 JUDGE THOMPSON: Well, if it's a yes, no or I  
21 don't know question, I would sure like it answered yes, no  
22 or I don't know, because he's been asking leading questions  
23 and that moves things along so much more quickly.

24 MR. BATES: Of course. But if he has -- in  
25 order to honestly answer the question, give the Commission

1 an honest answer, if he has to explain that somewhat.

2 JUDGE THOMPSON: Absolutely, he has to give an  
3 honest answer. That's the first requirement.

4 MR. BATES: Thank you.

5 JUDGE THOMPSON: Thank you. Please proceed.

6 BY MR. CIOTTONE:

7 Q. Now, my question to you, Mr. Cassidy, is --  
8 and I know you have your reasons, but you are unwilling to  
9 ascribe any increased value to the customer for which the  
10 company could receive compensation for these new  
11 capabilities that we've just gone through?

12 A. That is correct.

13 Q. Does Ms. Bernsen utilize these criteria in her  
14 metric tracking? Did you read her testimony?

15 A. I read her testimony. Ms. Bernsen, I believe,  
16 identifies a number of reports that the company had  
17 indicated that it would be able to -- or number of  
18 measurements that it would be able to maintain, and  
19 Ms. Bernsen was interested in obtaining those. And she's  
20 also identified, I think, three other reports that -- or  
21 measurements that the company maintains that she would like  
22 to acquire.

23 Q. And she is on the Staff?

24 A. That is correct.

25 Q. So what conclusion can we draw from that with

1 respect to the Staff's appreciation of these abilities?

2           A.       I believe that she is interested in seeing  
3 that now the company -- that now that the company has made  
4 this decision to move the call center, she's trying to make  
5 some determination if the company is meeting its customer  
6 service needs, if it's serving its customers in a sufficient  
7 manner.

8           Q.       All right. Now, you've gone on record in your  
9 surrebuttal on page 38 as stating, the call center was built  
10 with economic reasons being the key factor in the decision.  
11 From whence do you get that conclusion?

12          A.       I would direct you to page -- I would direct  
13 you to Schedule 8, I believe it's page 10 and 11 of that  
14 schedule.

15          Q.       Schedule -- I'm sorry?

16          A.       Schedule 8 to my surrebuttal testimony,  
17 page 10 and 11. Obviously this demonstrates that net  
18 savings was a very critical factor in Missouri-American's  
19 decision to build this call center.

20          Q.       No one's suggesting it wasn't an important  
21 factor, but are you suggesting that there was never any  
22 concern for improving customer service?

23          A.       No, I'm not. I'm sure that was part of the  
24 decision-making process.

25          Q.       Are you suggesting there was never any concern

1 over the outdated aspects of the legacy systems?

2 A. I'm sure that was taken into consideration.

3 Q. Are you suggesting that there was no concerns  
4 about the problems of assimilating different rules,  
5 regulations, systems, data systems from the various  
6 acquisitions comprising MAWC?

7 A. I have no reason to doubt that.

8 Q. All right. So now we're getting down to the  
9 economic value, the cost, which is where you wanted to get  
10 to in the beginning, right?

11 A. Correct.

12 Q. Now, you -- correct me if I'm wrong. You  
13 say -- and, in fact, in your surrebuttal on page 28 you say  
14 the Staff's determination is based entirely on the  
15 information that the company has supplied to Staff in Data  
16 Request No. 110 and 298?

17 A. That -- that determination is -- addresses the  
18 \$125,000 of difference, I think, that is cited on page 27.

19 Q. You're saying that does not -- that is not  
20 referencing your disallowance of cost based on the argument  
21 that the company's transition resulted in no savings?

22 A. No. I'm not saying that. You cited that  
23 statement on page 28, and I'm saying what that statement  
24 refers to is --

25 JUDGE THOMPSON: 28 of what?

1 THE WITNESS: Of my surrebuttal.

2 JUDGE THOMPSON: Okay. Thank you.

3 THE WITNESS: And I'm saying that that  
4 addresses what's contained on the question on the preceding  
5 page, on 27.

6 BY MR. CIOTTONE:

7 Q. Before we get to 110, I do have to ask you one  
8 question before I leave the issue of the value or the  
9 quantification of whether the conversion to the call center  
10 was good or bad for the company and its customers. Did you  
11 not state that the -- and I'm not on transition costs yet,  
12 but I have to bring this up at this point.

13 Did you not state that the Staff does not  
14 argue that the transition costs are an improvement?

15 A. Which DR are you referring to?

16 Q. Oh, boy. 25.

17 A. I think the timing of when I answered this  
18 request is important. When I answered this request, I was  
19 saying that these costs were not imprudent in that they were  
20 not inflated or unnecessary or frivolously incurred to  
21 transition to the call center. But once I received the  
22 information in DR 448 and also in 479, I found that the  
23 overall cost savings had occurred and I also found that that  
24 overall cost savings had been passed along to every other  
25 operating company except Missouri-American Water Company.

1                   So if Missouri-American Water Company was  
2 to -- given that situation, if Missouri-American Water  
3 Company was to accept additional costs related to either  
4 joining the call center or transitioning to the call center,  
5 that would represent an imprudent decision.

6           Q.       Okay. Do you realize what you're doing here  
7 now? You've gone on record. This is what the DR says --

8                   MR. BATES: I'm sorry. Are you testifying or  
9 asking him a question?

10                  MR. CIOTTONE: I'm trying not to get upset  
11 with a rather significant transgression here.

12 BY MR. CIOTTONE:

13           Q.       The DR No. 25 says, does the Staff believe  
14 that such transition costs were imprudently incurred? If  
15 so, does the Staff believe that the transition to the call  
16 center and the national shared service center should have  
17 been accomplished without incurring the transition costs?

18                   And you answered, answer, the Staff does not  
19 allege that these transition costs were imprudently  
20 incurred. That was your answer.

21           A.       That's the answer, but that was -- can I  
22 finish?

23                   MR. BATES: Can he answer?

24                   JUDGE THOMPSON: Time out.

25                   He asked you if that was your answer. You

1 responded that it was. You were then done. If he wants to  
2 explain, you've got to get that on redirect. He answered  
3 the question, yes, that was the answer, right?

4 MR. BATES: Your Honor, I appreciate that, but  
5 if he cannot give a complete answer by simply answering with  
6 one word, then I don't think that that's really serving the  
7 Commission's purposes.

8 JUDGE THOMPSON: That is the hell that is  
9 cross-examination.

10 MR. BATES: Thank you.

11 JUDGE THOMPSON: Please proceed.

12 BY MR. CIOTTONE:

13 Q. Mr. Cassidy, has not the Staff gone on record?  
14 DRs are answered under oath, aren't they?

15 A. That is correct.

16 Q. And the Staff answered under oath, the Staff  
17 does not allege that these transition costs were imprudently  
18 incurred. Now you're saying that was false or, less  
19 politely, a lie?

20 A. At that point in time, as I explained  
21 previously in my previous answer in testimony, the Staff  
22 had -- did not have all of the information that it has now.  
23 The company supplied a lot of information to the Staff after  
24 the fact, and once it received that information, the Staff's  
25 position on these costs is different from when it responded

1 to it in this DR.

2 Q. Subsequent to this DR, you had the opportunity  
3 to file rebuttal testimony, correct?

4 A. I filed --

5 Q. This was done very early?

6 A. Yes. I had the opportunity. There was no  
7 rebuttal testimony filed.

8 Q. You had the opportunity to file surrebuttal  
9 testimony?

10 A. And I filed surrebuttal testimony.

11 Q. At any time in any of that testimony did you  
12 say, we've changed our mind now, we're claiming a prudency  
13 issue?

14 A. I say in my surrebuttal testimony with regard  
15 to the call center costs that it would be imprudent to  
16 accept additional costs.

17 Q. You mention the word imprudent in your  
18 testimony?

19 A. Yes, it's mentioned in my surrebuttal  
20 testimony.

21 Q. Can you point it to me?

22 A. The call center was built with economic  
23 reasons being the key factor in the decision. No state  
24 should have its costs of service increase because of their  
25 inclusion in the call center; otherwise, it is an imprudent

1 decision. It is imprudent to join the call center since  
2 they can provide the service in an overall lower cost. That  
3 is located on page 38 of my surrebuttal, lines 10 through  
4 13.

5 Q. So it's imprudent to join the call center, but  
6 the transition costs to build the call center are prudent,  
7 or are you reneging entirely on the prudent?

8 A. The documentation that I was supplied -- I'm  
9 saying that the transition costs are imprudent because the  
10 transition costs were included in the study in DR 448 that  
11 was provided to me after I responded to this Data Request.

12 Q. Oh, this is -- okay. So then now -- the issue  
13 of prudence now in your mind as you change from your under  
14 oath statement in 25, now you're saying it depends entirely  
15 on whether there are cost savings?

16 A. That's the -- the entire issue that's at  
17 stake.

18 Q. So if we prove to this Commission that there  
19 are cost savings in the O&M, then the transition costs are  
20 prudent again and everything's prudent?

21 A. I don't know how the company could be having  
22 cost savings, given that you're increasing the cost with  
23 your adjustments.

24 Q. Well, you didn't hear any of the testimony  
25 with respect to from Mr. Van Den Berg about the cost per

1 call decreases?

2           A.       That's not -- that's not lowering cost in  
3 rates. That's not lowering cost to the customer. That's  
4 like generating cost based on calls which you have problems  
5 with.

6           Q.       These fine ladies and gentlemen will decide if  
7 that's a cost reduction, but if it is proven to them that  
8 there is a cost per call decrease in O&M, then you're on  
9 board with everything's prudent?

10          A.       If there's a what? I'm sorry.

11          Q.       Well, sir, you said the only reason you're  
12 reneging on your DR 25 is that after that fact you came to  
13 the conclusion that the cost per call -- pardon me -- that  
14 the cost of operating the trans-- of the call center was an  
15 increase rather than a decrease or staying the same, and you  
16 said, therefore, it's no longer prudent.

17          A.       That's my testimony.

18          Q.       All right. So that conversely, if it ends up  
19 being a bargain for the ratepayers, instead of an increase  
20 in cost, and if we can successfully prove that to the  
21 Commission, then everything's prudent, right?

22          A.       Yeah, if you could somehow prove that.

23          Q.       All right. What does prudent mean to the  
24 Commission? What -- to you and the Staff? What does it  
25 mean when something rises to that level of being prudent?

1           A.       It must be the best -- must be done with the  
2 best -- it must be the best decision.

3           Q.       Did you have -- it has to be the best  
4 decision?

5           A.       It has to be a decision that is -- that  
6 doesn't harm the ratepayers.

7           Q.       And what are the regulatory consequences of  
8 such a determination?

9                   MS. O'NEILL: I'm going to object, because I'm  
10 not sure which determination Mr. Ciottone is talking about.  
11 BY MR. CIOTTONE:

12          Q.       The determination that something is prudent.

13          A.       Are you asking me what is the determination of  
14 prudence?

15          Q.       Once the determination that something is  
16 prudent is made, what are the regulatory consequences of  
17 such a determination?

18          A.       If something is determined that it's prudent,  
19 it seems that it's an acceptable thing.

20          Q.       And the cost should be recovered?

21          A.       Correct.

22          Q.       So now it is your position that you answered  
23 DR 25 before you saw DR 110?

24          A.       No, not DR 110. DR 448 and DR 479.

25          Q.       What was in those that changed your -- because

1 I understand your entire case to be based on 110. What is  
2 it in 448 that changed that?

3           A.       My entire case is not based on DR 110. That  
4 is how -- DR 110 was provided to me by the company. That is  
5 nothing -- I did nothing to change those calculations. That  
6 represents the previous call center costs factored up for  
7 all known changes to bring the previous level of cost to a  
8 2003 current cost level. I did nothing to adjust those  
9 amounts. I accepted that.

10                   Now, given the situation that came -- the  
11 information given to me in DR 448, which as I've already  
12 explained, American Water did a study, and it relied on that  
13 study to form the call center. That study showed that  
14 American Water expected \$10 million of annual cost savings.

15                   And given DR 479, which was supplied to me the  
16 day I filed my surrebuttal testimony, which I was unable to  
17 include in the information in my testimony because of its  
18 late arrival, that documentation showed that that \$10  
19 million of costs was distributed to every other operating  
20 company except Missouri-American Water. Missouri-American  
21 Water was asked to pay an additional \$650,000.

22                   That is an unacceptable and inappropriate cost  
23 assignment. If you have overall cost savings, no operating  
24 company should be assigned additional costs. The additional  
25 cost you're asking Missouri-American to pay represents a

1 subsidy to the other operating companies and -- it  
2 represents a subsidy to other operating companies, and that  
3 represents additional cost savings to those other operating  
4 companies.

5 Q. Now, let's see if we're on the same page here.  
6 We're at the point of whether the call center is resulting  
7 in an inequitable increase in costs to Missouri's customers  
8 or whether it's not. That's what we're talking about here?

9 A. That's correct.

10 Q. If it's not an inequitable increase in costs  
11 to the Missouri customers, then you're on board with the  
12 transition costs and you're on board with whatever the  
13 costs --

14 A. The trans--

15 Q. -- are necessary to operate the call center  
16 are, if it is a bargain or a good deal or a fair deal for  
17 Missouri's customers. That's your case?

18 A. The transition costs would have to demonstrate  
19 cost savings to the ratepayers as well. For the call  
20 center, as long as it doesn't increase my costs -- and  
21 that's all I've attempted to do is hold the cost. I'm not  
22 trying to capture any of the savings in my adjustment, and  
23 I'm just trying to hold the costs at what they were. All  
24 the other operating companies, they can have the savings,  
25 and I'm being conservative in my position.

1                   But unless -- as far as your transition part  
2 of your question, unless they can identify quantifiable cost  
3 savings, they shouldn't be included.

4                   MR. CIOTTONE: May I approach, your Honor?

5                   JUDGE THOMPSON: You may.

6                   (EXHIBIT NO. 114 WAS MARKED FOR IDENTIFICATION  
7 BY THE REPORTER.)

8                   MR. CIOTTONE: May we mark this as 114, your  
9 Honor, and I'll have the witness identify it?

10                  JUDGE THOMPSON: You certainly may.

11 BY MR. CIOTTONE:

12           Q.       Mr. Cassidy, you are familiar with the  
13 original DR 110, of course?

14           A.       The original DR 110, yes, I am.

15           Q.       And that was in your testimony?

16           A.       That's correct.

17           Q.       And you used that to make a determination of a  
18 cost per call increase, did you not?

19           A.       I didn't use it to make a determination of a  
20 cost per call increase, no. I did not.

21           Q.       Well, you put it in your testimony as an  
22 exhibit showing that there's a cost per call increase?

23           A.       It's in my testimony as an exhibit, but I did  
24 not create or calculate any cost per call.

25           Q.       You were provided with this document that I've

1 handed to you marked Exhibit 114, were you not, prior to  
2 this case, prior to this hearing?

3           A.       Yes, I believe I received this documentation  
4 November 21st.

5           Q.       And it was provided to you as an updated  
6 response to DR 110, correct?

7           A.       That is correct.

8                   MR. CIOTTONE:  So I think that's what it  
9 should be designated, your Honor, is update to DR 110.

10                   JUDGE THOMPSON:  Okay.  Very well.

11 BY MR. CIOTTONE:

12           Q.       Now, you believe that the cost associated with  
13 operating the legacy systems are appropriate, right?

14           A.       I believe it's appropriate given overall cost  
15 savings.

16           Q.       All right.  And you've increased those for  
17 wage increases.  You believe that's appropriate?

18           A.       Yes.

19           Q.       So you're not entirely opposed to any increase  
20 in costs if they're associated with necessary unavoidable  
21 cost increases?

22           A.       Right.  I only -- I increase those -- allowed  
23 those increases in costs because it brought those previous  
24 costs of the call center up to current cost levels as of  
25 2003.

1           Q.       Now, in the updated response, Mr. Van Den Berg  
2 did this for us, and he calls it an apples to apples  
3 comparison characterization, which has always irritated me  
4 but nevertheless is appropriate here, because he accuses  
5 you -- and I'm just simply asking you if you understand this  
6 to be an accurate characterization of our disagreement. He  
7 accuses you of comparing legacy costs to new costs without  
8 taking into consideration the new duties and obligations of  
9 the new center. Is that an accurate characterization?

10          A.       That is what he states in his testimony. I  
11 believe it's a fair summation.

12          Q.       Now, is there some reason that you believe the  
13 cost per call measure is not a legitimate measure of what  
14 the -- of whether there are savings associated with the  
15 transition to a new system? Is there some reason that  
16 that's defective in your mind?

17          A.       Yes. I've identified several reasons why I  
18 believe his as-was calculations are incorrect in my  
19 surrebuttal testimony.

20          Q.       Excuse me. We'll get there, I promise you.  
21 I'm simply asking you conceptually, the idea of a cost per  
22 call comparison, is that a legitimate characterization if  
23 it's arrived at properly, and if in the unlikely event  
24 everyone agreed that the calculations were appropriate, is  
25 that a legitimate characterization of whether or not there

1 were savings?

2           A.       I don't believe so.

3           Q.       All right. Why not?

4           A.       Based on the information on this response --  
5 can I be specific about this response?

6           Q.       I don't think it's going to be responsive to  
7 the theory, but go ahead. Answer it the way you want and  
8 then we'll take it another step.

9           A.       Okay. The number of calls identified on this  
10 Data Request, the 386,415 calls, represented a 1999 survey,  
11 which to me indicates that it's an estimate. There were  
12 no -- I asked the company for 2000, 2001, 2002 call volumes.  
13 The company had no records of any of those call volumes. So  
14 what I have here is a 1999 number which I cannot compare to  
15 any other years to determine if this is an appropriate  
16 number.

17                   Furthermore, the company has stated that this  
18 is an estimate or based on a survey. So this cost per call  
19 is very much an estimation.

20           Q.       All right. Forgive me. I'm not asking you  
21 about this cost per call. We're going to get there. I'm  
22 asking you about the theory. The theoretical concept of is  
23 a cost per call a legitimate measurement of whether or not  
24 there are savings to the customer? Somebody's got to pay  
25 the cost per call. If the cost per call goes down, is that

1 a good thing? If the cost per call goes up, is that a bad  
2 thing, conceptually?

3 A. I don't believe a cost per call is the  
4 appropriate way to make this measurement, because a cost per  
5 call assumes that all costs are variable and all costs are  
6 not variable. There are fixed costs.

7 Q. Well, the Commission will decide whether or  
8 not the calculation is correct. But if there is a  
9 legitimate, believable cost per call, is that a usable  
10 metric to determine whether or not there's savings?

11 A. That -- the problem with that is, in this case  
12 that you have to look at the facts at the time of making the  
13 decision to form the call center. Mr. Van Den Berg in doing  
14 his as-was cost methodology is -- he was trying to justify  
15 the decision based on what he believes to be the current  
16 facts. And I believe you have to look at the facts that  
17 existed at the time of making the decision.

18 So to come back and second guess these old  
19 as-was costs with some new level of call volumes that you've  
20 come up with is an inappropriate way to calculate these  
21 costs.

22 Q. That's a remarkable statement. Are you  
23 telling me that you would rather bet your conclusions and  
24 estimates and that you think it's inappropriate to use  
25 actual data that thereafter materializes? Is that what you

1 just said?

2 A. No, I'm not.

3 Q. What did you say?

4 A. I used actual data. Mr. Van Den Berg uses  
5 estimates.

6 Q. Let's go through this, then. All right?

7 A. Okay.

8 Q. We'll go through this. The original call  
9 calculation from DR 110 is the top half of the page.

10 A. That is correct.

11 Q. All right. And this was characterized -- you  
12 sent the Data Request to the company asking for a comparison  
13 of as-was versus as-is costs.

14 A. Let me reference that. Right. And the  
15 company supplied me with analysis of operating cost and  
16 savings.

17 Q. All right. Now, tell us what his -- explain  
18 for the Commission, because this is going to be the critical  
19 document in the company's position, so I want them to  
20 understand what you think it says in this case. The as-was  
21 summary that was submitted to you by the company that you  
22 think is the more appropriate yardstick that should be used.  
23 The as-was cost, what's that 1,645,756, what does that  
24 represent? Starting at the top left.

25 A. Are you talking about the -- which number did

1 you identify?

2 Q. Top left, wages under as-was.

3 A. 1,645?

4 Q. Yeah.

5 A. That represents the previous call center

6 function at -- for the wages trued up through 2003.

7 Q. That was at the St. Louis facility?

8 A. At all -- all of the facilities.

9 Q. Except for the 144,023, correct, at the

10 bottom? Isn't that another facility?

11 A. No, that's other O&M costs.

12 Q. Oh, I thought that was the other facility that

13 had not yet joined.

14 A. No. This is based on Mr. Grubb's analysis.

15 Q. Okay.

16 A. And it represents all of those four costs

17 grossed up for all known changes to bring them to current

18 costs at 2003.

19 Q. Good. All right. So the total cost -- the

20 total cost, had everything stayed the same, had call volumes

21 been what they were in 1999, that's the cost, total

22 customer, 326,184?

23 A. That's the previous cost trued up through

24 2003. And that's the Staff's position.

25 Q. And the number of calls 386,415 is what? Is

1 that an actual number?

2           A.       That is based on a survey of 1999 data.

3           Q.       Theoretically actual numbers or as close as

4 they could get to it?

5           A.       I have no basis for being able to determine if

6 that number is representative of anything, because there are

7 no other years to compare it against.

8           Q.       All right. They came up with a cost per call

9 by doing simple division of \$8.44 for every call?

10          A.       They derived the \$8.44 by dividing the 3,261

11 by the 386 number.

12          Q.       Now, this is the -- then you moved to the

13 right column, which is the as-is column that Mr. Grubb

14 prepared for you?

15          A.       That's correct.

16          Q.       And then Mr. Van Den Berg changes all this,

17 which caused you distress and you wish to debate with me,

18 and we shall, but let's look at Mr. Grubb's numbers, what he

19 did.

20          A.       That's correct. Let's talk about Mr. Grubb

21 first.

22          Q.       What's the 452,214?

23          A.       Those are -- those represent local district

24 costs for service order closers maintained at St. Louis

25 after -- after their transition to the call center.

1 Q. All right. So that's just -- those are  
2 fallout numbers of --  
3 A. Those are --  
4 Q. -- what actually happened?  
5 A. If you look at the 878,917, that represents  
6 costs over and above call center costs that have to be  
7 maintained at the local district level, because the call  
8 center doesn't perform those functions and specifically  
9 those -- that function is the function of service order  
10 closers.  
11 Q. And then pro forma call center costs were  
12 what? That was Mr. Grubb's estimate of what?  
13 A. That was his calculation of what he believed  
14 the allocated amount of call center costs would be, given  
15 that the St. Louis district and all of the other districts  
16 would be transitioned to the call center.  
17 Q. All right. Comes up with a total cost of  
18 4,871,412?  
19 A. And that's the position that he filed on in  
20 direct testimony.  
21 Q. You do the math again and you come up with  
22 \$9.71 per call?  
23 A. Given his 4,871 divided by whatever that  
24 501,000 represents, that call volume.  
25 Q. Not good for the ratepayers unless there's

1 some other benefits to make up the difference, agree?

2           A.       Not good for the ratepayers, given that

3 overall cost savings were identified.

4           Q.       Okay. Would have been much better to the

5 ratepayers if that was a lower number than 8.44? That would

6 be good?

7           A.       No, because you're comparing a difference in

8 call volumes. I don't believe that's an accurate way to

9 assess that.

10          Q.       The Commission will decide that, but if the

11 cost per call had come out lower there, that would be good,

12 right?

13          A.       I believe it's more appropriate to determine

14 cost based on cost, not cost per calls.

15          Q.       All right. Mr. Van Den Berg did two things

16 when you got the updated 110, did he not?

17          A.       Correct.

18          Q.       The one thing he did was change the pro forma

19 call center cost. Now, how did he do that?

20          A.       Okay. He changed his as-is cost summary. His

21 pro forma cost is \$3,223,228, and he calculated that by

22 taking the service company bills received from the service

23 company related to the call center. During the time frame

24 covering May of 2003 through October of 2003, that

25 represented six months of information, and he multiplied

1 that by two to get an annual level.

2                   Now, the problem with that number is that the  
3 states Tennessee and Kentucky transitioned to the call  
4 center during that time frame. Tennessee transitioned in  
5 August of 2003. Kentucky transitioned October 21st --  
6 October 20th of 2003.

7                   Mr. Van Den Berg made no adjustments to his  
8 service company bills to annualize the effect of those  
9 states and their customers joining the call center. Those  
10 states would bring significant amounts of customers to  
11 spread the fixed cost of the call center across.

12           Q.       And revenues?

13           A.       I don't understand what you mean by "and  
14 revenues."

15           Q.       Well, they wouldn't join the call center for  
16 free. They, too, would have to be charged their share of  
17 cost?

18           A.       They would be allocated costs.

19           Q.       Right. So we don't know what that would be?

20           A.       But the fixed cost for all the other operating  
21 companies would be reduced because these other states would  
22 be taking on some of these fixed costs.

23           Q.       Well, where did Mr. Van Den Berg get these  
24 numbers? They were actual bills sent from the service  
25 center to the company, correct?

1           A.       That's correct, but they have not been  
2 adjusted for changes that have occurred during the time  
3 period that he wrote.

4           Q.       But the earlier numbers from the original  
5 DR 110 were estimates back when Mr. Grubb got your DR, and  
6 Mr. Van Den Berg's updated numbers are actual bills, as you  
7 say, unadjusted?

8           A.       I don't agree -- I don't agree with that  
9 characterization. Mr. Grubb's costs under the as-was are  
10 actual and known and measurable costs. They're adjusted to  
11 bring them up to current cost. Those are actual known,  
12 measurable costs of the previous call center.

13          Q.       And the bills now are lower?

14          A.       But that ignores -- that ignores the fact that  
15 moving to the call center resulted in a service order closer  
16 function at the local district level. So the cost that  
17 \$3.261 million must be compared to is \$4.102 million.

18          Q.       So you think they're going to go back up  
19 again?

20          A.       I don't think they're going to go back up  
21 again. I'm saying this is the difference that we have.

22          Q.       So is it not true that you confirmed with  
23 Mr. Jenkins that these numbers had changed?

24          A.       I confirmed that the numbers related to the  
25 allocated piece of the call center had changed, the

1 difference between the 3,992 and the 3,223.

2 Q. Mr. Van Den Berg's characterization that these  
3 numbers are actual and based on in-hand bills is flawed  
4 because they don't reflect what might happen when Kentucky  
5 comes up?

6 A. No. They don't reflect what has already  
7 actually happened during the time period that he looked at.

8 Q. So what evidence --

9 A. He didn't address Tennessee, which  
10 transitioned to the call center in August of 2003. He  
11 didn't address Kentucky, which transitioned to the call  
12 center in October 2003.

13 Q. All right. We have evidence that this is a  
14 correct number. It's been put in the record by  
15 Mr. Van Den Berg. Do you have evidence to refute it other  
16 than your skepticism?

17 A. My evidence is more than skepticism. It's the  
18 fact that these costs would have -- they have to be  
19 annualized. You have to think of these like payroll  
20 adjustments. It's like -- you know, you have something  
21 where you have to annualize it out to represent a full  
22 year's worth of information.

23 If you don't adjust those bills for the fact  
24 that Kentucky and Tennessee has transitioned to the call  
25 center and now you have these additional customers to spread

1 fixed costs across, you have a flawed analysis.

2 Q. And you're under the belief that these are not  
3 annualized or they are just not annualized correctly?

4 A. They're not annualized in any way to reflect  
5 Kentucky and Tennessee.

6 Q. And you have evidence of what the impact of  
7 Kentucky and Tennessee would be?

8 A. Yes, I do. Kentucky will bring  
9 101,000 customers to spread fixed costs over. They  
10 transitioned, as I stated, on October 20th of 2003. And  
11 Tennessee brings 70,335 customers, and they transitioned in  
12 August of 2003. So the months prior to each one of those  
13 states' transition were not reflected for those particular  
14 state's transition.

15 Q. But what's your evidence to refute the dollar  
16 numbers? I mean, as they come on, they will also bring  
17 revenue with them. They will be charged as well.

18 A. Because you're ignoring the effect of  
19 transitioning these states on. You're ignoring the fact  
20 that fixed costs will be spread to these states for the  
21 months prior to their transition.

22 Q. And the dollar impact on Mr. Van Den Berg's  
23 number will be what?

24 A. I haven't calculated it, because that's the  
25 company's position.

1 Q. All right. The next number he changes is an  
2 increase in the number of calls, and you dispute that?

3 A. Yes, I do.

4 Q. All right. Now, do you dispute the number of  
5 calls because Mr. Van Den Berg first estimated the number of  
6 calls based on recent experience, and then in exhibits that  
7 he put in yesterday in response to Commissioner Murray's  
8 questions, he put in actual data of calls and the actual  
9 data of calls are even higher than the 521,529 shown here.  
10 Do you dispute that number or do we move on the AWR  
11 ramifications of that number?

12 A. Are you asking me if I dispute the 521,529?

13 Q. That's what I'm asking.

14 A. There's a number of reasons why I dispute that  
15 number and AWR is one of the reasons.

16 Q. What else?

17 A. As I've stated, I believe that even given the  
18 analysis that Mr. Van Den Berg provided in his schedules  
19 yesterday, that doesn't capture the full impact of the calls  
20 that the call center handles related to AWR calls. That  
21 amount inflates this call volume that's listed on this  
22 schedule. I have called the call center personally on a  
23 number of occasions, and -- and if you look at the schematic  
24 that is an exhibit in testimony --

25 Q. Excuse me. Are you on AWR now?

1           A.       Yes, I am.

2           Q.       We're going to get to that.

3           A.       I'm attempting to explain why AWR impacts this  
4 call volume.

5           Q.       Could you tell me the other reasons, and then  
6 we'll get to AWR. You said there were others. I'm going to  
7 discuss AWR with you until you're tired of it.

8           A.       Okay.

9           Q.       What else -- you said AWR is one of the  
10 reasons?

11          A.       Another reason is that Mr. Van Den Berg  
12 calculates an estimated ratio of interactive voice response  
13 calls for 2003. He does that because the call center did  
14 not track IVR calls by state during 2003. So, therefore, he  
15 had to use a 2002 ratio against 2003 numbers to develop that  
16 number.

17                   And I would also argue with the \$8.44 cost  
18 that is shown on that schedule because of the problems that  
19 exist with the 386,450 -- 415 call volume, because that  
20 number represents an estimate. There's no other number to  
21 compare that to. And the company has admitted in data  
22 requests to me, which I have documentation of, that it  
23 represents an estimate, and that cost per call is not a  
24 reliable number to use.

25          Q.       Let's try to stay on track, though, if we can.

1 I'm asking you about -- we went through the number, the  
2 price change that Mr. Van Den Berg did. You said you're  
3 suspicious of that because of Tennessee and Kentucky and  
4 that influence does not show up there, and now we're on to  
5 the 521,529 calls. I asked you if you were suspicious of  
6 that. You said, because of AWR, which we are going to get  
7 to and other things. I'm asking you what those other things  
8 are. That's where we are.

9 A. Right.

10 Q. What are those other?

11 A. The IVR calls are based on a ratio because  
12 there is no actual IVR calls during 2003, during the time  
13 period that Mr. Van Den Berg examined.

14 Q. Let me hand you what has been marked as  
15 Exhibit 107, which has been --

16 MR. CIOTTONE: May I approach, your Honor?

17 JUDGE THOMPSON: You may.

18 BY MR. CIOTTONE:

19 Q. -- which has been offered and received in  
20 evidence. And at the bottom of it, would you read what it  
21 says?

22 A. Actual volume to switch as of December 6, 2003  
23 is 521,918, which annualizes to 660,104 calls based on a  
24 steady state volume from May 5 to December 6.

25 Q. Now, that's actual data that's in evidence.

1           A.       Uh-huh.

2           Q.       What do you have to refute that?

3           A.       There's no auditable support. May I keep this

4 or --

5           Q.       That's my only copy.

6           A.       I'll pull my copy out.

7                   MR. BATES: May I approach the witness?

8                   JUDGE THOMPSON: You may.

9                   MR. CIOTTONE: Sure.

10                  THE WITNESS: First of all, you just asked me

11 just to refute this last, the bottom line.

12 BY MR. CIOTTONE:

13           Q.       The call numbers?

14           A.       There's no auditable support for the Staff to

15 look at to make any determination if that's an acceptable or

16 reasonable number of call volumes. I received this the day

17 of hearings and I have no way to -- I've had no opportunity

18 to ask any questions about this, to clear up any confusion

19 or make any clarifications.

20                  I asked for, you know, a lot of this

21 information that was provided by Mr. Van Den Berg back in

22 June, and -- and I'm just now receiving a lot of this

23 information. I don't think that's appropriate.

24           Q.       Well, sir, we went through your DRs carefully

25 to make sure that this was not a transgression. You at no

1 time asked for this number of calls. We could not find a  
2 characterization of that.

3 But do you have -- you're telling me you're  
4 skeptical of this number, but you have no evidence to prove  
5 that it's false? You just suspect that Mr. Van Den Berg is  
6 perjuring himself?

7 A. Huh-uh. I have no evidence to determine if  
8 it's a reasonable -- I don't even know how this was  
9 calculated.

10 MR. BATES: Your Honor, if I may, I think  
11 perjury is a legal concept, isn't it?

12 MR. CIOTTONE: It's been submitted under oath  
13 and it says actual volume of the switch is, and he puts a  
14 number in and he's a sworn witness.

15 MR. BATES: Is he asking the witness to read  
16 the mind of this person?

17 JUDGE THOMPSON: What's your objection  
18 exactly?

19 MR. BATES: I withdraw the objection.

20 BY MR. CIOTTONE:

21 Q. Well, Mr. Cassidy, I have evidence that this  
22 number is legitimate. You have no evidence to refute it  
23 other than your skepticism?

24 A. Given that it was given to me yesterday, I  
25 haven't had an opportunity to make any determination of what

1 makes up that number. That's not a reasonable amount of  
2 opportunity for Staff to examine and audit that number.

3 Q. And you're suspicious of the number of the  
4 reduced calls as billed to the company because it doesn't  
5 reflect changes that you think have taken place since then  
6 with respect to Kentucky and Tennessee; is that right?

7 A. I'm sorry. Restate your question.

8 Q. I'm simply recapping, because those two  
9 numbers are critical. They get to the 7.87, do they not?  
10 Those are the two changes to the previous 110, the increase  
11 in the call numbers and the decrease in the cost billed from  
12 the call center to the company?

13 A. I'm not following where you're getting your  
14 7.87 from.

15 Q. The \$7.87 credibility cost per call off  
16 Exhibit 113.

17 JUDGE THOMPSON: I think you mean 114.

18 MR. CIOTTONE: Oh, I marked it. I don't think  
19 so. You're right. I'm sorry.

20 THE WITNESS: That -- again, that cost per  
21 call would be inappropriate or incorrect because of the  
22 problems that exist with that \$3,223,228 number, which does  
23 not reflect the effects of Tennessee and Kentucky  
24 transitioning to the call center.

25 BY MR. CIOTTONE:

1 Q. But you don't know what that number should be?

2 A. I don't know that number because that's the  
3 company's position.

4 Q. All right. So you are dissatisfied with this  
5 calculation in several respects which you've discussed. If  
6 the Commission were to accept this calculation as being fair  
7 and reasonable and significant, and if the Commission were  
8 to come to the conclusion that the cost per call of \$7.87 is  
9 important and significant, would that then rise to your  
10 level of satisfaction so that now everything's prudent?

11 A. Are you asking me if I'm -- I'm not sure if I  
12 understand that question.

13 Q. I'm asking you the question about the cost per  
14 call criteria now. That if we get to the point where the  
15 Commission is convinced that the cost per call is the  
16 appropriate measure and they're convinced that it has been  
17 calculated properly and if they are convinced that it has  
18 declined --

19 A. Are you asking me to --

20 Q. -- what do you have left to disagree about?

21 A. Are you asking me if that -- if I would refute  
22 a Commission's ruling based on this or -- I don't understand  
23 what you're asking me.

24 Q. I'm asking you would you at that time agree  
25 that the investment and the operating costs are prudent?

1           A.       The Staff will abide by any ruling that the  
2 Commission makes.

3           Q.       All right. Now, I promised you you'd get to  
4 the AWR call, so let's get there. Your argument with  
5 respect to the AWR calls is that this -- this number of  
6 calls which is -- we'll stay with the 521,529 instead of the  
7 annualized cost because that adds some judgment to it, and  
8 we'll stay with the 521,529 off Exhibit 114.

9                   Now, you say that it's not fair to count all  
10 of -- and tell me if I'm mischaracterizing. You're saying  
11 it's not fair to count all of those as calls to the call  
12 center because some of those are attributable to this -- to  
13 the affiliated -- affiliate's service line program and not  
14 properly regulated?

15          A.       That's correct. And that's based upon my  
16 experience with calling the call center, and also with my  
17 experience of calling the AWR number, call number that's  
18 identified separately on its invoice. And if you would like  
19 me to go through that with you, I'd be happy to.

20          Q.       No, sir. I read your testimony. I understand  
21 it perfectly. I have no reason to discount what you said.

22                   Are you aware of the fact that there are  
23 different phone numbers?

24          A.       Yes, I am.

25          Q.       That there's a phone number on the water bill

1 that gets you into this system I'm holding up, Exhibit 112?

2 A. Yes, I am.

3 Q. And then there's a phone number on the  
4 advertisements that go to the customers that are different,  
5 effectively two different numbers on there?

6 A. That's correct.

7 Q. So you're not concerned about the numbers of  
8 the people who get the flyers and call that number, that  
9 doesn't trouble you because that doesn't get to this, right?

10 A. I am concerned about that.

11 Q. How does that number get to this? If they  
12 call the special number on the mailer, how does that get  
13 into this 521,529 number?

14 A. Because last night I called that number, and I  
15 received a customer service representative, and that  
16 customer service representative answered questions about my  
17 bill. How can an AWR phone number be able to answer  
18 questions about my bill?

19 Q. Well, how do you know you were not talking to  
20 an AWR paid employee?

21 A. Because AWR representatives shouldn't have  
22 access to my account information.

23 Q. They called up your account information and  
24 that's what --

25 A. Yes, they did.

1           Q.       -- that's what troubles you?

2                    Are you under the impression that if you go in

3 through the normal phone number here and go through -- I'm

4 showing you Exhibit 112 and you go down through this tree,

5 that when you get -- if you go through the appropriate

6 prompts and you get to the water line protection plan

7 person, that that is an AWR person?

8           A.       Are you referring to the schematic now?

9           Q.       Yeah. The one that you put into evidence.

10          A.       And what is your question again?

11          Q.       This person at the bottom right here who's the

12 person that troubles you is an AWR employee. Are you aware

13 of that?

14          A.       I will tell you that I have made that -- gone

15 through that call sequence on two occasions and received a

16 customer service representative who answered specific

17 questions about my bill.

18          Q.       You're not following me. If you were to call

19 in to this system and you were to go to prompt 4, other

20 inquiries --

21          A.       Right.

22          Q.       -- and you moved down to the next one and then

23 you prompt again to other inquiries?

24          A.       That's correct.

25          Q.       And you prompt again down to water line

1 protection program, that according to your color coding  
2 here, if I can read this, denotes -- what does that denote,  
3 special service, general service, other skill? Are you  
4 under the impression that that's an MAWC employee there  
5 answering that question?

6           A.       I believe that's supposed to be an AWR  
7 employee.

8           Q.       Okay.

9           A.       But as I've said, I just stated, I've called  
10 that -- gone through that call sequence on three occasions.  
11 Twice I received a customer service representative who could  
12 answer specific questions about my bill.

13          Q.       Okay. This is helpful.

14          A.       On one occasion I did receive an AWR employee  
15 who identified his name as Carrie.

16          Q.       So the calls that go to the AWR person  
17 directly or the calls that get down here to this person,  
18 that's not what troubles you. What troubles you are calls  
19 that go to MAWC customer service and get treated as AWR  
20 problems?

21          A.       What troubles me is calls that come into --  
22 the fact that I have called through this schematic and  
23 selected Item 1 and indicated that I was interested in  
24 speaking to someone about the AWR program, and the person  
25 that answered Item 1 on two -- on two different people, on

1 two different occasions I made that call to Item 1, and both  
2 times those employees answered all of my questions about the  
3 AWR program.

4           I'm aware that, based on my tour of the call  
5 center facility in July of 2003, that a service company  
6 employee at the call center told the Staff that all customer  
7 service representatives have a copy of all mailings to the  
8 customer. This include -- this included all of the AWR  
9 mailings that went to the customer. Why would customer  
10 service representatives need all of those mailings unless  
11 they're answering questions about AWR?

12           I have had this experience twice of calling  
13 the billing account info credit number identified there and  
14 had customer service representatives answer all of my  
15 questions about AWR.

16       Q.       So your allegation is that the company is not  
17 telling the truth about isolating the AWR services and that  
18 they are, in fact, handling all of the AWR services through  
19 the customer service number?

20       A.       I'm suggesting that AWR calls are being  
21 supplemented by customer service representatives, given that  
22 last night I called the AWR number, which is 1-866-430-0819.  
23 That's the AWR phone number, and I -- the first thing that I  
24 got was, give me your name, give me your account number and  
25 give me your Social Security number, and then I was -- I

1 spoke to a customer service representative named Carrie, and  
2 I asked that customer representative what was the usage on  
3 my bill from the last quarter, and I asked what my account  
4 balance was on that last -- what the bill was for that last  
5 quarter, and she identified all of that for me.

6 Q. So you think that's routine or an anomaly,  
7 what are you suggesting?

8 A. I think that that is something that takes  
9 place, that -- that given if that is supposed to be AWR's  
10 number, there should be no way in any way that I should be  
11 able to access customer information such as my usage and my  
12 bill amount through an AWR phone number.

13 Q. All right. So then your point -- and I have  
14 no reason to disbelieve what you're saying that that  
15 happened. If that indeed happened, then we have concern  
16 about those number of calls and we need to quantify that  
17 number?

18 A. That's correct.

19 Q. All right. We're not concerned about the  
20 numbers that are handled appropriately; that is to say the  
21 numbers that go to the separate number and it goes straight  
22 to AWR. That doesn't matter, correct, since they pay their  
23 own office space and have their own employees?

24 A. What part of AWR are you asking about?

25 Q. We're trying to get to a number of calls that

1 you think should be subtracted from this 521,529 that is  
2 reasonable to subtract from that for either this  
3 misappropriation of technology or mistake or whatever you've  
4 just described. We're trying to get to the calls -- that  
5 number of calls plus the number of calls from people who  
6 dial the wrong number by dialing from their water bill or  
7 whatever. Those people you're saying are not properly  
8 included in this number, and I'm trying to concede that to  
9 you if we can quantify it reasonably.

10           A.       Okay. And I will tell you what numbers I  
11 think could be included that you have that are in addition  
12 to what you believe to be the number. And I think that the  
13 number Mr. Van Den Berg is trying to identify is that box  
14 down there under other inquiries says water line protect. I  
15 think that's what Mr. Van Den Berg is trying to identify.

16           Q.       I'm sorry. What are you pointing to?

17           A.       The schematic is 112?

18           Q.       Yeah.

19           A.       Right here (indicating). I believe that's  
20 what Mr. Van Den Berg is attempting to identify. Now, he  
21 hasn't identified anybody who would call the first call  
22 treatment, the second, the third or the rotary choice.

23                    If a customer has a rotary telephone and  
24 they're calling the call center with regards to American  
25 Water Resources questions, they have no choice but to speak

1 to a customer service representative. If a customer had a  
2 leak, wouldn't it be reasonable for that customer to hit the  
3 No. 3, the emergency option?

4 Q. It's not only reasonable, it's expected. Are  
5 you under the impression that only customers with the  
6 service line protection plan should have access to the  
7 company's normal call-in number in the situation of leaks?

8 A. No, I'm not suggesting that.

9 Q. You do understand that that's routine and has  
10 been for decades, that when you get a leak, you call  
11 customer service?

12 A. That's correct.

13 Q. And it's the company's obligation to determine  
14 whether or not it's on the service line or on the main,  
15 because they're worried about the main. You know that's  
16 routine?

17 A. That's routine, but then also there are  
18 situations like I've identified, where I've called the  
19 billing department who's supposed to be customer service  
20 representatives who only answer questions about the bill  
21 because, as the company has said, we've got this separate  
22 phone number for AWR and we've got this little circuit over  
23 here, this -- what is it -- switch that they've attempted to  
24 identify the cost -- the calls that come through that  
25 switch, but that can't be measuring what's coming through

1 one, it can't be measuring the rotary people, it can't be  
2 measuring the fact that I called AWR expecting to get an AWR  
3 employee and instead got a customer service representative.

4 Q. Now, we agree, do we not, that the maximum  
5 number of calls is, what, 82,000 that could possibly be  
6 associated with the AWR program, since they're the only ones  
7 that got the mailing?

8 A. Where are you referencing that number?

9 Q. It's on one of Mr. Van Den Berg's exhibits.  
10 It's the 112 customers minus the tenants, the commercials,  
11 the highrises, it's 82,000 or 84,000 people got the  
12 mailings. And Mr. Grubb testified on the record this  
13 morning -- he put it in early on the record this morning in  
14 response to a question.

15 A. I have a Data Request that suggests that the  
16 AWR program was offered to all non-St. Louis district  
17 customers.

18 Q. That has since been clarified both in exhibits  
19 and on the record. Mr. Grubb said this morning that it was  
20 82 or 84, if someone could refresh my memory.

21 A. But that is less than what all non-St. Louis  
22 district customer totals would be.

23 Q. Yes, it is because it excludes tenants --

24 A. Okay.

25 Q. -- and commercial and apartments.

1           A.       Okay. I missed that.

2           Q.       So the -- if every single person called, it  
3 would be, let's say, 84, for lack of the ability to call up  
4 the number, in 2000, you agree, or do you contend that some  
5 people called twice?

6           A.       If that -- I would agree that 83,000  
7 represents the number of customers who would call, potential  
8 to call the call center with AWR-related calls.

9           Q.       We know there's a separate number, and  
10 notwithstanding your experience with that number where you  
11 were transferred for some reason to the main customer  
12 service department, we know that there's a separate number  
13 that is supposedly routed directly to the AWR employee. We  
14 don't care about that, because that doesn't -- should not  
15 show up in these numbers.

16          A.       If you're saying if you call the AWR number  
17 and got an AWR employee --

18          Q.       So that should come off the 83,000. What  
19 other -- I mean, Mr. Van Den Berg put forth an exhibit this  
20 morning saying he thought a reasonable number of calls to be  
21 anticipated would be less than 300 -- you obviously think  
22 that's low -- that might work its way through this system?

23          A.       I believe it's low.

24          Q.       What number?

25          A.       I also believe it doesn't address, as I said,

1 all the other options where customer service reps answer  
2 calls about AWR. And I will say that, based on my  
3 experience in talking with -- at least based on my  
4 experience in talking with five different customer service  
5 representatives, being all five of those representatives  
6 were very knowledgeable about the AWR program, were able to  
7 answer all of my questions in terms of what it cost, how I  
8 would have to make payments, how I would have to make  
9 statements through the AWR with the AWR application, and  
10 that they would mail me an application explaining what was  
11 covered by the program, all of the details of that program  
12 they were knowledgeable about.

13 Q. All right. So now we have Mr. Van Den Berg's  
14 testimony, which are -- you kept calls of. All right. And  
15 we had a maximum of 83,000, and we agree that there should  
16 be some impact on this number that's being charged as  
17 calling in determining the cost per customer for the  
18 services of the regulated customer.

19 How do we get to that number? What's your  
20 recommendation? What number do you -- what's a reasonable  
21 number to subtract from this and how would you calculate it?

22 A. I don't have access to AWR or the service  
23 company call center's records. I've asked for that  
24 information and haven't gotten it. So I don't know. I  
25 don't know what -- I don't know how to calculate that.

1                   MR. CIOTTONE: Your Honor, may I have a  
2 moment?  
3                   JUDGE THOMPSON: You may have a moment.  
4                   (A BREAK WAS TAKEN.)  
5                   JUDGE THOMPSON: We'll go ahead and adjourn  
6 for the day at this time, and we will resume tomorrow at  
7 8:30 in the morning. Mr. Ciottone will continue his  
8 examination of Mr. Cassidy at that time. This also permits  
9 Commission Staff to get into the room after the hearing to  
10 do that and do their functions, so that we're adjourned.  
11                   WHEREUPON, the hearing of the case was  
12 recessed until December 19, 2003.

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