

1 STATE OF MISSOURI
2 PUBLIC SERVICE COMMISSION

3
4
5 TRANSCRIPT OF PROCEEDINGS

6 Hearing

7 December 19, 2003
8 Jefferson City, Missouri
9 Volume 16
10

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

16 KEVIN A. THOMPSON, Presiding,
17 DEPUTY CHIEF REGULATORY LAW JUDGE.

18 STEVE GAW, Chair
19 CONNIE MURRAY,
20 BRYAN FORBIS,
21 ROBERT CLAYTON,
22 COMMISSIONERS.

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1 P R O C E E D I N G S

2 JUDGE THOMPSON: We'll go back on the record.

3 Let's see if I can remember how to watch my
4 TV program here. There we go.

5 Okay. Mr. Cassidy, I'll remind you you're
6 still under oath and, Mr. Ciottone, you are inquiring.

7 MR. CIOTTONE: Thank you, Your Honor.

8 JOHN CASSIDY, having been previously sworn, testified
9 as follows:

10 CONTINUED CROSS-EXAMINATION BY MR. CIOTTONE:

11 Q. Good morning, Mr. Cassidy.

12 A. Good morning.

13 Q. Recapping, to the extent that I may -- and
14 please correct me if I'm wrong -- I think when we
15 finished yesterday afternoon, we were discussing the
16 components and the legitimacy of Mr. Van Den Berg's
17 calculation of the as-is costs of operating the call
18 center, and we were also discussing the as-is number of
19 calls, correct?

20 A. I believe that's correct.

21 Q. All right. Let's -- let's start first with
22 the as-is calculation of the costs. And I think the --
23 the -- where we're -- what we are actually working off
24 of is Exhibit 114 -- Exhibit 114, which is the updated
25 DR Response 110, and Mr. Van Den Berg's calculation of

1 the pro forma call center cost being 3,223,228, okay?

2 A. Yes.

3 Q. All right. Now, I think we started and -- and
4 you -- you say that is not a reliable number, correct?

5 A. I say that there -- it is not -- it has not
6 been annualized to reflect the effective -- Kentucky
7 and Tennessee, that is correct.

8 Q. All right. Now, was -- was it Kentucky and
9 Tennessee?

10 A. Yes, Kentucky and Tennessee, and Indiana will
11 also be transitioning in the near future.

12 MR. CIOTTONE: All right. Now, one of the
13 questions I had -- you realize that -- where that
14 number comes from -- that number comes from an
15 annualization in Mr. Van Den Berg's

16 Schedule AJV-3 -- well, let -- let me make this easy
17 on you. May I have -- may I approach, Your Honor?

18 JUDGE THOMPSON: You may.

19 MR. CIOTTONE: I have an exhibit.

20 THE WITNESS: Okay.

21 JUDGE THOMPSON: One here, and I guess one at
22 the end. You probably should put one in the middle, in
23 case we get a Commissioner before this is all over.

24 MR. CIOTTONE: Does everybody --

25 JUDGE THOMPSON: Okay. This will be

1 Exhibit -- let me shuffle my papers here -- 115.

2 THE WITNESS: Can I make a comment about this
3 schedule?

4 JUDGE THOMPSON: Sure -- well, no wait. You
5 can't.

6 MR. CIOTTONE: I think we would designate this
7 annualization data.

8 JUDGE THOMPSON: Okay.

9 (EXHIBIT NO. 115 WAS MARKED FOR IDENTIFICATION
10 BY THE COURT REPORTER.)

11 JUDGE THOMPSON: Very well.

12 BY MR. CIOTTONE:

13 Q. All right. Now, Mr. -- Mr. Cassidy, you've
14 been handed what has been marked as Exhibit 115. Now,
15 page 1 -- the first page of that is already in evidence
16 as a -- as a schedule to Mr. Van Den Berg's testimony,
17 so you have seen that before, have you not?

18 A. That is correct.

19 Q. All right. Now, I -- I believe I asked you
20 yesterday when we started our discussion about the
21 elements comprising the 3,223,228, that is shown on
22 here and that is a derivative of the 1,611,614.

23 And I asked you -- and maybe you misspoke or
24 maybe you meant to say it -- I said that 3,223,228 is
25 an annualized number, and you said, no, it's not.

1 Did you mean to say that it's not annualized
2 or you just disagree with the way it was annualized?

3 A. I -- I disagree with the way it was
4 annualized.

5 Q. All right. So -- so we do agree that that is
6 an annualized number, and we do agree that that is the
7 actual bills from May to September, those six months,
8 annualized over 12 months?

9 A. That is correct.

10 Q. All -- all right. And now, your -- your
11 disagreement with that -- and correct me if I'm
12 wrong -- is that you think the -- the latter six months
13 in the year are likely to be significantly different
14 and, therefore, an annualization of the first
15 six months is inappropriate?

16 A. No, that's not -- not my disagreement. My
17 disagreement is that you've taken a six-month period.
18 And for Tennessee you haven't -- and -- reflected the
19 effect from May through August of -- for the change
20 that occurs when -- when Tennessee trans-- transitioned
21 to the call center.

22 And then for Kentucky you haven't taken into
23 account the effect from May through October 20th, 2003
24 for the effect of when Kentucky transitioned to the
25 call center. And then this effect is multiplied by

1 two.

2 Q. All right. Now, Tennessee came on line
3 July 20th, true?

4 A. The schedule I saw showed it coming on as
5 August 4th. But if you say July 20th, I -- I don't
6 know what your source for that is --

7 Q. All right.

8 A. -- but I'll agree with that.

9 Q. All right. Why then would you think that
10 that's not reflected in the bills for July and August
11 and September?

12 A. I -- I -- I believe it probably would be
13 reflected in -- in the August bill.

14 Q. All right. Then I'm -- I'm not following you
15 with respec-- I understand you want to talk about
16 Kentucky and Indiana. But you said the annualization
17 is inappropriate, because it does not include the
18 changes from when Tennessee came on, but it does, in
19 fact, does it not?

20 A. It does from the point in time that it came
21 on, but it doesn't include -- doesn't recalculate what
22 the service company bills would have been prior to when
23 it came on.

24 Q. But we're trying to find what actual bills are
25 here.

1 A. That's -- you'd have to look at this adju--
2 that's what you're trying to find, but you have to look
3 at this adjustment like a payroll annualization. You
4 can't just take a year's time, and then if a pay raise
5 took place halfway through the year and included half
6 the year as -- with the pay increase and the other half
7 of the year on adjusted -- that wouldn't reflect an
8 annualized level.

9 Q. All right. So -- okay. Using your metaphor
10 or your analogy one step further, you're assuming
11 that pay raise -- you're assuming that when a state
12 comes on, there's an increase in cost?

13 A. That's -- that's correct.

14 Q. All right. So then even though Ten-- the
15 bills for Tennessee are indeed reflected and the change
16 to the extent that it may or may not have happened is,
17 in fact, in those bills from May to October, you're
18 saying it doesn't appear to a large enough extent to
19 represent how it -- its impact on the entire year?

20 A. Tennessee is not reflected from May through
21 October. Tennessee is reflected from -- what you state
22 is July 20th. It's reflected from that point through
23 October. It's not -- it has not been restated for the
24 time prior to July 20th.

25 That -- and that part prior to July 20th is

1 multiplied by two. So that's the part that hasn't been
2 restated.

3 Q. So your -- your point would be that when
4 Tennessee came on, there was -- and you're assuming
5 there was an increase in cost, as would affect the
6 allocation to Missouri?

7 A. If Tennessee comes on, I -- I would -- I would
8 say that it's a reasonable assumption to believe that
9 that would increase the cost.

10 Q. And you take that same reasonable assumption
11 and apply it to your concerns about Kentucky coming on?

12 A. That is correct.

13 Q. And Kentucky was due to come on when?

14 A. I -- I believe the documentation I have, and
15 I -- I can look it up if you'd like, but I believe it
16 stated that Kentucky transitioned on October 20th,
17 2003.

18 Q. That -- that matches my information, too.

19 So then you would expect that the -- that the
20 bills to Missouri-American for the month of October and
21 the month of November, after Kentucky had transitioned
22 on, should be significantly different. That's --
23 that's your concern?

24 A. My concern is that, yes, there would be an
25 impact on Missouri's bills, and I believe that the

1 impact would be that now Kentucky and Tennessee would
2 be carrying their fair share burden of the fixed costs.

3 Q. And logically how would that impact on
4 Missouri? Are you suggesting there would be increased
5 overhead?

6 A. I don't know what the impact on Missouri would
7 be, but there would be an impact.

8 Q. All right. So what would -- what would happen
9 to your theory if -- your theory, being that the
10 annualization using actual bills for six months
11 annualized for twelve is defective, because Kentucky is
12 going to come on and did, in fact, come on in October
13 and -- and -- and that's gonna change things, what
14 would happen to that theory if, when Kentucky came on,
15 it didn't change things?

16 A. I -- can you -- I -- I don't know that I
17 followed your question. I'm sorry. Could you --

18 Q. What would happen to your theory -- your
19 concern -- as you're expressing it to the Commission,
20 is that you would prefer that we use estimates made by
21 Mr. Grubb about what the costs -- he thought the costs
22 were gonna be -- that's from the DR 110?

23 A. No, I -- I don't agree with that. I -- I say
24 that we should take the costs that Mr. Grubb said were
25 the costs at the time that the -- that -- you have to

1 look at the facts at the time that making the decision
2 at the call center was formed. When that decision was
3 made, you take those costs and look at the costs of
4 what they were at that time.

5 And in addition to that, I've also allowed
6 those costs to be trued up to current costs.

7 Q. All right. So now -- and the Company is -- is
8 suggesting that now if you have current actual data, it
9 would be fair, equitable and certainly more appropriate
10 to use that. You wouldn't disagree with that if the
11 actual data met your standard of accuracy?

12 A. I would disagree with that, because by doing
13 that, you're looking at -- you're -- you're attempting
14 to justify the decision to join the call center by
15 looking at the current facts, as you believe them, and
16 trying to apply them to the time when the decision was
17 made.

18 Q. You don't want to use actual data of what
19 actual costs are? That troubles you?

20 A. What troubles me is you can't use the current
21 facts and apply it to the time when the decision was
22 made to join the call center.

23 Q. What -- but, sir, forgive me. I -- this is
24 turning into a bat-- debate, rather than question and
25 answer. But I'm trying to focus you on the question.

1 We're talking about what the costs are. This
2 is a comparison to as-was and as-is cost. So we're
3 trying to determine for this Commission what the as-is
4 costs are of operating this facility so that they can
5 look at the -- come to a conclusion about what the
6 cost-per-call service is.

7 Now, doing that, whether you feel that's an
8 appropriate thing to do or not -- doing that, isn't it
9 appropriate in analyzing the as-is cost to look at the
10 most current actual known costs that we have?

11 A. Ignoring my previous answer, as you've said,
12 yeah, it -- you -- yes, you would --

13 Q. Actual data?

14 A. You would want to look at the actual costs.

15 Q. All right. Now, again, I -- forgive me, but
16 we've got to stay on track here.

17 The actual data that the Company is presenting
18 is actual data for six months per bills and you -- you
19 know that those bills are accurate, the May through
20 October bills?

21 A. The bills -- I -- I have no reason to dispute
22 the amount of those bills. But as I've stated earlier,
23 they need to be restated.

24 Q. All right. Now -- and your concern is you're
25 saying Kentucky is going to come on on October 20th,

1 and that's gonna corrupt the annualization -- that's
2 gonna prove that when another state comes on,
3 Mr. Van Den Berg's annualization, which is taking
4 six months and applying it to twelve, is faulty?

5 A. Because Mr. Van Den Berg has failed to restate
6 the costs for the change of bringing on Kentucky's
7 additional 101,000 customers.

8 Q. And the entire basis of your concern is that
9 when Kentucky comes on, the costs are gonna go up, and
10 they're not properly reflected now -- that's your
11 position?

12 A. No, that's not the entire basis of my concern.
13 The entire basis of my concern is --

14 Q. I didn't ask you if it was the entire basis.
15 I know you have --

16 A. I -- I --

17 Q. -- a lot of other concerns.

18 A. I believe you asked me if that was the entire
19 basis of my concern.

20 Q. All right. Go ahead.

21 A. So the -- the entire basis of my concern is
22 that you're -- is that you're attempting to use current
23 facts and applying them to the point in time when the
24 call center was -- when the decision was made to form
25 the call center and the decision was made to join the

1 call center.

2 Q. Well, how do you -- forgive me, but I'm
3 sitting here explaining to you what I'm trying to do
4 and you're trying to tell me I'm trying to do something
5 else.

6 I'm not looking at when the decision was made.
7 I'm loo-- what we're talking about here, sir, is the
8 as-is cost now. We're not looking about -- back when
9 the decision was made.

10 You've done that in your testimony and you
11 think that's appropriate. You have to look at what I'm
12 looking at with you now. Here, now, we're looking at
13 the as-is costs, all right? Are you with me?

14 A. I -- I follow your logic, but that's not
15 something I agree with.

16 Q. I -- I understand. But unfortunately you're
17 not --

18 JUDGE THOMPSON: That's why you have to answer
19 the questions he asks you.

20 BY MR. CIOTTONE:

21 Q. Now, again, one more time, your -- your reason
22 for stating that the annualization -- if we are trying
23 to tell this Commission what the actual costs are of
24 operating the call center now so that we can derive
25 from that a cost per call, because that's a critical

1 element, and we're trying to present the actual costs,
2 we have presented six months of actual bills
3 annualized.

4 You agree that the six months of annual bills
5 are corr-- are -- correctly represent what the bills
6 are?

7 A. That is correct.

8 Q. Now you're troubled about the annualization,
9 because you think the later six months will be
10 different and that the annualization is not reliable?

11 A. I'm troubled that the six months need to be
12 restated. That -- that the fixed costs need to be
13 spread across Tennessee's and Kentucky's customers for
14 an entire twelve-month period.

15 Q. And you -- and -- and your premise is -- your
16 suspicion is that when Kentucky comes on or came on on
17 October 20th, that the costs will go up and, therefore,
18 Mr. Van Den Berg's annualization will have been
19 incorrect?

20 A. The costs will -- the costs will go up for
21 who?

22 Q. Missouri.

23 A. If you spread -- I believe that if you spread
24 those fixed cos-- costs across Kentucky's customers,
25 that Missouri may be allocated less costs.

1 Q. Let's -- well, wouldn't that be a good thing?
2 If Missouri was allocated less costs, then
3 Mr. Van Den Berg's annualization would be too high and
4 the actual costs would be lower?

5 A. That -- that's what that assumption would make
6 and -- and the comp-- that would mean that the
7 Company's annualized level is too high.

8 Q. So if -- if the Company's annualized level of
9 cost goes down, then the cost per call to the customers
10 goes down?

11 A. That's -- that's -- that's the Company's
12 position with which I do dis--

13 Q. Well --

14 A. -- disagree.

15 Q. Well, but you have surprised me here, sir, so
16 let's get very clear on this. I thought your position
17 was that the Company's calculation of the cost per call
18 was faulty, because the Company was understating the
19 actual costs of operating the call center.

20 And now you're suggesting that the Company is
21 understating the actual costs of the call center?

22 A. No. The Company is overstating the costs of
23 the call center to Missouri.

24 Q. All right. I -- you've got me very confused
25 here now. I have to do this again. This is redundant,

1 but I have no idea what your position is.

2 You -- you -- we have agreed that the
3 six months of data is accurate?

4 A. That's correct.

5 Q. Mr. --

6 A. The bills are correct.

7 Q. Mr. Van Den Berg annualized that for
8 twelve months?

9 A. That is correct.

10 Q. You -- you -- you disagree with his
11 annualization because you think the -- the latter
12 six months, which his annualization assumption assumes
13 will be reasonably repetitive of the first six -- you
14 disagree with that annualization, because you said
15 Kentucky is going to come on in October, and that's
16 gonna change things?

17 A. Kentucky came on during the time that he
18 annualized. That -- that has not been restated for the
19 entire twelve-month period, as if it had been on for
20 the entire twelve-month period.

21 Q. So -- but if Kentucky comes on and it lowers
22 the cost to Missouri, then the annualiza--
23 annualization is overstated, and the costs to Missouri
24 are going to go down; is that your belief?

25 A. But they are -- that -- that is the Company's

1 position, but it -- it does not reduce the cost that's
2 been allocated to Missouri previously -- or the costs
3 that were -- Missouri had previously.

4 Q. We're looking at the as-is cost -- trying to
5 determine what the Company's as-is costs are. Is it
6 your position that Mr. Van Den Berg's calculation of
7 that, as appears on DR 110, is too high or is too low?

8 A. Mr. Van Den Berg's calculation of 4,102,000
9 would be too high.

10 Q. Too high.

11 And that's because when Kentucky comes on, the
12 allocation in Missouri will go up?

13 A. The allocation to Missouri should go down.

14 Q. If the number -- if the cost to Missouri goes
15 down, then will not Mr. Van Den Berg's annualization
16 prove to have been too high, since it did not reflect
17 the reduced cost?

18 A. Missouri would be assigned less cost if
19 Kentucky is picking up more of the fixed cost, if
20 Tennessee is picking up more of the fixed cost. So the
21 amount that's identified in 3,223,228 would be a number
22 that's too high.

23 Q. All right. Do you agree or do you know what
24 happened when Kentucky came on?

25 A. I haven't attempted to annualize that affect.

1 Q. Do you know what the -- what the monthly bill
2 was to Missouri after Kentucky came on?

3 A. No, I do not.

4 Q. All right. Let me dir-- direct your attention
5 to Exhibit 115, because there it is. If you'll look at
6 the last page --

7 MR. BATES: Your Honor, at this point I -- I
8 think I'd like to object. I don't believe that any of
9 this -- I don't believe that any of this has been even
10 pre-filed in testimony, with the exception of the first
11 page of Exhibit No. 115.

12 THE WITNESS: That's correct.

13 JUDGE THOMPSON: So?

14 MR. BATES: So, therefore, the witness hasn't
15 had a chance to study it, and there's no foundation for
16 it.

17 MR. CIOTTONE: Well, Your Honor --

18 JUDGE THOMPSON: There doesn't have to be
19 until he offers it. He can -- he can cross-examine a
20 witness about anything.

21 MR. BATES: But --

22 JUDGE THOMPSON: The witness can say I don't
23 know what this is if, in fact, that's his response.
24 But in Missouri you can -- you can offer anything to a
25 witness and inquire about it.

1 So I'm gonna overrule that objection.

2 BY MR. CIOTTONE:

3 Q. All right. Mr. -- Mr. Van-- or

4 Mr. Van Den Berg -- Mr. Cassidy, you've seen page 1?

5 A. I -- I have seen page 1.

6 Q. All right. Now, page -- the -- the next
7 three pages, which were the actual bills for August,
8 September and October, have you seen those? Those were
9 in Mr. Van Den Berg's workpapers. Did you look at them
10 through DRs?

11 A. I -- I don't recall seeing these.

12 Q. Did you look at any of the actual bills from
13 the service company to the Company?

14 A. I looked at actual service bills, I believe,
15 throughout the test year.

16 Q. So you -- you have not seen these bills?

17 A. I don't recall seeing these bills.

18 Q. Do you have reason to believe that these bills
19 are in any way misstated?

20 A. As I've said, I -- I've had -- I don't -- have
21 no reason to believe they're misstated, but I haven't
22 seen them.

23 Q. All right. Well, let me then ask you in the
24 form of a hypothetical question. I -- I -- assuming
25 that these are the actual bills, because they, in fact,

1 correspond and -- and if used arithmetically will, in
2 fact, produce Exhibit AJV-3, which is in evidence.

3 And if that is indeed November's bill to the
4 Company after Kentucky came on on the 20th of October,
5 you can see from that on the bill to the Company that
6 the monthly bill is 324,463 as compared to October's,
7 which was 344,464.

8 So this substantiates, if I understand your
9 position, which I am having a great deal of difficulty
10 doing, that when Kentucky came on, the actual billing
11 costs to the Company went down?

12 A. Are you -- are you saying that in -- in
13 October Missouri had 344 and in November it was 324?

14 Q. That's what I'm saying.

15 A. That's what this -- that's what this doc--
16 these documents show.

17 Q. All right. Now, if I understand you
18 correctly, that's not unexpected to you, because at
19 one time in our recent exchange here, I thought you
20 said that was likely?

21 A. Yes, that's correct. Because fixed costs
22 would be now being spread across Kentucky's customers.

23 Q. So when additional companies come on, then the
24 costs to Missouri will change and not necessarily
25 increase -- it'll be -- the annualization will change,

1 but your suggestion yesterday was that when a company
2 comes on, the costs to Missouri will be exorbitantly
3 increased and -- or significantly increased, thus that
4 Mr. Van Den Berg's annualization number is faulty and
5 not worthy of reliable treatment?

6 A. I don't believe that's what I said yesterday.

7 Q. All right. Tell me now -- now that we know
8 that when Kentucky came on, which was one of your
9 expressed concerns -- and now that we know Tennessee's
10 already on, what is your concern now about just the
11 reliability -- just the reliability of that number, not
12 whether it should be used and how -- and whether it's
13 significantly related to what was projected.

14 I'm asking you about the reliability of that
15 number that this Commission could say, yeah, that's a
16 reasonable representation of what the Company's costs
17 of operating that call center are.

18 What's your concern about that, now that you
19 know you have annualized actual bills from May to
20 October -- you even had another actual bill after
21 Kentucky came on and its lower -- now tell the
22 Commission why they should not accept that
23 annualization as being reasonable?

24 A. Are you saying why they should not accept the
25 4,102,000?

1 Q. Why they should not accept the -- well,
2 actually the 3,223,000, but the 4,000,102 falls out of
3 that there -- the 3,223,228.

4 A. Because the 3,223,228 -- are you saying the
5 entire position that I have as to why that number
6 should not be used?

7 Q. No. That is not what I'm saying.

8 Let me try you one more time, because I know
9 you want to state your position. I respect that. And
10 you've had your opportunity and you certainly will
11 again.

12 I'm asking you -- I'm trying to give this
13 Commission a number that they can say is a reliable
14 representation of what the as-is costs of the call
15 center are. What they do with that, you can argue and
16 your lawyers can argue with them about that.

17 I'm trying to get them to believe that number
18 is reliable and you have suggested --

19 MS. O'NEILL: Your Honor, I'm gonna object.
20 This is argumentative and speechmaking at this point.
21 I think that Mr. Cassidy has offered numbers -- a lot
22 of numbers in the last day, and I think it's probably
23 been asked and answered if we ever get to a question.

24 So if I may object on that as well.

25 JUDGE THOMPSON: Objection is overruled.

1 Please proceed.

2 BY MR. CIOTTONE:

3 Q. All right. Do you -- do you understand what
4 we're doing here?

5 A. I -- I think I understand what you're wanting
6 me to do is to ignore my position and say why this
7 number is not correct.

8 Q. I want you to -- I want you to tell the
9 Commission -- I'm telling them -- I'm suggesting to
10 them that this is a reliable number. I'm sugge-- and
11 I -- I -- you have raised objections to its
12 reliability.

13 A. That's --

14 Q. I have met those objections. And now I'm
15 asking you to tell me if you have others.

16 A. I don't --

17 Q. Why that number is not a fair and reasonable
18 representation of what the costs of operating the
19 service center in that year -- in the year 2003 are.

20 A. I do not believe you have met my objections
21 about the use of these service company bills. Because
22 as I've stated, they do not reflect a full year's
23 impact of restating those bills from when Kentucky
24 joined and from when Tennessee joined.

25 You have to restate the pr-- the months prior

1 to when they joined for the effect of their joining in
2 spreading the fixed costs across their customers.

3 Q. So the annualization will change -- even
4 though one month goes down, as November did, the
5 annualization will change?

6 A. The annualization is just not correc--
7 correctly calculated, as I've said. You -- you need to
8 restate the prior months for when they joined.

9 Q. How do you do an annualization? If you have
10 seven months of data and you -- and you want to
11 annualize seven months of data, how do you do it
12 arithmetically?

13 A. There's a number of ways you can do it. Do
14 you -- you have -- if you have only seven months of
15 data, you have to take the data that reflects the
16 ongoing position -- or the ongoing conditions and
17 re-- use that to restate the number.

18 Q. Isn't standard normalization procedure that if
19 you have seven months of data, you add the seven months
20 of data together and you divide by seven months and
21 then you multiply twelve; isn't that standard
22 annualization procedure?

23 A. I -- I don't know that -- I don't -- I don't
24 know if that's standard normalization pro-- procedure.

25 Q. You -- you don't normalize -- you've never

1 normalized that way?

2 A. I -- I would say that in this case you have to
3 restate those prior months.

4 Q. Has the Staff ever used that as a
5 normalization procedure?

6 A. By taking, what, seven months and -- and what?

7 Q. Taking the number of months that you have,
8 adding them together, dividing by that number and
9 multiplying by twelve?

10 A. That's if -- if you assume that those months
11 are correct and that -- that they don't need to be
12 restated, that would be an appropriate way to
13 annualize.

14 Q. All right. Now, we're here -- dealing here
15 with actual bills. Now we have seven months of data.
16 Now, the appropriate way to annualize that, now we have
17 a new month of data, would be add the seven months
18 together, get a conclusion, divide by twelve.

19 It's done for you, sir. It's on the last page
20 of the exhibit.

21 A. I believe that on normalization you -- if you
22 believe that November was a good month, that you could
23 multiply that month by twelve. It would have the
24 effect of both Kentucky and Tennessee's customers in
25 the number.

1 Q. But the num-- but the number is down from
2 October. Why wouldn't you use October's? Why wouldn't
3 you use -- you're suggesting --

4 A. Because --

5 Q. -- that the annualization process is to choose
6 a month, assuming that --

7 A. Because --

8 Q. -- it floats to its maximum?

9 A. Because that month would have the effect of
10 Kentucky and Tennessee's transition included in its
11 calculation of the bill.

12 Q. All right. The an-- let me ask you this then,
13 and we'll -- we'll quit this. The annualization number
14 produced by adding in Kentucky -- the numbers that --
15 by adding in the bill to Missouri-American attributable
16 to Kentucky coming on line did not significantly affect
17 the annualization; is that true?

18 A. It would depend. And as -- if -- if you were
19 to take the November bill and multiply that by twelve,
20 that would give you a \$3,893,556 amount.

21 Q. Is that a --

22 A. Now --

23 Q. -- that's an appropriate annualization
24 methodology to take a single month? Have you ever done
25 that in your Commission auditing experience -- you

1 have -- that you've selected one month of your choice
2 and multiplied it times twelve?

3 A. In the area of revenues, if you have a
4 consistently growing system, you can take the number of
5 customers that occurred in the last month and multiply
6 that.

7 Q. If you have a consistently growing system.
8 Look at the -- look at page 2, the bill for August.

9 JUDGE THOMPSON: Mr. Ciottone, I think taking
10 November and multiplying it by twelve results in a
11 higher figure than the Company has asked for, doesn't
12 it?

13 MR. CIOTTONE: The Company wants -- does not
14 want necessarily the figure to be anything, other than
15 accurate.

16 JUDGE THOMPSON: Okay. Please proceed.

17 THE WITNESS: You asked me to look at August?

18 MR. CIOTTONE: And -- and, Your Honor, that
19 number is not -- it does not -- it's not representative
20 of what the Company is asking for. That number is
21 representative, in fact, of what -- of the calculation
22 producing the cost per call.

23 So the Company is insisting that that number
24 is --

25 MS. O'NEILL: Your Honor, I'm again going to

1 object to Mr. Ciottone testifying without being placed
2 under oath.

3 JUDGE THOMPSON: I think he's answering my
4 question.

5 MR. CIOTTONE: The -- the -- that -- if the
6 Company had its -- its preferences, we'd want that
7 number to be lower. Because then when divided by the
8 number of calls, the cost per call would be down.

9 And it's the Company's position that that's
10 the measure of the efficiency of the call center.

11 JUDGE THOMPSON: Now, I understand. Please
12 proceed.

13 BY MR. CIOTTONE:

14 Q. Now, Mr. Cassidy, you -- you -- you've
15 suggested that I don't think -- or you're not seriously
16 suggesting that an appropriate annualization would be
17 to multiply November by twelve, are you?

18 A. That could be -- that -- that could be an
19 appropriate annualization method, yes.

20 Q. Are you -- are you recommending it?

21 A. I don't recommend annualizing these expenses
22 because of, as I've said before, my position.

23 Q. I -- I -- are you recommending that? That you
24 multiply November --

25 A. That would --

1 Q. -- by twelve?

2 A. That would capture the effect of Tennessee and

3 Kentucky being in. And that's the only month of data

4 you have that represents that.

5 Q. And your theory being that as -- that the

6 costs are increasing continually?

7 A. That's correct.

8 Q. Well, let's look, then, at the exhibit in

9 front of you. Look at the second page -- the bill for

10 August. What -- it's 388,612, correct?

11 A. That's correct.

12 Q. The bill for September -- the next page.

13 A. That's --

14 Q. 387,906?

15 A. Correct.

16 Q. It went down -- minuscule reduction, but it

17 went down. October, 344. It went down?

18 A. That's correct.

19 Q. Now, had not states come on earlier in that

20 year -- Tennessee, for example, had come on?

21 A. Tennessee had come on, but Kentucky also came

22 on during October -- midway through that month.

23 Q. During October, but probably would not be

24 reflected in the October bill. But in -- in any effect

25 the --

1 A. I don't --

2 Q. Given your contention, as companies come on,
3 the bills are going down. How can that be?

4 A. Because Kentucky came on during October. That
5 would explain that reduction.

6 Q. So the bill -- so then why don't we use 344
7 and multiply that times twelve?

8 A. Because that month doesn't have the full
9 effect of Kentucky being on for the entire month.

10 Q. It has Tennessee.

11 A. I agree it does have Tennessee, but it doesn't
12 have Kentucky.

13 Q. And then when Kentucky came on, the 344 went
14 down lower?

15 A. Because that month reflected Kentucky being on
16 for the full month.

17 Q. So your theory that you should use a cost when
18 you -- you -- you could properly annualize by using a
19 single cost in a rising-cost atmosphere, you have a
20 declining-cost atmosphere here?

21 A. I don't agree with that.

22 Q. You don't agree that 387 is higher than -- 344
23 is higher than 324, you -- that you don't agree with
24 that?

25 A. Because those months don't reflect what the

1 effect of having Kentucky on the call center at --
2 during that time.

3 Q. But when Kentucky came on, the number went
4 down.

5 A. When Kentucky came on, it went down because
6 there was a partial effect for Kentucky being in
7 halfway through that month.

8 MR. CIOTTONE: I -- I think we have beaten
9 this to the -- and I'll offer 115.

10 MR. BATES: Your Honor -- Your Honor, at this
11 point I would object for lack of foundation.

12 JUDGE THOMPSON: Okay. Let me -- let me get
13 my form and say all the ritual words here.

14 Okay.

15 MR. CIOTTONE: May I respond?

16 JUDGE THOMPSON: Just a moment, please.

17 Objections to Exhibit 115 -- I hear an
18 objection of lack of foundation.

19 MS. O'NEILL: I would join that objection.

20 JUDGE THOMPSON: Okay. You may respond,
21 Mr. Ciottone.

22 MR. CIOTTONE: Your Honor, I -- I find it
23 terribly interesting, and the Commission should also,
24 that the Company presents actual data in its testimony
25 that -- that was not objected to. The --

1 JUDGE THOMPSON: Was this actual data in the
2 testimony?

3 MR. CIOTTONE: The first six months worth, May
4 through October.

5 MS. O'NEILL: Your Honor, if I can clarify, I
6 object to everything but the first page.

7 MR. BATES: Yes, I -- and I should have been
8 more specific. I do also.

9 JUDGE THOMPSON: That's quite all right.

10 MR. CIOTTONE: Now --

11 JUDGE THOMPSON: Let's -- let's do this
12 systematically. I'm gonna rip the first page off and
13 we're gonna call the first page Exhibit 115.

14 And I understand there's no objection to the
15 first page --

16 MS. O'NEILL: That's correct.

17 JUDGE THOMPSON: -- which is, in fact, already
18 in evidence as a schedule to Mr. Van Den Berg's
19 testimony, right?

20 (No response.)

21 JUDGE THOMPSON: Very well. So we will mark
22 the remaining pages as Exhibit 116.

23 Okay. And I hate to do damage to your
24 Exhibit, but --

25 (EXHIBIT NO. 116 WAS MARKED FOR IDENTIFICATION

1 BY THE COURT REPORTER.)

2 JUDGE THOMPSON: Now, He's offered
3 Exhibit 116, and we've got two inadequate foundation
4 objections, correct?

5 MR. BATES: Correct.

6 MS. O'NEILL: Yes, Your Honor.

7 JUDGE THOMPSON: Okay. So my question then
8 is -- is this data already in evidence?

9 MR. CIOTTONE: No.

10 JUDGE THOMPSON: Okay. And he has testified
11 that he hasn't seen it before, I believe.

12 THE WITNESS: That is correct.

13 JUDGE THOMPSON: And -- and you haven't said
14 that you know for a fact that these are the actual
15 billing figures.

16 THE WITNESS: Given that I haven't seen them,
17 that's correct.

18 JUDGE THOMPSON: Okay. So I think I have to
19 sustain the inadequate foundation objection at this
20 time. Now --

21 MR. CIOTTONE: Can I respond?

22 JUDGE THOMPSON: You can.

23 MR. CIOTTONE: Your Honor, this is -- it's --
24 it's interesting in this respect, that we started off
25 with the actual data that we've all conceded --

1 six months of data that we have conceded as accurate.

2 Then the -- the witness throws up speculative
3 concerns about, well, that may not be what happens in
4 the future. This is not a sporting event. I'm not
5 trying to beat Mr. Cassidy here. I'm trying to arrive
6 at the truth.

7 I'm trying to present the Commission with the
8 actual data so that they can have some confidence in
9 the numbers from which they make their decisions.

10 JUDGE THOMPSON: I -- I understand all of
11 that, Mr. Ciottone. And -- and however desperately I
12 might want this information in the record, I can't
13 allow it in until someone has said, yes, Exhibit 116 --
14 those are the actual billing numbers for the months
15 concerned.

16 MR. CIOTTONE: Then may I present a witness --

17 JUDGE THOMPSON: You may.

18 MR. CIOTTONE: -- who will lay the foundation
19 for this exhibit?

20 And will you withhold your objection until
21 I -- your sustaining of that objection until I present
22 a witness that says, yes, these are the bills we got?

23 Incidentally the first three pages -- or
24 four -- three months of that were in Mr. Van Den Berg's
25 workpapers that were discoverable and they're the basis

1 of that.

2 JUDGE THOMPSON: Well, but discoverable
3 doesn't have to do with admissibility when it's offered
4 at the hearing. So, of course, you know, my ruling as
5 of now is that Exhibit 116 does not come in.

6 I will certainly allow you to present a
7 witness to lay the foundation to get this in at a later
8 time. That could be today. That could be another time
9 during the hearing. I don't care when. But that's the
10 way it's gonna go for -- for now.

11 MR. CIOTTONE: I can work with that. Thank
12 you, sir.

13 JUDGE THOMPSON: Thank you. Are you done with
14 your examination?

15 MR. CIOTTONE: On -- no, sir.

16 JUDGE THOMPSON: And I will also point out
17 that your Exhibit 114, the update to DR 110 has not
18 been offered or received.

19 MR. CIOTTONE: All right. I'll -- I'll offer
20 that.

21 JUDGE THOMPSON: Very well.

22 Do I hear any objections to the receipt of
23 Exhibit 114, the updated DR 110?

24 MR. BATES: None.

25 MS. O'NEILL: No, Your Honor.

1 JUDGE THOMPSON: Very well. Exhibit 114 is
2 received and made a part of the record of this
3 proceeding.

4 (EXHIBIT NO. 114 WAS RECEIVED INTO EVIDENCE.)

5 BY MR. CIOTTONE:

6 Q. Mr. Cassidy, let's move on to the other
7 element of the calculation as-is costs about which we
8 had differences yesterday, that being the number of
9 calls.

10 A. Okay.

11 Q. Now, you have seen Exhibit 107, have you not,
12 that was put in under oath by Mr. Van Den Berg?

13 And I'll show that to you.

14 MR. BATES: I'm sorry. Did you say 107?

15 MR. CIOTTONE: 107.

16 May I approach, Your Honor?

17 JUDGE THOMPSON: You may.

18 MR. CIOTTONE: Okay.

19 THE WITNESS: Okay.

20 MR. CIOTTONE: That's my only copy. Do you
21 have one?

22 THE WITNESS: I have one.

23 Okay.

24 BY MR. CIOTTONE:

25 Q. Now, Mr. Cassidy, we have testimony in

1 evidence from Mr. Van Den Berg that the switch
2 produced -- and that's just an auto-- automated count.
3 The bottom line of that exhibit, actual volume to
4 switch as of December 6th, 2003 is 521,918, which
5 annualizes to 660,104.

6 Now, if I recall, yesterday when I asked you
7 about that, you said, well, I haven't been able to
8 audit that?

9 A. That's correct. I -- I have not been able to
10 audit these numbers. They were just provided to me.

11 Q. All right. How -- how would you go about
12 auditing a switch count? What would you audit?

13 A. There would be some reports that I would be
14 able to look at to determine that they are actual. And
15 I'd be able to look at the trends in those -- those
16 numbers that came from that switch.

17 Q. But this is -- you understand this is a
18 mechanically produced number -- the switch produces
19 this number?

20 A. I -- I don't know what produces this number.
21 That's what this document says, but --

22 Q. So you have no evidence that this is a faulty
23 number, you just have skepticism?

24 A. I haven't been able to audit this number, so I
25 have no opinion of this number. I don't know what this

1 number represents.

2 Q. If -- if the number is accurate and is an
3 accurate representation, as described, would you be
4 troubled by the annualization of the 660,104? Does
5 that arithmetic jump in the annualization trouble you?

6 A. I -- again, I -- I don't know how that number
7 was derived. I have no information.

8 Q. All right. Now, we do understand, do we not,
9 that in -- in the Company's position, which is not
10 yours -- the Company's position that the cost per call
11 is the measure that justifies the expenses in the call
12 center?

13 You understand that that is simply going to be
14 a division of the number of calls into the total
15 operating costs, so this is a critical number. Are --
16 are we on the same page?

17 A. That's -- that's the Company's position.

18 Q. All right. So this number of calls is
19 critical. And I -- what number of calls do you think
20 that -- is an appropriate number of calls to be used?

21 A. I don't believe there is an appropriate number
22 of calls that can be used.

23 Q. Well, you -- you did not consider the number
24 of calls at all at the -- when you determined that the
25 legacy call center costs were appropriate?

1 A. I did not consider it and nor did Company
2 witness Ed Grubb when he calculated his calculation nor
3 did American Water when they performed their
4 calculation.

5 Q. So your belief is that the Leg-- the legacy
6 system, which is what you choose to fund, were it
7 operating today could handle any increase in call --
8 calls without any cost increases? They have the
9 infinite ability to handle call increases?

10 A. I haven't said that.

11 Q. Can you say that or is --

12 A. It --

13 Q. -- it not true?

14 A. I'm sure that with additional calls there
15 would be cost increases.

16 Q. You're sure that with additional calls there
17 would be cost increases?

18 A. If there was significant amounts of additional
19 calls that could be audited and verified.

20 Q. So if there are significant calls -- increases
21 in calls, then your legacy call system costs plus wage
22 increases -- are you telling me -- are you conceding
23 that that's an inappropriate measure of calls?

24 A. No, I am not.

25 Q. Explain to me how you can reconcile those two

1 statements.

2 A. Because, as I said before, you have to look at
3 the facts at the time the decision was made to -- to
4 form and to join the call center. Taking facts as you
5 believe them to be at this point in time currently and
6 applying them to the facts that -- that existed when
7 the decision was made to form the call center by
8 American Water, and the decision was made by
9 Missouri-American Water Company to join the call
10 center -- and given at that time that there was overall
11 cost savings calculated and that -- that overall cost
12 savings were spread to every other operating company
13 except Missouri.

14 Q. Is -- is this our difference? And I'm just
15 gonna ask you one question to try to clarify this and
16 see if I understand.

17 Is this our difference, the Company is saying
18 we need to look at what's going on now, and you're
19 saying we need to look at what you said was gonna
20 happen now? Because -- and since what you said back
21 then was gonna happen now didn't happen exactly that
22 way, you're dissatisfied; is that our -- is that our
23 difference?

24 A. I'm saying you need to look at the facts at
25 the time that the decision was made. That's -- that's

1 what American Water did, that's what Mr. Grubb did when
2 he calculated this Data Request initially.

3 Q. So that's your gripe, what didn't -- what was
4 suggested by Missouri-American when they announced the
5 formation of this call center didn't materialize
6 exactly the way they said it did, and that's what's
7 under your skin; is that what this is all about?

8 A. What this is all about is that they calculated
9 an overall cost savings at that point in time that they
10 made the decision to form the call center, and
11 Missouri-American relied on that documentation to join
12 the call center.

13 And, unfortunately, that documentation showed
14 that every state would get cost savings, except
15 Missouri-American Water. That is an inappropriate cost
16 allocation to Missouri.

17 Q. So from that you conclude that the legacy
18 costs should stay where they are?

19 A. The legacy costs should be reflected -- given
20 that scenario, Missouri should at worst stay at that
21 same level. And more -- and reasonably it could be
22 argued that Missouri should have achieved savings --
23 that costs should be lower, given the overall cost
24 savings that American Water calculated, and which has
25 been attached in Schedule 8 to my surrebuttal

1 testimony.

2 Q. Following that logic, how long would this go
3 in -- in the future? When -- when would your position
4 that there should never have been any cost increase to
5 Missouri -- when would that die a natural death?

6 For how many years into the future would
7 that -- would -- would -- in using your logic, would
8 Missouri be tagged with -- with rate recovery of only
9 legacy costs that existed prior to the conversion of
10 the call center? How far in the future would that go?

11 A. American Water calculated it for a five-year
12 period.

13 Q. So your -- your position is that for the next
14 five years this company should only receive in rates
15 the amount of money necessary to operate a call center
16 that no longer exists?

17 A. For purposes of -- of setting rates in this
18 case, the appropriate amount is the amount that --
19 the -- the amount that Staff has recommended, which
20 reflects no increase in costs to Missouri, given an
21 overall cost savings that has been calculated.

22 Q. And by your own admission this is out --
23 without -- without regard to the fact that the number
24 of calls increase beyond the capacity of the leg--
25 legacy system to handle? That's not a factor either?

1 A. It's not appropriate to take those facts --
2 Q. Good.
3 A. -- at that point in time and bring them back
4 to this point.
5 Q. Thank you. Thank you. I appreciate that.
6 All right. Now, let's look at the number of
7 calls. We're back to before I was momentarily
8 sidetracked. This number of calls from the --
9 Exhibit 107 of -- we -- I'll use either number with
10 you, 521,918 or the annualized number, 660,104.
11 You're not comfortable with either, right?
12 A. That -- that's correct. I believe there's
13 problems with both those numbers.
14 Q. Some -- those are nevertheless in evidence as
15 being actual calls, and you just -- your gripe is,
16 again, you didn't get to audit them?
17 A. I haven't audited the numbers on -- on
18 Schedule 107, and I have problems with the numbers that
19 accompany --
20 Q. All right.
21 A. -- used to annualize.
22 Q. Now, you have a position -- and you correct me
23 if I'm misstating this -- that some of those calls --
24 some number of those calls are inappropriately to be
25 considered calls attributable to the operation of the

1 regulated enterprise, because they're associated with
2 the AWR affiliated enterprise service line repair
3 system, right?

4 A. That is correct.

5 Q. All right.

6 A. Those calls are inflated by AWR-related calls.

7 Q. Now, let -- let's say for purposes of argument
8 that we agree that some number of those calls should
9 not be counted due to your criticism, all right?

10 A. Assuming your -- this is an assumption.

11 Q. The assumption is we're conceding your
12 position in that respect that the ratepayers should not
13 be charged for call center activity dedicated to an
14 unregulated affilit-- affiliated enterprise, all right?

15 A. That -- that's certainly correct.

16 Q. Now, it's incumbent on us now to quantify
17 that, is it not? We have to know how many calls we
18 don't count?

19 A. If it's the Company's position, it's -- it's
20 incumbent on them to at least get those calls out of
21 their number.

22 Q. All right. Now, in the -- well, the Company
23 has its position on record. The Company's position is
24 the reasonable number is 292. You -- you don't --
25 you're not going to accept that number?

1 A. That -- that does not capture the full effect
2 of AWR-related costs.

3 Q. All right. So now I want to work with you
4 here and try to come up with a number that does affect
5 in the Staff's position an implementation of your
6 suggestion, all right?

7 A. Okay.

8 Q. All right. Now, the maximum number of
9 mailings that went out to people -- the ma-- the
10 maximum number of customers that were contacted on this
11 program were 83,000.

12 Do we agree on that?

13 A. I -- I have no reason to disagree with that.

14 Q. All right.

15 A. I agree with you.

16 Q. So if every single person called the -- the
17 MAWC customer service number, there would be
18 83,000 calls that we should subtract from this number?

19 A. If your assumption is that each -- each one of
20 those customers made that call --

21 Q. All right.

22 A. -- then that would be correct.

23 Q. Now --

24 A. Al-- also can I add that there -- that
25 Schedule 108 shows that there are a million-and-a-half

1 eligible customers for AWR programs, and the call
2 center could be -- you could also assume that a
3 million-and-a-half calls come into the call center in
4 that regard, too, nationwide.

5 Q. Where did -- where did you get that million
6 and a half?

7 A. That is on Mr. Van Ben Berg's 109.

8 Q. What does that Exhibit 109 show was the actual
9 number of calls that came in out of that million and a
10 half to AWR? It's 39,000, isn't it?

11 A. That is expected calls that came in from --

12 Q. That's what they got?

13 A. Is -- does this -- it -- does the skill
14 represent the AWR phone number?

15 Q. Yeah -- no, it represents the em-- the
16 employee who ended up with the call.

17 A. Okay. Well, then it does not include the
18 AWR phone number calls.

19 Q. All right. The number of people that -- the
20 number of calls that went to the AWR number went to
21 that switch. Now, it can get to that switch one of
22 two ways. It can get to that switch by phoning the
23 number directly or it can go through the call chain.

24 A. Are -- are you saying that that skill contains
25 the number of calls that go through the 019 number?

1 Q. And the number that got there through the
2 calls, such as the one you described you made --
3 A. I -- I don't have --
4 Q. -- through -- through the -- through the
5 prompts that pushed you down there.
6 A. I have no way to determine if that's the case.
7 Q. Well, you're the one who used it. I didn't
8 bring up the exhibit. You're the one bringing up the
9 105 --
10 A. All I --
11 Q. -- and so we have to compare it to the other
12 number
13 A. What I brought up was is that there is an
14 impact of a million-and-a-half customers calling.
15 Q. Let's stay on track.
16 The most number of the customers -- if every
17 single customer called in Missouri, it would be 83,000?
18 A. I don't know that that would be the most
19 number of calls. That's an -- that's an assumption.
20 If you're -- if you assumed that every customer called
21 once during a year, it would be 83,000 calls.
22 Q. Every -- if every single customer who got a
23 mailing called up and said, hey, tell me more about --
24 that would be 83,000 calls?
25 A. If you make that assumption.

1 Q. All right. What is the likelihood of that --
2 every single customer calling?

3 A. I don't know.

4 Q. All right. Now, is it likely that since
5 the num-- since the mailings that go out to the
6 individuals -- the affected individuals -- the
7 83,000 customers have a separate phone number on them,
8 isn't it more likely that an individual indi--
9 interested in program who has that in front of them is
10 going to call the number on that page, rather than go
11 ferret out his water bill and call that number?

12 Isn't it more likely that they'll call the
13 number presented to them?

14 A. I don't know.

15 Q. All right. To the extent that that is a
16 reasonable assumption, you're not concerned about those
17 numbers, because they don't go in that count, right, so
18 they're out?

19 Do you understand that?

20 A. No, I -- I disagree with that, because
21 customers, as I've stated, from my own personal
22 experience can call the AWR number and actually get a
23 customer service representative, instead of an
24 AWR employee. That would inflate the call center's
25 calls.

1 And I've found that that is the case.

2 Customer service representatives are supplementing
3 AWR's function in taking calls.

4 Q. All right. If I were to tell you -- did you
5 audit this aspect? Do you realize that every number --
6 every call that goes to that number, regardless of who
7 answers the phone, is charged to AWR? Every num--
8 every call that goes to the AWR specific number, the
9 019 number, is charged to AWR, regardless of the person
10 that answers it.

11 Do you know -- are you aware of that?

12 A. I don't know if that's true or not.

13 Q. All right. Let's -- let's -- let's assume
14 that that is. Your concern is the number of people who
15 don't call the -- the -- first of all, we have to
16 reduce the 80,000 by the people who don't care. And
17 you say you don't know how many that is -- you don't
18 know how many calls we're starting out with, right?

19 A. Could you give me just a moment to check
20 something?

21 Q. Sure.

22 JUDGE THOMPSON: Let's go ahead and take five
23 minutes at this time.

24 Thank you.

25 (A RECESS WAS TAKEN.)

1 JUDGE THOMPSON: Okay. Mr. Ciottone, fire
2 away.

3 MR. CIOTTONE: Thank you, Your Honor.

4 BY MR. CIOTTONE:

5 Q. Mr. Cassidy, back on the number -- we're
6 trying to get to embracing your suggestion that the
7 number of calls actually being received at the new call
8 center is not representative -- or should not be
9 representative of the calls charged to ratepayers,
10 because some of those calls represent calls related to
11 the affiliated enterprise service line replacement
12 program, okay?

13 A. That's --

14 Q. That's where we left --

15 A. That's one of my disagreements with your total
16 number.

17 Q. Right. Now, we're trying to get to -- not
18 that the Company concedes that -- that adjustment is
19 appropriate, but we're trying to get to your suggestion
20 of what an appropriate adjustment in the number of
21 calls would be following that logic through.

22 Now, we start -- we -- the maximum -- if every
23 customer called, it'd be 83,000?

24 A. That -- that's your assumption. I don't agree
25 that that is what the level is.

1 Q. Some could call two and three times; is

2 that --

3 A. I -- I don't know. It's possible, but I don't

4 know.

5 Q. 83,000 customers are the only ones who got the

6 mailing with the number?

7 A. 83,000 customers got -- potentially some

8 amount of 83,000 customers have received five mailings.

9 Q. It's still 83,000 customers?

10 A. That's correct.

11 Q. All right. Now, on that mailing is a phone

12 number? It's in your testimony. It's an exhibit

13 you --

14 A. Let me refer it.

15 Q. It's in a schedule to your direct testimony,

16 and I believe also your surrebuttal testimony.

17 A. The mailing has a phone number identified on

18 one of the pages for AWR; however, I will point out

19 that the letter has the Missouri-American name at the

20 top of it.

21 And the letter says, we are -- we're -- let me

22 refer to -- Missouri-American Water Company is pleased

23 to introduce a special water line protection program.

24 Those -- those -- that phrase is in that letter. That

25 can cause -- cre-- create confusion for the customer

1 and cause the customer to think that they would be able
2 to call the call center and inquire about the AWR
3 program.

4 Q. Is there a phone number on that letter -- the
5 cover letter?

6 A. There is not, but the name Missouri-American
7 is prominently displayed at the top of that letter.

8 Q. What's the -- what's the only phone number in
9 that mailing?

10 A. There is an AWR phone number in the mailing.
11 But on the back page of the letter there is a statement
12 that says, if -- that you -- the customer is instructed
13 to call the toll-free number on their water bill.

14 Q. What is the only number on that -- on that
15 mailing?

16 A. The only number I see is the AWR phone number.

17 Q. And that comes in a separate mailing -- it
18 doesn't come with the water bill, it comes with a
19 separate mailing, correct?

20 A. It comes in the mailing -- a separate mailing
21 that has the name Missouri-American prominently
22 displayed, and the Missouri-American name is on the
23 outside of the envelope.

24 Q. I understand.

25 The only phone number in the mailing -- if

1 someone gets the mailing and wants to respond, the only
2 phone number in that mailing -- unless they go
3 researching, the only phone number is to the
4 AWR employee, correct?

5 A. The only number I see --

6 Q. Right.

7 A. -- is to the AWR.

8 Q. So if those people who received that mailing,
9 of the 80,000 of that arbitrary number that we cannot
10 quantify besides they want to call -- and if that --
11 and if -- if -- of those, the ones who do what they're
12 told and what they're suggested to -- to do and don't
13 want to go to the trouble of looking up their water
14 bill or going to the phone book and actually dial the
15 number on the piece of paper that encouraged them to
16 make the call, they'll get the AR-- AWR employee,
17 correct?

18 A. I don't agree with that. Because from my
19 experience, you don't get the AWR employee. I -- I
20 called, as I indicated, on Wednesday night at 6:20 and
21 received a customer service representative.

22 And as I've stated that when I called the
23 call -- and then I called the call center number that's
24 on the bottom of my customer bill, I've got through
25 that entire dialing sequence to get to the AWR option,

1 and also have gotten customer service representatives.

2 Q. So your suggestion is that that's a fraud --
3 that number -- because when you call that number, you
4 don't get an AWR employee?

5 A. I'm suggesting that the customer service
6 representatives at the call center are supplementing
7 the activities of AWR thereby reducing AWR -- AWR's
8 operating expenses by handling their overflow of calls.

9 Q. And you don't think those -- and even though
10 I've told you and can't testify, you don't believe --
11 you haven't conducted an audit to determine if those
12 calls aren't, in fact, billed back to AWR anyway, based
13 on what happened in the call?

14 A. I have -- you -- the Company has given me no
15 evidence that that has occurred.

16 Q. All right. Let's get to the bottom line here.
17 Here's what we have. We have the Company's recitation
18 of what happens. The Company says, when you call the
19 AWR number, it's not charged. It's not counted.
20 You -- you say you have personal experience that on
21 occasion that did not happen for you.

22 We have a mailing that gives the number of the
23 AWR calls. People -- so we are most certainly
24 concerned about the people who call the local customer
25 service number to talk about AWR and have to go through

1 that prompt system, you think it's not fair that
2 they're charged, and then we have these others who may
3 end up with the wrong people.

4 What's a right number? How many people should
5 we deduct from this 521,000 calls to -- to -- to
6 satisfy your concern of subsidization of this AWR
7 system? Of the 521,000 calls, how many do you want to
8 reduce?

9 A. I think that is a very important question, and
10 the Company hasn't addressed that. And --

11 Q. Well, the Company -- pardon me -- the Company
12 says 292. I'm asking you --

13 A. And --

14 Q. -- what you want.

15 A. And -- and the Company said that was only for
16 that switch at the call center.

17 Q. So, Mr. Cassidy, what does the Staff want?

18 A. The Staff does not believe that the -- the
19 call should be used, and the Staff is saying that your
20 number is -- the Company's number is overinflated for
21 supplementing AWR activities.

22 Q. How much? What does the Staff want to take
23 off the 521 or 630,000 calls? How about 500?

24 A. Given that the Staff in every question and
25 every DR, it has requi-- requested of American Water

1 Resources operations, it's been denied and been
2 objected to by the Company, the Staff has been unable
3 to obtain information about AWR.

4 I've asked for the AWR-related calls back in
5 June of 2003. The Company chose not to give me that
6 information. So I believe it's the Company's burden to
7 determine what AWR-related calls are. They haven't
8 done that.

9 Q. A thousand?

10 A. I don't know what level that is.

11 Q. All right. So the Staff's position is you
12 don't know what number should be reduced, just that
13 equity demands some reduction?

14 A. The Staff's position is that it's
15 overinflated.

16 Q. All right. All right. Now, I want to get on
17 to just two or three more areas here.

18 In your suggestion that the legacy system
19 costs are the appropriate measure of what should be
20 included in rates inflated for the wage increases
21 associated with those people only, okay? Are you
22 functioning under the assumption that the legacy system
23 could continue to operate?

24 A. Yes. The -- there was no -- the Company gave
25 me no indication that -- that the legacy system could

1 not continue. There was no indication that Staff found
2 in any evidence it looked at that suggested the legacy
3 system could not continue to serve customers adequately
4 in that -- in that the Company never surveyed their
5 customers to determine if they were reasonably
6 satisfied with the level of service that they had been
7 receiving.

8 Q. What happened to all of the support systems?
9 This is very important. What happened to all of the
10 support systems for the legacy system? That support
11 system being such things, in particular, as the
12 IT people, the guys who maintain the mainframe, the
13 guys who kept the green screens running, the interface
14 with management, all those support systems that fed
15 that cust-- where did they go? They're not there
16 anymore, are they?

17 A. That's irrelevant. They may not be there
18 anymore --

19 Q. They're not there anymore?

20 A. -- but that's irrelevant.

21 Q. Where did they go?

22 A. Are you asking me where the people that --

23 Q. Where are all the IT people? Where are all
24 the people that --

25 A. The customer service representatives and --

1 and all --

2 Q. No. No. Not the customer service
3 representatives. The information technology people,
4 the people that ran the mainframe, the people that kept
5 the green screens going -- green screens going? They
6 all went with shared services, didn't they?

7 A. That's correct. And the Staff included the
8 costs -- in-- included the adjustment that the Company
9 made for tho-- that transition.

10 Q. All right. So you like shared services --
11 Staff likes shared services? It saves money?

12 A. Are -- are we talking about the transition for
13 shared services now or --

14 Q. And -- well, I'm talking about O&M. No, we're
15 not talking about transition services or cost
16 service -- shared services. We're taking about the O&M
17 savings by going to shared services.

18 A. Are -- are you talking about the ITS function?

19 Q. All of the functions.

20 A. I -- I'm not certain of what -- what -- what
21 you're speaking of.

22 Q. Well, you testified earlier in -- in this case
23 that there was -- and you even quantified for His Honor
24 the -- the savings associated with the shift to shared
25 services, the O&M cost savings.

1 A. I -- I -- I -- I'm confused. You're talking
2 about IT or are you talking about the national shared
3 services here?

4 Q. I'm talking about the national shared services
5 here.

6 A. Okay. That's not -- that's more of an
7 accounting -- that was to centralize an accounting
8 function.

9 Q. And IT?

10 A. IT was a different -- that was a different --
11 I believe that St. Louis had an -- they had their own
12 IT function, and then it -- that was transitioned to
13 the shared services center --

14 Q. That's --

15 A. -- or not the shared service -- the service
16 company.

17 Q. Service company. That's my point.

18 The transition to the service company, that
19 was good, right?

20 A. Are we talking about the IT or the shared
21 services? I'm confused.

22 Q. I'm talking about all of it. Everything other
23 than the call center that is now handled in this
24 homogenous organization.

25 A. The Staff did not -- the Staff believes that

1 the move to the shared services center resulted in
2 achieved cost savings.

3 Q. How much? It's in the millions, isn't it?

4 A. The -- the Company identified an annual cost
5 savings related to the national shared services center
6 transition in the amount of \$2,575,688 annually.

7 MR. CIOTTONE: All right.

8 JUDGE THOMPSON: Repeat that figure, please.

9 THE WITNESS: \$2,575,688.

10 JUDGE THOMPSON: Is that in testimony
11 somewhere?

12 THE WITNESS: It is on page 52 of my
13 surrebuttal testimony.

14 JUDGE THOMPSON: Thank you.

15 Please proceed.

16 BY MR. CIOTTONE:

17 Q. Now, in that transfer of those services and
18 the resulting savings they took away all of the support
19 systems for the legacy customer service center at
20 St. Louis, did they not? Didn't they move them all
21 into that? There aren't any IT people left at
22 St. Louis?

23 A. I would agree with the part that all of those
24 functions, call center, shared services center and
25 ITS are not at Missouri-American's level. They're all

1 at the service company's level.

2 Q. All right. So now if -- if your theory is
3 that the legacy system could continue to operate and
4 should be funded accordingly, does the Company have to
5 back out of the shared services deal, bring all those
6 people back, rehire them and restaff the Company so
7 that they can support the legacy system?

8 A. I would say no. Because if you look at the
9 cost savings studies that were conducted, they were
10 conducted independent of each other.

11 Q. They were?

12 A. Yes.

13 Q. How do you do it, though? How do you -- how
14 do you support the legacy system when all those people
15 are gone?

16 A. The Company didn't iden-- identify that in
17 their cost studies, so I have no -- no basis for making
18 a determination. The Company -- the Company's
19 determination of the call center was determined
20 independently, and the Company's decision to transition
21 to the shared services center was an independent study
22 that identified cost savings that they -- that they
23 relied upon.

24 Q. Well, once the decision was made to transition
25 to the shared services organization, their legacy

1 system couldn't stand alone anymore, could it? They
2 had to go to the call center. What other option did
3 they have, restaff?

4 A. The option they had was to transition to
5 both -- both functions to the service company and not
6 accept additional costs from the service company for
7 service that American Water calculated that it would
8 achieve overall cost savings.

9 Q. How --

10 A. How can Missouri-American be charged
11 additional costs when the overall decision was found to
12 be cost savings?

13 Q. I'm asking --

14 A. How is that appropriate?

15 Q. I'm asking you operational decisions and I --
16 and you're trying to define economic ramifi-- I'm
17 asking you, what could -- the Company has moved all of
18 its support systems for their existing legacy system
19 into shared services. You've said that's true.

20 The IT peop-- people who run the green screens
21 and all of this obsolete stuff, they're gone.

22 A. The Company has transitioned all of those
23 functions to the service company.

24 Q. And those functions -- when you priced the
25 legacy system, they're not in there, are they, because

1 they were not considered call center calls?

2 A. The company calculated those costs and I --
3 and whatever --

4 Q. You don't --

5 A. -- the Company indicated that those legacy
6 costs included everything to -- to -- that the -- the
7 legacy system had for costs.

8 The -- the -- I had a discussion with Steve
9 Rackers and myself with Company Witness Ed Grubb about
10 what those costs entailed, and he said those costs
11 completely covered all of the legacy system costs.

12 Q. All right. Mr. Van Den Berg in his re--
13 rebuttal defined these aspects of support that went
14 away. And this is on page -- his rebuttal, page 13.

15 He said, data systems maintenance, the legacy
16 system was mainframe terminal based, not PC, who
17 maintains the CRTs in the mainframe system, report
18 generation, system integration, interface management.

19 Do you think -- are -- are you under the
20 impression that in providing the dollars necessary for
21 the legacy system that you are also providing dollars
22 for these systems -- for these functions as well?

23 A. I don't know that to be the case. I just -- I
24 know what the Company gave me, as far as their cost
25 studies. Those were the cost studies that they relied

1 upon.

2 Q. So your assumption is that the legacy costs
3 have everybody that's necessary, IT people to run the
4 mainframe, to keep the green screens running -- you
5 think that's in your legacy costs?

6 A. I don't know if it covers those costs or not,
7 but I asked, as I said in my surrebuttal testimony at
8 the bottom of page 28 and the top of page 29, that
9 Staff Member Stephen M. Rackers and I contacted
10 Mr. Grubb via conference call to discuss the response
11 to DR 110.

12 Mr. Grubb stated during the conference call
13 that his calculations accounted for all of the costs to
14 provide the customer service function at all the
15 districts that were replaced by the call center.

16 He also indicated that the Staff should expect
17 that no cha-- he gave no indication that Staff should
18 expect a change or update to this request at any point
19 in the future.

20 Q. So when you got this rebuttal testimony from
21 Mr. Van Den Berg saying to the contrary, you didn't
22 investigate further, you just still ran on that
23 assumption?

24 A. I don't know what -- there was no cost
25 evidence to support Mr. Van Den Berg stated in his

1 rebuttal testimony.

2 Q. That's interesting. You're -- you're --
3 you're absolutely right. There is no cost in this
4 as-is/as-was comparison. The as-was comparisons have
5 none of these support system costs in it, do they, or
6 you don't know?

7 A. I -- I don't know what level --

8 Q. You don't know?

9 A. -- they are.

10 Q. If tho-- if those support systems are not in
11 there and are necessary to -- to operate the legacy
12 system, should they be in there for a proper
13 comparison?

14 A. I believe that Mr. Grubb has provided me what
15 all of the costs for the legacy system are.

16 Q. If they're not in there, should they be?

17 A. To the extent that it can be proven that they
18 are part of the legacy costs.

19 Q. They should be.

20 And if they went to the shared services
21 operations and the -- and savings were materialized,
22 the Company should get no credit for that in its
23 as-was/as-is comparisons? That shouldn't factor into
24 that?

25 The fact that by moving over and saving

1 two-and-a-half million a year -- by being able to get
2 rid of these support systems for the legacy system,
3 that's not something that should be in the balance?

4 A. That's ignoring the fact that the Company
5 could have transitioned all of these costs to the call
6 center and had cost savings; however, that -- that was
7 not the case, because Missouri, as I've said, has been
8 allocated additional costs.

9 That -- that resulted in an inappropriate cost
10 assignment to Missouri.

11 Q. All right. I just have two more short areas,
12 and then we'll move on to transition costs.

13 Let's talk about the old green -- green
14 system. Is -- what does that characterization mean?
15 I -- I use it colloquially, the green screen system.
16 Does that mean something to you?

17 A. I -- I don't know what you mean by that.

18 Q. It -- it means that you're completely
19 dedicated to a mainframe and you have limited access to
20 data and you don't have a PC, as the new systems do.

21 That doesn't -- you don't understand the
22 difference in that terminology?

23 A. I'm --

24 Q. That's all right. If you don't know, say I
25 don't know.

1 A. I'm not -- I'm not quite certain what all that
2 entails.

3 Q. All right. Let me -- do you agree or disagree
4 with these statements: Mr. Van Den Berg says in his
5 rebuttal at page 24, the legacy system was --
6 "antiquated and handicapped in terms of functionality
7 and flexibility;" true or false?

8 A. I would say false, given that I've examined
9 the number of customer complaints that this
10 Commission --

11 JUDGE THOMPSON: False -- false is a
12 sufficient answer.

13 Move on.

14 BY MR. CIOTTONE:

15 Q. And that is even including the fact that they
16 took on 28,000 new customers from other municipalities
17 and had to bring in --

18 A. And my response to that 28,000 additional
19 customers is that -- is that I would point you to
20 Schedule 8 of my testimony on page 33.

21 American Water identifies that they can assume
22 10,000 additional customers due to Jeff City
23 acquisition being absorbed into the St. Joe center with
24 no extra employees or costs.

25 Q. So the legacy system has infinite capacity?

1 A. I'm not saying that it has infinite capacity,
2 but it has capacity to take on a number of customers
3 without incurring additional costs.

4 Q. Do you agree or disagree with this
5 statement -- again, this is Mr. Van Den Berg. Given
6 the age and limitations of legacy system, it is
7 expected that the system would need to be replaced.
8 The expected -- well, let's take it sentence by
9 sentence. True or false?

10 A. I don't know.

11 Q. Next sentence, the expected cost to implement
12 a new CIS for a company the size of MAWC would be in
13 the range of 7 to 22 million, depending on the level of
14 data cleansing, integration and market model
15 requirements; true or false?

16 A. I don't know.

17 Q. All right. One more Van Den Berg statement
18 I'd like you to pass on, his rebuttal page 25 under
19 estimated industry benchmarks. To put in a new
20 CIS system and other associated front-office technology
21 would be between 2-- 10 and 27 million -- that's an
22 industry number; true or false?

23 A. Could -- could you cite where that's at?

24 Q. Page 25, Van Den Berg rebuttal.

25 A. Okay. I would say I don't know.

1 Q. All right. One last Van Den Berg comment in
2 his -- on his rebuttal on page 12, he says, the
3 industry average for cost per call is \$10.80 per
4 customer per year.

5 Do you have any reason to disbelieve that?

6 A. I disbelieve that. I believe that is a -- a
7 bad comparison for Missouri-American Water Company.

8 Q. You believe -- you may believe it's a bad
9 comparison, but do you believe that that's the industry
10 average? Do you have reason to disbelieve that that is
11 an accurate --

12 A. I --

13 Q. -- number in the industry average?

14 A. I don't disagree that that's -- that that's
15 the accurate number of the nine utilities that he
16 examined.

17 Q. Okay. All right. Fine. Thank you.

18 All right. Lastly, this comes down to you
19 don't believe that a decrease in a cost per call
20 translates into a bargain for the ratepayers, do you?

21 A. No, because it ignores the facts at the time
22 of making -- that American Water made the decision to
23 form the call center, and then when Missouri-American
24 made the decision to join the call center.

25 MR. CIOTTONE: Your Honor, that's all I have

1 on O&M. And I'm willing to move onto transition costs.

2 And perhaps you'd want to --

3 JUDGE THOMPSON: Given the amount of time we
4 spent on O&M, I think we'll take questions from the
5 Bench on O&M before we go on to other topic areas.

6 However, as a matter of housekeeping, at this
7 point I'm entertaining the idea of imposing a time
8 limitation on cross-examination, so that there's some
9 possibility of finishing this rate case before it's
10 time to start the next one.

11 So I'd entertain suggestions from counsel as
12 to what would be a reasonable time limitation,
13 understanding that we're going to do transition costs
14 and AWR.

15 Are those the two outstanding issues --

16 MR. CIOTTONE: Right.

17 JUDGE THOMPSON: -- for this witness?

18 MR. CIOTTONE: Right.

19 JUDGE THOMPSON: Okay. What if I gave you a
20 half-hour limitation on each of those two? That would
21 be one hour.

22 MR. CIOTTONE: I think that would be
23 outrageously unfair when you're talking about a
24 \$10 million adjustment. And at the top -- the
25 transition adjustment thing is a very complex issue,

1 because Mr. Cassidy has cited five different bases for
2 his disallowance.

3 Each one of those has to be analyzed in -- in
4 light of past Staff positions and inconsistencies. And
5 the only way I can challenge those is to go through
6 those.

7 And to the extent that Mr. Cassidy chooses to
8 not cooperate, there's no possible way I can do that in
9 a half an hour. I think that would be, frankly, quite
10 a --

11 JUDGE THOMPSON: I hear you. I hear you.
12 Mr. Bates?

13 MR. BATES: Your Honor, I just object to his
14 characteristic -- excuse me -- to his characterization
15 Mr. Cassidy is being uncooperative.

16 JUDGE THOMPSON: Oh, I'm gonna --

17 MR. BATES: I think he's been --

18 JUDGE THOMPSON: -- get to Mr. Cassidy.

19 MR. BATES: -- extremely cooperative.

20 JUDGE THOMPSON: I'm gonna get to Mr. Cassidy.

21 Ms. O'Neill?

22 I'm talking now about a limitation on the
23 lawyer. We'll get to the limitation on the witness.

24 MS. O'NEILL: Your Honor, I think that
25 although Mr. Ciottone has attempted to narrowly focus

1 his cross-examination as -- in very, very extreme
2 detail on this issue, I think he has covered some
3 aspects of those two outstanding issues. I think that
4 should be able to shorten his cross-examination on
5 those issues somewhat.

6 I also think that -- that although
7 Mr. Ciottone is very skilled and not word for word
8 asking the exact same question over and over again
9 and -- in response to answers to those questions,
10 I'm -- I think that probably there's some streamlining
11 that could be done.

12 I think all of us should have enough time to
13 make our case, but I think that there's a lot of other
14 issues in this case.

15 JUDGE THOMPSON: Well, that is exactly right.

16 MS. O'NEILL: And I think that we should try
17 to -- try to get a time limit. If it looks like it's
18 gonna take five or ten minutes more, then whatever time
19 limits the -- that you and the Commission believe is
20 reasonable, I think that there should be some
21 flexibility.

22 But I think that if we want to start with
23 something, let's -- 30 minutes and see whether or not
24 we can get things done in that -- that that would be
25 appropriate.

1 JUDGE THOMPSON: I don't want to prejudice
2 anyone's case, obviously. There's a lot of money
3 riding here, and the Commission is only the first stop
4 for this case.

5 And -- and we certainly don't want it to come
6 back from the court of appeals, because I imposed a
7 limitation on the length of cross-examination.

8 But, on the other hand, there are 38, I
9 believe, contested issues. And this witness was
10 supposed to have been completed -- what's today, the
11 19th -- I think on the 17th, if I'm not mistaken. So
12 I'm -- I'm concerned with getting through all of those
13 38 contested issues.

14 What do you feel, Mr. Ciottone, would be a
15 reasonable limitation on the length of cross if, in
16 fact, you think there is such a reasonable limitation
17 that could even be announced?

18 MR. CIOTTONE: Well, Your Honor, honestly I'm
19 not entertaining myself here.

20 JUDGE THOMPSON: I understand.

21 MR. CIOTTONE: There's many places I would
22 rather be. I'm -- I've got -- these are difficult
23 issues. The Staff simply makes pronouncements; this is
24 what I think. And unless they can be challenged and
25 unless the Commission can see the flaws -- what I would

1 characterize and what I'd choose to characterize and
2 illustrate as being the flaws in that analyses, you're
3 cutting off our ability to defend ourselves.

4 And the dollars are -- are inordinately
5 significant here, not to mention simply the single-time
6 adjustments, but the implications to this company in
7 the future.

8 And if this company doesn't get its moment in
9 court, it's -- it's right to challenge the thing
10 that -- the things that this well-intentioned gentleman
11 has done in the -- in the peace and comfort of his
12 office with no time to -- to -- constraints on him, I
13 think we've got a problem.

14 But I don't think a time constraint on this is
15 appropriate. If you find me misbehaving or being
16 self-indulgent, call me on it and I will be quite
17 respectful of that.

18 But to put a clock on me, I just don't think
19 is -- is appropriate or -- or reasonable.

20 JUDGE THOMPSON: Okay. I -- I appreciate
21 everything you're saying, Mr. Ciottone, and I think at
22 this point I'm not going to impose a time limitation.

23 Now, that's the issue of lawyers in moving
24 them along. Let's talk about the witness.

25 Mr. Bates, I have cautioned this witness

1 yesterday because of the constant narrative and
2 evasive, frankly, responses to cross-examination
3 questions, which lengthens the cross-examination
4 unduly.

5 As you know, it's the attorney's function on
6 redirect to -- to grab those chestnuts out of the fire
7 that they have perhaps been nudged into during
8 cross-examination.

9 It would move much more quickly if Mr. Cassidy
10 would respond with a simple yes, no, maybe, I don't
11 know, and in those cases where it's not possible to
12 truthfully answer the question with such an answer to
13 then give whatever the alternative answer that is
14 required in order to give an honest answer.

15 But it -- it simply cannot be a continuing
16 dialogue between counsel and -- and witness where the
17 witness explains every answer as to, well, why that's
18 not quite right and why that's not doing justice.

19 Do you understand?

20 MR. BATES: Your Honor, I do appreciate that.
21 If I may say two things. First of all, I think the
22 witness has only tried to give the Commission a
23 complete answer each time.

24 And I -- I think that any time that we might
25 save with him answering just very briefly on cross

1 would have to be taken up again in extra time on
2 redirect, and it might actually be less efficient.

3 Because here the Commission can hear the
4 complete answer directly after the question, and I will
5 not have to remind the Commission later on what it was
6 that he was actually answering to.

7 So it might actually be more efficient to
8 allow him an opportunity to expand a little here
9 without going overboard, of course.

10 JUDGE THOMPSON: Well, there -- there is
11 certainly some truth in what you're saying. I -- I
12 guess I will simply leave you all at this point with a
13 plea that we need to speed things up. We are running
14 out of time. There are many other issues, many of them
15 involving much more money left to be considered.

16 The purpose for the advocates is to persuade.
17 And at this point we have -- have at least
18 two Commissioners that are present that aren't even
19 here -- present in the building, which may explain --
20 give you some idea of just how persuasive that they're
21 finding this to be.

22 So I would urge you to consider these. Hit
23 your main points, quickly, if you can and move on,
24 okay?

25 MR. BATES: Thank you.

1 JUDGE THOMPSON: Otherwise we're gonna run out
2 of hearing time with -- with some of our 38 issues
3 never ever addressed.

4 So with all of that in mind, Mr. Ciottone, I
5 think you indicated you were done with your
6 O&M cross-examination; is that correct?

7 MR. CIOTTONE: Yes, sir.

8 JUDGE THOMPSON: Okay. I think we'll take
9 questions from the Bench then on the O&M issue, rather
10 than march into the transition costs, because we'll
11 forget all about the O&M issues by the time we're done
12 with those.

13 So, Commissioner Murray, questions?

14 COMMISSIONER MURRAY: Thank you, Judge.

15 QUESTIONS BY COMMISSIONER MURRAY:

16 Q. I believe during the -- this process of
17 addressing this issue I've forgotten much of what I
18 thought I knew when we started it. But I'm gonna try
19 to get back to the -- to basics on this and see if I
20 can understand it from the ground up.

21 In terms of the call center, is Staff -- is
22 Staff taking the position that to move to the new call
23 center was an imprudent decision?

24 A. It's imprudent, given the additional costs.

25 Q. Well, when -- when you determine improvements,

1 what do you -- what -- what point in time do you
2 examine to determine whether a decision is prudent?

3 A. At the point in time the decision is made.

4 Q. Okay. But you just mentioned additional
5 costs. When were those additional costs from?

6 A. Given that -- the additional costs have been
7 assigned to Missouri after that decision.

8 Q. But how can you know that if you only look at
9 the facts that were known at the time?

10 A. Because I'm -- because I've restated the costs
11 that existed at that time, and have even gone a step
12 further and include them -- included additional costs
13 to bring them up to current levels.

14 So I've actually included a number that's even
15 higher than the costs that existed at that point in
16 time.

17 Q. But you didn't know that number at that point
18 in time, did you?

19 A. Yes. It was -- it was -- it was actual known
20 and measurable data that -- that Mr. Grubb assimilated
21 for the Staff in Data Request 110.

22 Q. That was known and measurable at the time the
23 Company made the decision to go to the new call center?

24 A. Correct.

25 Q. Okay. And then -- and that's why you've

1 included that information to make a determination

2 that -- to make that decision was imprudent?

3 A. That is correct. That is the amount that --

4 Q. That's -- that's enough.

5 Then your second position stemming from that,
6 as I understand it, is that all of the costs, other
7 than what you calculate would have been the legacy call
8 center costs, should be disallowed?

9 A. The -- the -- it's not really a disallowance.
10 It's just that there shouldn't be an increase in the
11 allocation of cost to Missouri.

12 Q. Well, isn't it a disallowance of what -- of --
13 of a part of what the Company is claiming?

14 A. It -- it's a difference in the allocations of
15 cost that -- between the Company and the Staff that
16 exist.

17 Q. Well, now I'm getting confused again. What
18 are you allocating? Are you allocating the costs of
19 the new call center or the legacy call center?

20 A. The Company is now allocating the new call
21 center's cost and including the costs of service order
22 clos-- closers that are maintained at the local
23 district levels.

24 Q. From the new call center?

25 A. All of that is -- yes. All of that is related

1 to the new call center.

2 Q. But in order to allocate those costs, you're
3 going back and looking at a point in time when there
4 was only the legacy call center; is that right?

5 A. At -- at that point in time the -- there were
6 the legacy centers and they calculated what they
7 believed the to-be costs would be, and that -- in
8 Schedule 8 of my testimony that -- that showed --

9 Q. Is that a yes or a no? I'm sorry.
10 Don't -- please don't expand too much. This is taking
11 so much time.

12 A. They knew the as-is costs and they knew the
13 to-be costs.

14 Q. The as-is cost being the legacy call center
15 costs?

16 A. Correct.

17 Q. The to-be costs being the new call center
18 costs?

19 A. That's correct.

20 Q. Okay. And I think -- I don't think that was
21 my question. I'm trying to remember now what my
22 question was.

23 Your cal-- your allocation of the new call
24 center costs is based on the -- what you're calling the
25 as-is costs; is that right?

1 A. Right. The --

2 Q. Okay. That's enough.

3 Would you adjust your calculation of those
4 legacy costs based on any portion of shared services
5 that may not have been included in those?

6 A. No, I would not.

7 Q. I thought I heard you tell Mr. Ciottone you
8 would.

9 A. Those -- no, I -- I believe those
10 two decisions are separate decisions, and that they
11 calculated cost savings for each of those decisions
12 separately.

13 Q. Okay. And I think that's part of my problem
14 I'm having. I think there -- there's -- at least on my
15 part, there is a lot of confusion about which issue
16 each one of these things effects. And I don't want you
17 to expand on that right now. I hope I'm gonna get
18 there through some of this questioning.

19 So just to reiterate, the Staff's position
20 that looking only at the data that was available to the
21 Company at the time it decided to move to the new call
22 center, that was an imprudent decision?

23 A. No, I don't agree with that. The -- the --

24 Q. Okay. Why is it imprudent?

25 A. Because the Company calculated -- American

1 Water calculated an overall cost savings that should
2 result by forming the new call center.

3 Q. When did they do that?

4 A. In July of 2000.

5 Q. Was that at the time they made the decision?

6 A. And they made the decision in August of
7 2000 --

8 Q. Okay. So --

9 A. -- relying on that data.

10 Q. Okay. So how does that differ than what --
11 from what I just asked you? It was at the -- the
12 information that was available to the Company at the
13 time, and is that what they made their decision on?

14 A. Yes. They -- they relied on that information
15 that they had.

16 Q. And is that what Staff is looking at to say
17 it's imprudent?

18 A. The Staff is looking at the information that
19 existed at the time.

20 Q. The same information?

21 A. Yes.

22 Q. Okay. And isn't that what I asked you? I
23 think -- let me rephrase it and see why you
24 answered that you disagree.

25 I said, is it Staff's position that looking

1 only at the data available to the Company at the time
2 it made its decision to go to the new call center, that
3 that was not a prudent decision?

4 A. Because they -- they also looked at the --

5 Q. Is that a yes or no? Is that Staff's
6 position?

7 A. Yes.

8 Q. Okay. You said no a minute ago. You said you
9 disagreed with that.

10 Now, the issue of the number of AWR-related
11 calls -- and I'm gonna try to see if I can figure how
12 that fits in.

13 If -- if, in fact, Staff is correct, that that
14 was not prudent to go to the new call center, does the
15 number of calls from the -- that are related to AWR
16 matter anymore on this issue -- this issue alone -- for
17 the cost of the call center?

18 A. They matter in that, if you use Company's
19 assumptions.

20 Q. No, I'm not -- okay. Go ahead. I'm sorry.

21 A. If -- if you use Company's assumptions, they
22 matter, because they --

23 Q. But that's --

24 A. -- because they inflate their call volumes.

25 Q. I'm saying -- we're -- I'm saying if we use

1 Staff's -- if we accept Staff's analysis that to go to
2 the new call center was imprudent and we say, yes,
3 Staff you're right, the costs that should be allowed
4 for call center allocations are those based on the
5 legacy costs of the old call center.

6 Do those AWR-related calls fit in there
7 anywhere?

8 A. They don't fit into Staff's calculations.

9 Q. Okay. So it doesn't matter at that point.

10 All right. Now, I want to pursue Staff's
11 rationale, if I can, for the position about the
12 AWR calls. And I think -- correct me if I'm
13 wrong -- but I'm trying to understand this.

14 That Staff has been making an issue of this
15 because -- not -- not -- not for the purpose of your
16 calculations for the call center. Because if we accept
17 Staff's position on the call center, we don't even need
18 to -- to look at AWR you just said?

19 A. That -- that's correct.

20 Q. So rather than that being Staff's purpose for
21 the AWR analysis, as I understand it, Staff is saying
22 that a number of the calls going to that AWR number --
23 I'm sorry. Wait a minute. Let me -- let me look at my
24 notes a little more closely here. I'm gonna start
25 again with that question.

1 Is it Staff's concern that the fact that
2 AWR 800 number calls from the 800 number that's
3 included in Missouri-American billings -- and is that
4 true that that is -- that that's included on
5 Missouri-American bills -- that 800 number or is that
6 not true?

7 A. The AWR -- the AWR phone number is identified
8 on the AWR Missouri-American's mailing and --

9 Q. In the AWR separate mailing?

10 A. Right.

11 Q. What about on the customer bills?

12 A. On -- on the customer bill there is only the
13 customer service number identified.

14 Q. Okay. Well, then let me start again with my
15 question.

16 Is the concern that because Missouri-American
17 has limited its name and has provided customer lists to
18 that mailing that has gone out from AWR that includes
19 an 800 number, and because some of those call --
20 because those 800 number calls are really directed back
21 through a central switching, it appears at
22 Missouri -- Missouri-American -- I guess, it would be
23 not just Missouri-American, but that would be the
24 national call center, correct?

25 A. Yes.

1 Q. Okay. Those are directed through this nat--
2 na-- national call center switch somehow?
3 A. Somehow that is taking place.
4 Q. And some of them, if they're treated as the
5 Company is saying that they should be treated, they're
6 automatically sent to an AWR employee to answer? It
7 just -- is that your understanding of the way the call
8 works?
9 A. My understanding is that when you call the
10 AWR number, you can get an AWR employee or you can get
11 a customer service representative.
12 Q. Okay. But -- but is it -- didn't you
13 understand the Company's position to be that --
14 assuming that the customer when the customer calls does
15 the automated process correctly and identifies his --
16 or go to the water line program, that it will take
17 them -- the Company's testimony -- that it will take
18 them to a -- an AWR employee who will answer questions
19 about the AWR program?
20 A. That option is available on the customer
21 service --
22 Q. Okay.
23 A. -- number.
24 Q. And the customer can get there by punching in
25 the right numbers?

1 A. Yes, to get to this piece right here

2 (indicating).

3 Q. Okay. But apart -- and let me -- you know,
4 correct me anywhere I'm wrong. I think part of Staff's
5 concern is that, first of all, it comes in -- well, not
6 first of all.

7 First of all, Missouri-American participated
8 in the mailing, even if it was only by lending its
9 name, correct?

10 A. Correct.

11 Q. And AWR is an affiliate?

12 A. Correct.

13 Q. And do you know if Missouri-American
14 participated in the mailings of non-affiliated
15 companies that offer services to its customers?

16 A. I believe the Company indicated that they have
17 provided inserts for charitable organizations within
18 their ma-- their bills.

19 Q. But I'm talking about commercial -- I'm
20 talking about companies that offer services for sale.

21 A. And I -- I'm not aware of Missouri-American
22 lending their name to any other offers.

23 Q. Okay. So that's the concern of Staff that
24 this is somehow an -- an affiliated transaction,
25 correct?

1 A. That's -- yes.

2 Q. Okay. Now -- and I think I would say that I
3 believe that Staff is also concerned that it creates
4 confusion for the customers?

5 A. Yes.

6 Q. And that it results in a number -- an -- an
7 unidentifiable or unquantifiable number that's possibly
8 very large -- a very large number of calls for AWR
9 going through the call center?

10 A. That is correct.

11 Q. Okay. And that's inappropriate from Staff's
12 position, because it is an affiliate, correct?

13 Well -- okay. Go ahead and answer that.

14 A. It's inappropriate in that the service company
15 is supplementing the operations of an affiliated
16 company, AWR.

17 Q. And if what Mr. Ciottone stated when he was
18 testifying while he was asking you questions earlier
19 that the Company bills AWR for any calls -- any AWR
20 calls -- if that -- if that's true -- assume that's
21 true, does that remove your concern or is your concern
22 also related to the fact that --

23 A. My --

24 Q. -- this is an affiliate?

25 A. My concern is that they don't bill them for

1 the full impact. I believe they've identified this
2 piece here (indicating).

3 Q. Okay. And -- and the fact that that's not --
4 what that piece of the puzzle is is not quantifiable,
5 correct?

6 A. Well, that they haven't quantified the full
7 impact. They've quantified a piece.

8 Q. All right. And a second concern, as I
9 understand it, is that calls that come in that are just
10 intended for MAWC -- the customer picks up the mailing
11 from AWR and it says -- the customer thinks, oh, I had
12 a question about my bill. I'm gonna call the Company
13 and get my question answered.

14 And they call the 800 number. But it's really
15 an AWR number, but they get connected, as you did, with
16 a Missouri -- or with an American Water Company -- or a
17 national call center employee, correct?

18 A. Well, my concern is that a Missouri-American
19 customer could call the AWR number with a question
20 about the water line program. And instead of getting
21 an Missouri-American resources employee, they're
22 getting a customer service representative who's
23 answering questions --

24 Q. Okay. That --

25 A. -- about AWR.

1 Q. That's not what I'm asking you right now.

2 A. Okay.

3 Q. I'm asking you if you also have a concern that

4 a customer calls the AWR number being confused -- as

5 you said --

6 A. Correct.

7 Q. -- that this may create confusion -- confused

8 thinking, well, this is Missouri-American's number.

9 Calls that number and says, I -- I'd like to ask you a

10 question about my bill from last month. Is that also a

11 concern?

12 A. That would be a concern.

13 Q. And is that because of the affiliate nature of

14 the Company's --

15 A. Yes.

16 Q. Okay. And then for those -- another concern,

17 I think, is that those that are just calling to speak

18 about the AWR program, that even the Company has agreed

19 that approximately 300,000 of those customers, and

20 they're saying that would be a maximum, I believe, may

21 be misdirected to Missouri-American -- to operators who

22 would normally be answering just Missouri-American

23 calls; is that right?

24 A. That -- that's the Company's statement.

25 Q. Okay. But it would be Staff's position that

1 that's not the full picture?

2 A. I -- I don't believe the Company -- correct.

3 Q. Okay. Now, that really isn't central, though,
4 to this issue of allocation of call center calls if we
5 accept Staff's position?

6 A. Correct.

7 Q. Okay. Now, it overlaps this issue -- the call
8 center allocation does only if we go to Company's
9 position; is that right?

10 A. That's correct.

11 Q. And if we took Company's position and said,
12 now, we think the call center was -- was prudent -- a
13 prudent decision, then we have to look at the
14 annualization data; is that right?

15 A. The annualization data for what? For -- for
16 the call center?

17 Q. Let me think what I'm -- I mean, I'm sorry.
18 I'm trying to keep this straight in my mind. Yes, I'm
19 talking about for the call center.

20 A. For the transition costs, is that what
21 you're --

22 Q. Well, is that only applicable to the
23 transition costs or is that applicable to the ongoing
24 costs of the new call center?

25 A. Are you asking -- you're asking me if -- if

1 I -- if the Staff said the call center -- O&M costs are
2 prudent --
3 Q. Yes.
4 A. -- would the -- would the Staff still believe
5 that the transition costs for the call center?
6 Q. No, I -- I'm trying to leave transition costs
7 out of it.
8 A. Okay.
9 Q. Maybe I'm just confused. But there's a --
10 there were calculations -- for example, Exhibit 115 was
11 an annualization data chart.
12 A. 115.
13 Q. And this you -- you had an extended discussion
14 with --
15 A. This -- this --
16 Q. -- Mr. Ciottone about that, and said that
17 Staff disagreed with the annualization, correct?
18 A. Okay. And was he --
19 Q. Does that annualization have to be considered
20 to determine the allocation of costs -- not transition
21 costs -- but just O&M costs for the new call center if
22 we take the Company's position and -- and accept the
23 new call center?
24 A. Are you asking me what -- what needs to be
25 done to that or --

1 Q. Do we need to look at ann-- annual--
2 annualization?

3 A. Yes. The -- the 3,223,228 would need to be
4 adjusted for the effect of Kentucky and Tennessee.

5 Q. Okay. And that is because the -- Kentucky and
6 Tennessee will be a part of the new call center going
7 forward and, therefore, the costs based on the call
8 center as it was in November of 2003 are the costs that
9 should be considered; is that right?

10 A. I -- I don't believe that's the -- the level
11 that should be considered. But that -- that month does
12 restate the -- the Kentucky and Tennessee amount.

13 Q. Okay. And -- and how do you incorporate that
14 month into your calculations of what should be
15 considered or --

16 A. Into my calculations, the Staff's?

17 Q. No. I guess maybe it's not relevant --

18 A. Right.

19 Q. -- because the Staff doesn't do it.

20 A. Right. That's correct.

21 Cuz the Staff -- the Staff is trying to
22 determine what the costs were at the time the decision
23 was made to form the call center. That's what's
24 relevant.

25 Because at that point in time

1 Missouri-American calculated an overall cost savings.
2 If there was an overall cost savings for
3 Missouri-American, how can Missouri-American be
4 assigned more costs than what they had at that point in
5 time?

6 Q. Okay. Well, I don't want to get -- get myself
7 confused by looking too much back at that. I want to
8 focus on here if -- if the Commission first made the
9 determination that it was prudent -- a prudent decision
10 to go to the new call center.

11 And Staff has not done any calculation that
12 would show the Commission what numbers it should use to
13 determine that; is that correct?

14 A. That's correct.

15 Q. Okay. And bear with me a minute or two,
16 please.

17 Now, the allocation of the shared services
18 costs, I believe, we -- I believe we did this issue at
19 this time, too; is that right?

20 A. I -- I --

21 COMMISSIONER MURRAY: Is that right, Judge?

22 JUDGE THOMPSON: Excuse me?

23 COMMISSIONER MURRAY: Did we do the national
24 shared services charges?

25 JUDGE THOMPSON: No, we have not yet done

1 that.

2 COMMISSIONER MURRAY: I thought there were
3 some questions about it, but I'll wait.

4 I know I had some more questions.

5 JUDGE THOMPSON: Perhaps they'll come to you
6 while Commissioner Clayton is inquiring.

7 COMMISSIONER MURRAY: All right. That'd be
8 fine. Go ahead.

9 JUDGE THOMPSON: Commissioner Clayton?

10 QUESTIONS BY COMMISSIONER CLAYTON:

11 Q. Good morning. I'm gonna try to cut straight
12 to the chase, and I'm gonna ask some repetitive things.
13 Because we've been talking about this stuff a long
14 time.

15 Just to make sure that I'm on the right
16 subject, at the very least, the position of the Company
17 for national call center O&M is roughly \$4.1 million?

18 A. That is correct.

19 Q. Okay. How do they base that?

20 A. They base that on taking service company bills
21 for six months, May 2003 through October 2003,
22 unadjusted and then multiplying it by two.

23 Q. Okay. Staff --

24 A. And -- and -- and also --

25 Q. Oh, I'm sorry.

1 A. They also include service order closers that
2 are now at the local district levels at St. Louis,
3 which supplement the call centers' operations.

4 Q. That was May '03 to when -- what was the date?

5 A. May 2003 through October 2003.

6 Q. Right. Right. Take that times two.

7 Okay. And Staff -- the Staff position is
8 roughly \$3.2 million?

9 A. That is correct.

10 Q. Okay. And how does Staff base that?

11 A. That was -- that was based on as-is costs at
12 the time that American Water made its decision to form
13 the call center, and those as-is costs were factored up
14 for all known changes to increase that amount to that
15 level of 3.261.

16 Q. Okay.

17 A. 3.261.

18 Q. When you saw as-is costs at the time they made
19 the decision to go to the national call center, was
20 that done on a percentage basis by number of
21 calls? How -- how did you --

22 A. Yeah.

23 Q. -- determine that actual cost?

24 A. That was actual known and measurable costs
25 during 2000 -- that factored up through 2003 for all

1 known changes.

2 Q. Okay. Okay. Now, the Company came to Staff
3 to talk about this national call center prior to them
4 making that decision, is that correct, or roughly about
5 the time that they made the -- the decision?

6 A. They came -- they came to the Staff after they
7 made the decision.

8 Q. Okay. And made the Staff aware of what they
9 were planning on doing?

10 A. Yes.

11 Q. And were you part of that -- part of that
12 group that they made aware?

13 A. I was not part of that group.

14 Q. So you weren't aware of that.

15 Did they lead you -- or did they lead Staff to
16 believe what the operating costs would be after the
17 implementation of the national call center?

18 A. The implication the Staff got in the
19 documentation that they received is reduced operating
20 costs.

21 Q. Did they give a figure?

22 A. There was no number provided.

23 Q. So there was no figure, they just said the --
24 that the operating costs is gonna be less?

25 A. That was the statement of documentation, yes.

1 Q. Okay. Has that documentation been placed
2 in -- in evidence?

3 A. We have -- I don't know if -- I don't know
4 that it's been placed in evidence, but the Staff has
5 that documentation.

6 Q. What kind of document -- documentation is
7 it? Do you have a letter?

8 A. It -- it was a presentation -- part of the
9 presentation that they -- they gave to the Staff.

10 Q. Okay. Since you're probably not gonna be
11 released any time soon from this building, I'd kind of
12 like to see if -- if -- if there -- I don't want a
13 mound of documents, but if there is documentation that
14 indicates that the Company made an assurance or a
15 statement or a promise or anything like that that --
16 that the costs would be less for customers in the State
17 of Missouri, I'd like to see it. I don't even know if
18 that's appropriate to ask for.

19 When was the national call center created --
20 what year?

21 A. When was it created? It -- the decision was
22 made in 2000. I -- I believe that it began --

23 Q. Okay. Well, let me ask you this: Is the
24 \$3.2 million the -- the known and measurable costs from
25 the time just prior to creation of a national call

1 center -- was that before or after the merger with
2 St. Louis County Water -- or the acquisition or
3 whatever it was?

4 A. That was after.

5 Q. It was after?

6 A. Yes.

7 Q. So the 3.2 million has been adjusted to meet
8 the -- the -- the quadrupling of customers --

9 A. That is --

10 Q. -- in this instance?

11 A. -- correct.

12 Q. Okay. Okay. Now, there's been a lot of
13 discussion about prudence and whether or not standards
14 are being met. Is it Staff's position that service has
15 improved or not improved since the creation of the
16 national call center for Missouri-American customers?

17 A. The Staff believes that the items that the
18 Company mentions represent an improvement, but the
19 Staff does not know what level of improvement that is
20 because --

21 Q. Okay. I didn't ask -- I -- I didn't ask you
22 that. I just want to know if Staff believes that the
23 call center has improved or not improved the service
24 one would normally think goes with a call center or
25 customer service in the nature of this call center.

1 Has there been an improvement or not? I don't
2 care about levels. I don't want to know --

3 A. Yes.

4 Q. -- about different measurements.

5 It -- yes. I mean, is it an improvement or --
6 or not?

7 A. Yes.

8 Q. Okay. Good.

9 So after that admission, is it Staff's
10 position that the improvements have not been
11 significant enough or are not measurable enough to
12 warrant the increase in annual operating expense of
13 roughly \$850,000 since prior to the creation of the
14 national call center?

15 A. Yes.

16 Q. Okay. And can you tell me what standard or
17 what level of improvement now would have to be achieved
18 for this increase of \$850,000 in annual expenses?

19 A. I -- I don't know.

20 Q. How come?

21 You know that it doesn't meet it, but how do
22 you know you don't meet it when you don't know what
23 level it would have to achieve to justify the expense?

24 A. Because the Staff hasn't performed a study to
25 determine what -- what level would make -- meet that

1 level. And the -- and also the customer hasn't been
2 asked if they needed an improved level of customer
3 service. So we -- the Staff doesn't know if the
4 customer even wanted an improved level of service.

5 Q. Okay. Well, let's go back to whether Staff
6 has -- why Staff has not measured whether this \$850,000
7 increase is justified or not.

8 If you haven't run an analysis, then how do
9 you know that the -- the dollar amount isn't
10 justified -- the dol-- dollar amount increase and
11 expense if you haven't run an analysis?

12 A. Because of the study that American Water
13 performed that showed overall cost savings. And the
14 document that the Staff would like to put in the
15 record -- is anxious to put into the record
16 that -- that shows that that cost savings was
17 distributed to every other state except Missouri.

18 Q. Okay. Well, that's fine. But that has
19 nothing to do with an increase in level of service that
20 you just mentioned was a factor in why the \$850,000
21 isn't justified.

22 A. Because the Company did not ask -- the Company
23 did not ask its customers if it wanted that level.
24 And -- and I -- and the Staff is unable to perform any
25 kind of quantification of that.

1 Q. Okay. Did the Company ask the customers
2 whether or not they wanted certain pipes replaced
3 throughout the Missouri-American system?

4 A. No, they did not.

5 Q. Did the Company ask the customers what level
6 they should be achieving in EPA environmental
7 regulations?

8 A. No, they did not.

9 Q. Did that ask the customer what type of
10 accounting they should use?

11 A. No, they did not.

12 Q. Okay. How would you propose that the Company
13 ask the customers on customer service what should be
14 done? How would you propose that communication
15 actually occur?

16 A. Given the existing customer service function,
17 they -- the Company had daily interaction with
18 customers through phone calls. At the end of each of
19 those phone calls, the -- the Company could have asked
20 their customer, were you happy with the level of
21 service you received today? If not, do you believe
22 there is something we could do to improve the level of
23 service, and what would that be?

24 And they could also ask the customer, would
25 you be willing to pay for that additional improved

1 level of service?

2 Q. Okay. Can you think of any other utility
3 in -- or any other case where that has actually been
4 done?

5 A. I personally don't know of any.

6 Q. Me neither.

7 Do you -- does Staff believe that the creation
8 of this national call center is gold plating? And when
9 I use the term "gold plating," I mean, is it -- is it
10 too nice of a customer service system for -- for its
11 customers?

12 A. I don't know.

13 Q. Do you believe that the -- the increased level
14 of customer service is just too much -- that the
15 customers are not deserving of that level of service?

16 A. I don't know.

17 Q. Well, it sounds to me in this -- in this
18 exchange that basically Staff's position is that it was
19 led to believe that the costs would be -- would be
20 decreased, and that that is the reason why Staff
21 believes that the increased amount should not be
22 allowed; is that a fair statement?

23 A. I would say that's fair.

24 Q. Okay. So it doesn't really relate to anything
25 else, it's basically Staff was led to believe that the

1 costs would be less and that's the reason why we
2 shouldn't --

3 A. No, it's --

4 Q. -- authorize the increase?

5 A. It's -- it's not that the Staff was led to
6 believe something, it's -- it's the documentation in
7 Schedule 8.

8 Q. Well, promise. I'll -- I'll rephrase. That
9 it's basically Staff was promised that the cost would
10 be decreased, and because of that, the increased costs
11 should not be authorized?

12 A. That's a factor, yes.

13 Q. No. No. That's the reason, is it not --

14 A. No, that --

15 Q. It's the only reason?

16 A. -- that is not. Well --

17 Q. What other reason would there be?

18 A. Well, the reason is -- is that -- that the
19 Staff -- the Staff did not know the documentation
20 existed until recently. But, yes, the Staff -- if the
21 Staff was led to believe that reduced operating costs
22 would occur then, yes.

23 Q. I can see where that would be a significant
24 reason why Staff would take its position. Is it the
25 only reason?

1 A. It is -- that is the -- the primary reason,
2 and also that the Com-- the Company has not asked its
3 customers.

4 Q. And because there hasn't been that
5 communication. Okay.

6 A. Yes.

7 Q. That's two things. Anything else?

8 A. And that you can't -- you can't justify the
9 expense by taking -- okay.

10 Q. But Staff hasn't run an analysis on that, so
11 how can you have a --

12 A. Okay.

13 Q. -- position on that?

14 A. Those -- those are the primary two positions,
15 yes.

16 Q. Okay. Two. Okay. Good. Good.

17 I know that this is going to be further than
18 what this section of the examination is about, but
19 basically are those two reasons the same reasons that
20 would apply on the transition costs for the call
21 center?

22 A. Yes.

23 Q. Okay. Would those two reasons be the same
24 reasons on -- for Staff, in terms of the transition
25 costs on the shared services?

1 A. The reason would be different for shared
2 services in that it did achieve cost savings to the
3 Company. And the Company has already recovered the
4 costs that it spent to achieve that savings.

5 So --

6 Q. Okay. So shared service is gonna be
7 different?

8 A. Right.

9 Q. Then we'll -- we'll -- we'll hold off -- or
10 from my perspective, we'll hold off until later on for.

11 I don't know if you're gonna know the answer
12 to this, so if you don't know, tell me you don't know.

13 There is a difference on -- on the national
14 call center -- there is a difference between Staff and
15 Company of roughly \$850,000. There's also the
16 transition costs of roughly \$224,000 per year, which is
17 the capitalized annual basis. And then there's this
18 interest that has popped up.

19 If you add all of those figures together in
20 the revenue requirement -- and it's a little over a
21 million dollars in revenue requirement, how much -- can
22 you tell me how much an increase that would be in cost
23 for an average residential customer?

24 A. The -- the amount you identified for the
25 transition costs is not the amount the Staff has

1 recommended for disallowance.

2 Q. Okay. But I mean that -- that's the -- the
3 difference between what the Staff position and the
4 Company position is -- roughly 850,000 on O&M?

5 A. For O&M.

6 Q. And then Staff on transition has zero, and the
7 Company, I believe -- my notes indicate roughly the
8 annual cost of \$224,000?

9 A. I think it's -- I think the Company is
10 recommending --

11 Q. Plus the interest?

12 A. 776,000 is our reconciliation to that in
13 our -- in our reconciliation.

14 Q. Well, the -- the interest is 564,000 so, yeah.

15 A. Yeah -- the return, yes.

16 Q. Okay. So roughly a \$1.5 million increase in
17 revenue requirement. Can you tell me how much that
18 would mean to an average residential customer in
19 Missouri-American?

20 A. Roughly \$3.65 per year.

21 Q. \$3.60 per year --

22 A. Correct.

23 Q. -- or per month?

24 So basically the increase in customer service
25 that the Company is asking for costs the customer

1 30 cents per month for the average customer, I guess?

2 A. Roughly 30 cents per month, yes.

3 Q. And the customer should have been asked before
4 they got hit for that 30 cents for increased customer
5 service?

6 A. That's part of -- yes.

7 MR. CLAYTON: Okay. Okay. I'm not gonna ask
8 any more questions. But if there is a document where a
9 promise, an assurance or something that came up as we
10 plow through all of this stuff -- I have a feeling
11 we're gonna be here for, like, the next month and a
12 half talking about all this stuff continuously.

13 But if there is a document like that, I'd like
14 to see it. And thank you for your -- answering my
15 questions.

16 JUDGE THOMPSON: Commissioner Murray?

17 COMMISSIONER MURRAY: I just have one or two
18 more.

19 FURTHER QUESTIONS BY COMMISSIONER MURRAY:

20 Q. If the Commission were to accept Staff's
21 position that the new call center was imprudent and we
22 should not allow the costs based on it, what about in
23 the future when the Company comes in for its next rate
24 case, would it be Staff's position that we should still
25 only look to the legacy costs because the new calls --

1 going to the new call center at the time that decision
2 was made was imprudent?

3 A. If the allocation -- if the cost allocation to
4 Missouri continued to exceed, factors could -- factors
5 could change and the Staff's position could change
6 in the -- in -- in the future. So I -- I just don't
7 know what Staff's amount would be in the future.

8 Q. Well, when -- in that -- a determination of
9 prudent is based -- prudence is based on the facts that
10 were known at the time the decision was made, how can
11 it be imprudent in this rate case, but then maybe in a
12 later rate case -- how can we look back on that
13 decision and say, oh, well, in light of this year,
14 we're gonna consider that it was prudent?

15 A. I -- I just can't predict what will happen in
16 the future. I -- I just don't know. I can't --

17 Q. Well, I'm asking you how we could change --
18 change the decision on that prudence issue. If we say
19 it's not prudent, it's already been done. If we say in
20 this case, no, that was not prudent, how could we in a
21 later rate case say, well, on second thought, it worked
22 out better for the customers so maybe it was prudent?

23 A. Commissioner, I -- I just -- I don't know
24 what -- I don't know what factors would cause the cost
25 to change. It would just depend.

1 Q. How could we look at the cost changes? How
2 could we change our determination of that prudence
3 issue to go to the call center? I -- I mean, maybe I'm
4 not --

5 A. I --

6 Q. -- understanding --

7 A. I don't think --

8 Q. --what you're saying.

9 A. I don't think you're -- you would be loo-- at
10 that point in time you would be going back and trying
11 to look at what the -- I think you would have to assess
12 all of the variables at that point in time to determine
13 a reasonable ongoing level for call center expense.

14 COMMISSIONER MURRAY: Okay. That's all.
15 Thank you.

16 JUDGE THOMPSON: Commissioner Clayton, further
17 questions?

18 COMMISSIONER CLAYTON: No, thank you.

19 JUDGE THOMPSON: Mr. Cassidy, I have some
20 questions for you.

21 QUESTIONS BY JUDGE THOMPSON:

22 Q. Now, I understand that the Company is seeking
23 \$4,102,145 in revenue requirement on this issue; is
24 that correct?

25 A. That is correct.

1 Q. And when I look at Exhibits 115 and 114, I can
2 see exactly how that was achieved. That the \$1,611,614
3 of national call center costs for the six months, May
4 through October, was annualized to 3,223,228, and then
5 to this was added a figure of \$878,917 for local
6 costs --

7 A. Uh-huh.

8 Q. -- which we see in Exhibit 114 consists of
9 wages, benefits, facility costs and other O&M costs.
10 And I assume that's for the St. Louis call center --
11 the so-called legacy call center that no longer exists?

12 A. That is -- the 878,000 is for the service
13 order closers that were necessary as a part of the new
14 call center's formation.

15 Q. Okay.

16 A. They supplement the new call center.

17 Q. All right. Now, Staff on the other hand, has
18 suggested the figure of \$3,261,840, right?

19 A. That is correct.

20 Q. \$261,840.

21 Okay. And this consists of a test year call
22 center figure of \$3,669,378 that has been adjusted
23 through a series of one, two, three, four, five
24 adjustments to reach the figure that I just read?

25 A. That is correct.

1 Q. And -- and, in fact, this is shown on page 25
2 of your surrebuttal testimony. So I want you to
3 quickly identify for me what those five adjustments
4 are. The first one is a subtraction of \$3,008,967.
5 What is that adjustment?

6 A. That eliminates the allocation from the
7 service company for the St. Louis District portion of
8 costs that was assigned from the service company for
9 St. Louis District being attached to the call center.

10 Q. Okay.

11 A. And it also eliminates a small piece of
12 non-recurring expense that would -- that needed to be
13 taken out to avoid double -- double inclusion.

14 Q. Okay. And what's the rationale for
15 eliminating the allocation for the St. Louis District?

16 A. All -- all of these costs have to come out of
17 a test year to restate to this level. That -- that
18 is -- that is why those adjustments were made to -- to
19 reach this level that the Company had calculated for
20 the Staff.

21 Q. Okay. What about the addition, then, of
22 \$3,193,391?

23 A. That represents -- that represents the as-was
24 cost that the Company provided less \$122,000 that were
25 already in the test year that needed to be removed from

1 that amount to avoid double inclusion.

2 Q. Okay. Then there was a subtraction of
3 \$412,772. What's that adjustment?

4 A. Those three adjustments -- those next
5 three adjustments remove the amounts included in
6 Staff's labor and payroll annualizations, in this case,
7 that included costs that related to the service order
8 closers, which -- which weren't a function of that --
9 performance of that call center.

10 Q. And that describes the -- all of these last
11 three adjustments?

12 A. Yes.

13 Q. So I don't need to ask you about them one by
14 one?

15 A. Yes. That -- that's for -- that's labor and
16 all the related.

17 Q. Okay. Now --

18 A. And --

19 Q. I'm sorry.

20 A. Go ahead.

21 Q. It seems to me that when I ask Company what
22 the test year amount was, they told me it was
23 4,996,881. So how do we get to the \$3,669,378
24 position?

25 A. I -- I think that Company Witness Jenkins was

1 confused when me made that num-- when he stated that
2 number. The -- the Staff and Company have agreed that
3 it is the 3,669,378.

4 Q. Well, they've agreed on that because that's
5 what's really on the books or because there's some --

6 A. That is --

7 Q. -- adjustment they don't dispute?

8 A. That -- that is what we agreed and -- and it's
9 identified in a Data Request to the Staff that that is
10 the test year level.

11 Q. Really?

12 A. There -- there was --

13 Q. What is actually on the Company's books? I
14 don't care what --

15 A. That is the amount -- that is the amount that
16 is on the Company's books.

17 Q. 3,669,378?

18 A. Correct.

19 Q. So they were just confused in thinking that
20 their books were closer to 5 million?

21 A. I -- I didn't -- I can't speak for
22 Mr. Jenkins, but I believe he incorrectly identified
23 the test year amount.

24 Q. Okay. Okay. And as I understand it, the
25 number that Staff gets to with these adjustments -- the

1 3,261,840 represents the cost of the legacy call center
2 system that's essentially grossed up for certain known
3 and measurable changes, is that right, or is --

4 A. That is --

5 Q. -- it grossed down?

6 A. That is grossed up.

7 Q. Okay. And the reason is -- is because of
8 these two factors we discussed, the no survey of
9 customers and the allocation of cost savings away from
10 Missouri; is that right?

11 A. Yes. The no allocation, yes.

12 Q. In other words, we know that calls are being
13 handled by the national call center in Alton and not by
14 the legacy call centers, but Staff is nonetheless
15 proposing a figure that's based on the op-- the cost of
16 operating the legacy centers, right?

17 A. Yes, given overall cost savings.

18 Q. Okay. And that's for those two reasons we
19 just discussed?

20 A. Yes.

21 Q. With no survey of customers and the allocation
22 of savings away from Missouri?

23 A. Correct.

24 Q. Okay. Now, why does Staff believe that
25 customers should have been surveyed?

1 A. Given the overall cost savings, it would have
2 seemed that if the Company was attempting to propose an
3 increase, that they would need to justify it by asking
4 the customers.

5 Q. Well, they don't ask the customers when they
6 build a new water plant, do they?

7 A. No, they don't.

8 Q. So why should they have to ask before they go
9 to a national call center?

10 A. Because they have the tools at their disposal
11 to directly address that, given that they have daily
12 interaction with the customer with regard to the
13 customer service function.

14 It seems that it would be appropriate and
15 reasonable to ask the customer if they feel they are
16 getting the service they -- they desire.

17 Q. In -- in reaching this position that they
18 should have surveyed the customers, is Staff relying on
19 any kind of national standard or industry standard?

20 A. I haven't relied on any national standard.

21 Q. So it is simply your personal opinion?

22 A. It -- it's -- it's the opinion of Staff, and
23 it's shared by Staff Witness Deborah Bernsen in her
24 testimony.

25 Q. Okay. So we can also ask her about that?

1 A. That's correct.

2 Q. But as far as you know, it's not based on
3 anything outside of you and your conversations with
4 Ms. Bernsen?

5 A. Well, and with discussion of other senior
6 Staff auditors.

7 Q. For example?

8 A. I -- I've spoken to several auditors about
9 whether they felt they -- that a survey would have been
10 appropriate.

11 Q. And -- and who are these other auditors?

12 A. Steve Rackers, Greg Meyer.

13 Q. Okay. And as far as you know, what did they
14 base their opinion on, if you know?

15 A. I -- I don't know.

16 Q. Okay. Very well.

17 Now, as to the allocation of cost savings away
18 from Missouri, I think there's a document that you have
19 seen that's not in evidence, is that correct, showing
20 the cost savings were realized, but for some reason
21 they weren't assigned to Missouri -- in fact, Missouri
22 was assigned additional costs?

23 A. That is correct.

24 Q. Okay. And what is that document?

25 A. That document breaks down the cost savings

1 that are identified in -- in Schedule 8 to my
2 surrebuttal testimony.

3 Q. So that's where I can find it, Schedule 8 to
4 your surrebuttal?

5 A. The \$10 million is found in Schedule 8 of my
6 surrebuttal, and the breakdown of that cost to all of
7 the operating companies, it is identified in DR 479.

8 Q. Is DR 479 in evidence?

9 A. No, it is not.

10 Q. Is it going to be?

11 A. The Staff would like to introduce it.

12 JUDGE THOMPSON: Well, why doesn't Staff do
13 that now.

14 MR. BATES: Your Honor, I have here I'd like
15 marked for identification, Staff DR 479, which I should
16 tell the Commission contains highly confidential
17 information.

18 JUDGE THOMPSON: Okay. So Exhibit 117, which
19 is DR 479 is highly confidential; is that correct?

20 MR. BATES: Yes.

21 JUDGE THOMPSON: And this is the document and
22 a response to Staff from Company that Staff has relied
23 upon for the position that, in fact, no cost savings
24 were realized; is that right?

25 THE WITNESS: Yes, that's --

1 JUDGE THOMPSON: They were allocated away from
2 Missouri-American?

3 THE WITNESS: Yes.

4 JUDGE THOMPSON: Yes.

5 MR. BATES: I'm sorry.

6 JUDGE THOMPSON: This will be Exhibit 117.

7 And I notice that it is quite a few pages long, right?

8 (No response.)

9 (EXHIBIT NO. 117 WAS MARKED FOR IDENTIFICATION
10 BY THE COURT REPORTER.)

11 JUDGE THOMPSON: And I'm sure I'm doing this
12 out of proper context in urging you to introduce this
13 now, but I think it will be very helpful on this side
14 of the Bench to see what it is you've been talking
15 about all this time.

16 MR. BATES: Your Honor, I also understand that
17 this is only part of the response to DR 479.

18 JUDGE THOMPSON: And where's the rest of the
19 response?

20 MR. BATES: It's up -- I understand it's quite
21 thick.

22 JUDGE THOMPSON: Well, that -- that hasn't
23 stopped anyone so far in this case.

24 MR. BATES: I understand that. And if the
25 Commission would like, we can provide it with the

1 entirety of 479.

2 JUDGE THOMPSON: Well, I have two questions to
3 that. No. 1, is the entirety necessary to understand
4 the position Staff has taken?

5 MR. BATES: No.

6 JUDGE THOMPSON: Okay. And, No. 2, do any of
7 the other parties want the entirety of the response in
8 evidence?

9 (No response.)

10 JUDGE THOMPSON: Evidently they don't. So
11 we'll just go with the bit that we have here.

12 Do I hear any objections to the receipt of
13 Exhibit 117, described as part of a response to DR 479,
14 containing highly confidential information?

15 MS. O'NEILL: Your Honor, I don't have an
16 objection, but I do have a question about whether the
17 entire response is highly confidential -- the exhibit
18 is highly confidential or partly?

19 THE WITNESS: Yes, it was -- it was provided
20 to me under the understanding it should be treated
21 highly confidential.

22 MS. O'NEILL: Okay. Just --

23 JUDGE THOMPSON: So all of the multiple pages
24 should be treated --

25 MS. O'NEILL: Okay.

1 JUDGE THOMPSON: -- highly confidential?
2 THE WITNESS: Yes.
3 JUDGE THOMPSON: Okay. Fair enough.
4 MR. BATES: Your Honor, should this be 117 HC.
5 JUDGE THOMPSON: I have marked it as HC.
6 MR. BATES: Okay. Thank you.
7 MR. CIOTTONE: Your Honor, I can't speak to
8 the Company's willingness to accept this, because I'm
9 not fami-- I'm not familiar with the ramifications of
10 the designation of highly confidential.
11 I'm not sure why -- I wasn't -- I wasn't in on
12 that, and I don't know whether --
13 JUDGE THOMPSON: Do you need an opportunity
14 to -- to consult with someone?
15 MR. CIOTTONE: Yes, I do.
16 JUDGE THOMPSON: Okay. We've received it and
17 we'll go -- I mean, in the sense that it's physically
18 been handed out, and we will then set aside a ruling on
19 its admission until after you've had a chance to
20 consult. How's that?
21 MR. CIOTTONE: Fine.
22 Can I ask you a question that -- does this
23 essentially waive the highly confidentiality once it
24 becomes in -- into the public record now? How is it
25 then treated?

1 JUDGE THOMPSON: It's highly confidential, so
2 it's subject to the terms of the Protective Order.
3 It's only available as the Protective Order indicates,
4 which I believe is to counsel and to outside experts.

5 MR. CIOTTONE: So it doesn't jeopardize that
6 status?

7 JUDGE THOMPSON: No. No, sir, it does not.
8 And any discussion of highly confidential information
9 would be in camera so that's it's not broadcast outside
10 of the room.

11 And, of course, we clear the room of any
12 individuals who are not permitted to be privy to the
13 highly confidential information.

14 MR. CIOTTONE: If I could take a ten-minute
15 break, I can solve this with a cellphone call.

16 JUDGE THOMPSON: Let's take that ten-minute
17 break.

18 Thank you.

19 (A RECESS WAS TAKEN.)

20 JUDGE THOMPSON: And I will resume questioning
21 because I ain't quite done.

22 BY JUDGE THOMPSON:

23 Q. Let's see. Looking back over my notes for the
24 past several days -- okay. So Staff believes the
25 decision to go to the national call center was

1 imprudent in the light of this lack of any lower costs
2 being allocated; is that right?
3 A. Yes.
4 Q. Okay. And -- and when was that fact
5 discovered?
6 A. By the Staff?
7 Q. Well, by the Company.
8 A. July -- in the July to August 2000 time frame.
9 Q. And you already told me that in July of 2000,
10 American Waterworks calculated the expected savings for
11 going to the national call center?
12 A. Yes.
13 Q. And that in August of 2000, Missouri-American
14 made the decision to go to the national call center?
15 A. Yes.
16 Q. And that's also when they discovered they
17 weren't going to, in fact, realize those savings?
18 A. I believe that's correct.
19 Q. Now, this failure to realize savings, was that
20 a one-time thing or is that an ongoing thing?
21 A. That appeared to be an ongoing thing.
22 Q. That, in other words, Missouri would never
23 have any savings; that is, the national call center
24 would never be cheaper than it was to run the legacy
25 centers?

1 A. Given the -- the -- the customer count stayed
2 the same, yes.

3 Q. Okay. And is that because customer counts
4 were greater than they had been in the days of the
5 legacy center?

6 A. It was based on -- I -- I -- I don't know.

7 Q. Okay. Fair enough.

8 But let's think about prudence for a moment.
9 We talked about prudence in the last Missouri-American
10 rate case; isn't that correct?

11 A. That's my understanding.

12 Q. And are you familiar with the standard that
13 the Commission formulated and set out in that order?

14 A. I -- I don't -- I haven't read that.

15 Q. Okay. The standard that the Commission found,
16 applies to the management decision, is a standard of
17 reasonable care requiring due diligence, based on the
18 circumstances that existed at the time the challenged
19 item occurred, including what management knew or should
20 have known.

21 And in making this analysis, the Commission
22 stated that it is mindful that the Company has a right
23 to manage its own affairs and to conduct its business
24 in any way it may choose, provided that in so doing it
25 does not injuriously affect the public. And that last

1 language was a quotation from a decision by the
2 Missouri Supreme Court in 1930.

3 So the standard, then, is what did management
4 know -- at the time it made its decision, did
5 management exercise due diligence at that time? Was
6 the decision made in the light of the information that
7 was available or should have been available to
8 management? At the time it made the decision, was the
9 decision prudent? That's the standard.

10 A. The management was not prudent with the --
11 based on the information they had at their disposal.

12 Q. Because they -- they knew or should have known
13 that the transition would have resulted in a higher
14 cost?

15 A. Correct.

16 Q. Okay. Now, who operates the national call
17 center?

18 A. The service company.

19 Q. And so this is one of those 13 or 15 functions
20 that the service company does for Missouri-American?

21 A. It's -- yes.

22 Q. And is -- are costs allocated, if you know, on
23 the same basis as the Bellville laboratory, for
24 example, on the basis of customer count?

25 A. All of their costs are allocated on the

1 customers.

2 Q. And it's, in fact, subject to that contract we
3 spoke about yesterday?

4 A. That is correct.

5 Q. Okay.

6 A. And since we spoke about that contract
7 yesterday, I've also learned that -- I mentioned that
8 the contract was subject to renewal every year. I
9 believe that's actually every --

10 Q. You pointed that out yesterday.

11 A. Every -- I believe it's every 90 -- it's --
12 it's 90 days of notice --

13 Q. Okay.

14 A. -- is what the language said. And I -- I
15 correct myself from --

16 Q. So -- so you're suggesting they -- they --
17 that not only was it imprudent when they did it, it was
18 imprudent that they renewed this contract on those
19 terms each time they did?

20 A. Correct. Given that there's that affiliated
21 relationship.

22 Q. Okay. And that's fair enough. I just want to
23 understand your position on it.

24 So, now, in the last rate case the big item
25 where prudence was questioned was in the building of a

1 new water plant in St. Joseph. Are you aware of that?

2 A. Generally aware of that, yes.

3 Q. And -- and, in fact, building that plant did

4 not res-- result in any kind of cost savings. Are you

5 aware of that?

6 A. I'm -- I -- I -- I'm not aware of that.

7 Q. Okay.

8 A. I don't -- I don't know that --

9 Q. Okay. If I told you that it did not result in

10 cost savings but, in fact, resulted in significantly

11 higher rates for the purposes of this questioning, will

12 you just accept that as --

13 A. Yes, I would --

14 Q. -- being the case?

15 A. -- accept -- I would accept that.

16 Q. Nonetheless, the Commission found the decision

17 to build that plant to be prudent, because the old

18 plant was at the end of its useful life. Are you aware

19 that that was the Commission's decision?

20 A. Generally aware, yes.

21 Q. Okay. So there seems to be testimony in this

22 case from Company that the legacy call center was also

23 at the end of its useful life?

24 A. That -- that is what the Company has stated.

25 Q. Now, does Staff dispute that?

1 A. The Staff -- the Staff has seen no evidence to
2 suggest that.

3 Q. Well, the -- the statements of
4 Mr. Van Den Berg under oath is evidence?

5 A. I -- I don't know.

6 Q. Okay. What I'm asking is whether Staff has
7 evidence to refute it.

8 A. The -- the Staff has none.

9 Q. Okay. Certainly the new call center, you will
10 agree, produces reports and metrics that were
11 unavailable before?

12 A. There was no measurements before, correct.

13 Q. Okay. And now there are?

14 A. Correct.

15 Q. Okay. Just checking over my notes quickly
16 here.

17 Now, the issue of the AWR-related calls, why
18 does that matter?

19 A. It -- it matters because the Company is
20 attempting to develop an annualized level based on
21 calls, which the Staff believes is inappropriate, it's
22 inflating their number.

23 It also matters in that it is requiring the
24 resources of the service company to supplement the
25 operations of AWR.

1 Q. Is that taken into account in the number that
2 Staff has proposed, \$3,261,840?

3 A. The Staff's number would exclude all of those
4 activities.

5 Q. Because, in fact, it excludes the new call
6 center completely or is there some further adjustment
7 that was made specifically --

8 A. It -- it --

9 Q. -- to exclude those AWR-related costs?

10 A. Per se I -- I wouldn't characterize it as --
11 as excluding -- the Staff is not suggesting that the
12 Company not join the call center. The Staff is
13 suggesting that the Company could join the call center
14 and maintain costs at their pre-existing level and, in
15 fact, should have been allocated some cost savings,
16 which the cap-- the Staff has not attempted to capture.

17 Q. Okay. So you're saying they should have
18 gotten some part of the cost savings, but you're not
19 gonna say how much -- you don't have a number, right?

20 A. I -- I -- I just haven't attempted to capture
21 any of them.

22 Q. I understand.

23 Now, yesterday when talking about Company's
24 position of 4,102,145, you insisted that that had to be
25 reduced by \$125,469.

1 A. If -- if that was the ex-- if that level was
2 determined an appropriate level by this Commission, the
3 Staff would contend that that amount should be adjusted
4 for that amount, because that \$125,000 would still be
5 in the test year and would have to be adjusted out,
6 because it is non-recurring items that related to the
7 old call center activities.

8 Q. What are they exactly?

9 A. It was -- it was customer service expense that
10 related to the pre-existing call centers, I think, at
11 St. Joseph and --

12 Q. And it was one-time stuff?

13 A. It was stuff that doesn't exist any longer.

14 Q. Well, the old call center doesn't exist any
15 longer?

16 A. Correct. So these expenses wouldn't recur in
17 the future, because the Company's annualizing using a
18 service company bill now.

19 Q. Okay. When I look at Exhibits 114 and 115,
20 which show me the two different calculations that got
21 Company the \$4,102,145, I do not see any single item
22 that is worth \$125,469.

23 So it doesn't appear to me that that figure
24 even is part of what Company calculated.

25 A. Because the Company will adjust this amount --

1 they will adjust the test year to reach this \$4,102,000
2 level. By virtue of doing that, they are still
3 continuing to capture the \$125,000 in their amount.

4 Q. Okay. Now -- now the 125,000 occurred, you
5 say, at St. Joseph, right?

6 A. I -- I believe that's the majority of where
7 the costs occurred --

8 Q. Okay.

9 A. -- but I -- I could check.

10 Q. There are two components to this 4.1 million
11 figure. One component is the cost for six months of
12 the Alton call center that has been annualized. Now, I
13 know you disagree with how it was annualized, but
14 nonetheless that's one component?

15 A. That's correct.

16 Q. Is the 125,000 part of that component?

17 A. No, it is not.

18 Q. It can't be, right, cuz that's just Alton
19 cost?

20 A. Correct.

21 Q. Okay. The other part are the wages, benefits,
22 facility costs and other O&M costs experienced that --
23 that are characterized as local costs, and what I think
24 they mean are costs for the legacy call centers, right?

25 A. Yes. Those are the service order closers.

1 Q. The service order closers.

2 Tell me what the term "service order closer"
3 means.

4 A. Those are -- those are individuals at the
5 local district level who close out orders related to --
6 like high -- high bill complaints or metering problems.
7 That -- that is -- that is the explanation the Company
8 has provided to me.

9 They actually close out those types of
10 complaints s from customers, rather than the call
11 center handling them.

12 Q. And that's not being done anymore?

13 A. That is still being done. That -- that is
14 what is being done as the result of the formation of
15 the call center.

16 Q. I guess what I'm trying to get at is we -- we
17 have \$878,917 -- that's a component -- the second
18 component, in fact, of Company's request. And you're
19 saying, well, that's the service order closers.

20 And I'm trying to understand why that should
21 still be part of revenue requirement on an ongoing
22 basis. Is it still being done or not?

23 A. Yes. The 878 is being done.

24 Q. Well then, where do I take the 125,000 from?

25 A. Because the -- the 4,102,000 will be used to

1 adjust against the test year of 3,669,378.

2 Q. Okay.

3 A. The \$125,000 is in that number.

4 Q. It's in the 3,000,000?

5 A. It's in the 3,669,378.

6 Q. Okay. And yet when I look at the components

7 of Company's request, it doesn't start from the test

8 year. It is, in fact, formed by two things; by

9 annualizing the Alton costs and adding to that the --

10 what I'm told are ongoing costs of service order

11 closers.

12 The test year figure is not in there anywhere.

13 It's just not a component --

14 A. But --

15 Q. -- in their calculation.

16 A. But it is adjusted against the test year.

17 Q. When you say it's adjusted against the test

18 year, what do you mean?

19 A. That \$4,102,000 --

20 Q. Yes.

21 A. -- would have to be compared to the 3,669,000

22 level.

23 Q. Compared by who?

24 A. To -- to include into the revenue requirement

25 that difference.

1 Q. But -- but you see, I think it's that step
2 that doesn't exist, because the Commission is being
3 called upon to pick either the 4.1 million number or
4 the 3.2 million number.

5 And I don't see any stage or step of adjusting
6 the 4.1 million number against the test year figure.
7 That step does not, as far as I can see, exist.

8 If the Commission picks the 4.1 million
9 number, then the Commission has picked the calculation
10 that's -- that Company has performed, which is
11 annualizing the Alton costs and adding in the service
12 order closers, right?

13 A. Correct.

14 Q. Okay. And so I'm trying to understand, where
15 is this extra step of adjusting against the test year
16 figure?

17 A. The test year has events that are -- that --
18 that are non-recurring, and that's the Staff's position
19 that that 125,000 should be taken out.

20 Q. Well, I understand that. And -- and that's
21 important when looking at Staff's proposed number,
22 which is after all based on the test year figure, which
23 is then adjusted in certain ways to reach your proposed
24 number, the 3.2 million, right?

25 But when I look at Company's number, they

1 don't even start form the test year figure. They
2 ignore the test year figure. Instead they annualize
3 the Alton figure for six months, and they add in the
4 service order closers, who I assume are taken from the
5 test year; is that right?

6 JUDGE THOMPSON: Does anybody know?

7 THE WITNESS: That is the amount that they
8 annualize to, based on what occurred.

9 BY JUDGE THOMPSON:

10 Q. Okay. And that evidently doesn't include the
11 125,000 either?

12 A. No, it does not.

13 JUDGE THOMPSON: Okay. Thank you. Thank you.
14 I have achieved understanding of that point.

15 And so I'm gonna quit while I'm ahead. And
16 are there any further questions from the Bench?

17 (No response.)

18 JUDGE THOMPSON: Hearing none, we will go to
19 recross based on questions from the Bench.

20 Ms. O'Neill?

21 MS. O'NEILL: I'll see if I can do it in one,
22 Judge.

23 JUDGE THOMPSON: I am -- I am certain that you
24 can, and I look forward with glee to seeing you do it.

25 RECROSS-EXAMINATION BY MS. O'NEILL:

1 Q. Okay. Mr. Cassidy, do you believe that the
2 Missouri-American manag-- management should have known
3 how savings would be allocated away from Missouri when
4 they were making the decision about whether they should
5 transfer to the Alton call center?

6 A. Yes, they should.

7 MS. O'NEILL: Thank you.

8 No further questions.

9 JUDGE THOMPSON: Beautifully done.
10 Beautifully done.

11 Mr. Ciottone?

12 RECROSS-EXAMINATION BY MR. CIOTTONE:

13 Q. Mr. Cassidy, when -- when His Honor asked you
14 why the costs were higher, was it associated with
15 customer count; you said, I don't know.

16 A. In what context? I don't recall.

17 Q. Well, he said why do -- why are the costs
18 associated with the new call center higher than you
19 allege they had been anticipated to be, and you said, I
20 don't know -- or, no, he said were they attributable to
21 customer count, and you said, I don't know.

22 A. They're attributable to a flawed allocation
23 process.

24 Q. Thank you.

25 What's the Company's position?

1 A. The Company is, I assume, is allocating based
2 on customers.

3 Q. It's -- it's attributable to the custo-- to
4 the customer call numbers, isn't that the whole point
5 of the as-wa-- is and as-was that the call numbers
6 increased? So it's not the number of customers, it's
7 the number of calls?

8 I'm not asking you to agree with it. I'm
9 asking you to agree with, isn't that the Company's
10 position?

11 A. If that's your statement, then that's your
12 position.

13 Q. All right. Now, with respect to Commission
14 Murray's question dealing with imprudence, should the
15 Company -- did they know or should they have known
16 certain things at the time the deci-- decisions were
17 made or is it your allegation that the Company should
18 have known that the calls would increase from 30--
19 386,000 to 521,000?

20 A. That's what their study -- their study
21 calculated what their to-be cost was, so it should have
22 addressed that.

23 Q. They should have known that the calls would
24 increase to 521,000?

25 A. They should have known what their costs were

1 going to be.

2 Q. No. My question to you is, call numbers --
3 call numbers -- they should have known that the calls
4 would increase from 386,000 to 521? And if you say
5 yes, I'm going to ask you how.

6 A. I don't know how the Company -- I -- I don't
7 know the answer to that question.

8 Q. Thank you. Thank you.

9 Now, with respect to Commissioner Clayton's
10 concerns over the realization of savings, and we're
11 looking at that exhibit to see whether or not it should
12 also properly reflect savings at the call center and
13 how those were -- at the shared services enterprises
14 and how those should be spread.

15 It's the Company's position, is it not, that
16 the -- the representation of savings to customers was
17 met in spirit and in reality by a reduced cost per
18 call -- that's the Company's answer to that, is it not?

19 A. That's the Company's position.

20 MR. CIOTTONE: All right. Thank you.

21 That's all I have.

22 JUDGE THOMPSON: Thank you, Mr. Ciottone.

23 I have one more question real quickly, and I'm
24 sorry to start the whole parade again.

25 FURTHER QUESTIONS BY JUDGE THOMPSON:

1 Q. But Commissioner Gaw would like me to ask you
2 how many Missouri jobs were lost when the Company
3 transitioned to the national call center?

4 MR. CIOTTONE: Your -- Your Honor, there's
5 nothing in the evidence on that -- in evidence on that,
6 but I have a witness who can testify to the effect that
7 there was a gain.

8 THE WITNESS: I -- I have -- I have a document
9 in evidence that would show the -- the employees that
10 cha-- the change in the employees, as a result of the
11 decision.

12 BY JUDGE THOMPSON:

13 Q. Okay. And --

14 A. And that would be Schedule 5-8 to my
15 surrebuttal. The employees that stayed on with the
16 Company are identified under the maintained costs,
17 so -- and -- and -- and I'm also -- I'm also aware that
18 a few of the employees that aren't shown in this
19 maintained cost did go the call center.

20 MR. CIOTTONE: And then there were huge
21 additional hirings at the call center, obviously.
22 There's 500 there.

23 MS. O'NEILL: Your Honor, I don't object to
24 Mr. Ciottone putting a witness on to say that, but I
25 continue to object to his testifying.

1 JUDGE THOMPSON: Yeah. Mr. Ciottone, I'll let
2 you put somebody on to answer exactly that question --
3 MR. CIOTTONE: At your preference.
4 JUDGE THOMPSON: -- because, you know, I have
5 a Commissioner who's interested in exactly that answer,
6 so I will try to give them what they want.
7 And who would that be?
8 MR. CIOTTONE: Mr. Jenkins.
9 JUDGE THOMPSON: Mr. Jenkins. Okay. Well,
10 we'll get to Mr. Jenkins in a moment.
11 I think we'll do the recross based on these
12 Bench questions, and then perhaps we'll do Mr. Jenkins.
13 All right. So let's see. We've got to
14 restart.
15 Ms. O'Neill?
16 MS. O'NEILL: No questions.
17 JUDGE THOMPSON: Mr. Ciottone?
18 MR. CIOTTONE: No questions.
19 JUDGE THOMPSON: Mr. Bates, now redirect.
20 MR. BATES: Thank you, Your Honor.
21 I should tell the Commission that I'm going to
22 have a number of questions that will require
23 Mr. Cassidy to answer, based on information contained
24 in Exhibit No. 117.
25 JUDGE THOMPSON: Okay. Are you anticipating

1 going like a half hour or even longer?

2 MR. BATES: Probably.

3 JUDGE THOMPSON: Okay. In that case, we'll
4 take a lunch recess now. Come back -- let's see. It's
5 ten minutes of twelve. Could we come back at
6 one o'clock?

7 MR. CIOTTONE: That's okay.

8 MR. BATES: That's fine.

9 JUDGE THOMPSON: Okay. We'll recess, then,
10 until one o'clock.

11 MR. BATES: Thank you.

12 JUDGE THOMPSON: I'm sure Mr. Cassidy will do
13 that much better for having had a chance to eat
14 something.

15 (A RECESS WAS TAKEN.)

16 JUDGE THOMPSON: We are live and, Mr. Bates, I
17 think we're ready for your redirect of Mr. Cassidy on
18 the national call center topic.

19 MR. BATES: Yes, thank -- yeah, thanks.

20 Your Honor, I forgot --

21 JUDGE THOMPSON: Are we are in the right place
22 on the right day, okay.

23 MR. BATES: I forgot, Your Honor, may I bring
24 this (indicating) up with me to the podium?

25 JUDGE THOMPSON: Absolutely.

1 MR. BATES: Thank you.

2 JUDGE THOMPSON: As long as you bow, it's
3 great to me. I don't care what other et-- etiquette
4 rules you break.

5 MR. BATES: Thank you.

6 REDIRECT EXAMINATION BY MR. BATES:

7 Q. Hello again, Mr. Cassidy.

8 A. Hi.

9 Q. Mr. Cassidy, is your adjustment based on the
10 assumption that the Company would continue to use the
11 legacy system?

12 A. No, it is not.

13 Q. What is it based on?

14 A. It's based on the fact that given Data
15 Request 448, American Water calculated that overall
16 cost savings would result by forming the call center.
17 No state should have its cost of service increased
18 because of their inclusion in the call center,
19 otherwise it's imprudent to join the call center.

20 Missouri was the only state to be assigned
21 additional costs. And to the extent that Missouri is
22 now asked to pay more, given the \$10,097,000 amount of
23 cost savings identified in Data Request 448, which is
24 shown in Schedule 8 on page 8-11 of my surrebuttal
25 testimony, then any amount that Missouri pays more

1 represents a subsidy to all of the other states in the
2 form of additional savings.

3 To increase Missouri's costs, given overall
4 savings, is contradictory and inappropriate.

5 Q. Okay. Let me ask -- thank you.

6 Let me ask you a que-- a question about the
7 as-was cost. Would it be a fair statement to say that
8 in order to prove that your as-was cost estimate is
9 incorrect, the Company would have to provide audible
10 information dating back to the time when the systems
11 were transferred to the call center?

12 A. That's correct.

13 Q. And why is that correct?

14 A. Because using Company's methodology is
15 attempting to justify a decision to join the call
16 center, based on current facts as they believe them.
17 That's -- that's incorrect.

18 Q. Now, I think that you've referred here before
19 to the reasonable person standard. What do you mean by
20 that?

21 A. The -- a reasonable person standard would
22 be -- you'd have to look at the facts at the time of
23 making the decision to join the call center. And at
24 that point in time, overall cost savings were
25 identified, and it would be unreasonable for any of the

1 operating companies to -- to accept additional costs,
2 given that scenario.

3 Q. Why would it be unreasonable?

4 A. To the extent that any state accepted
5 additional costs would represent subsidies in the form
6 of additional savings to other states.

7 Q. So I understand you to say that what is
8 important here is when the decision was made to join
9 the call center, and that the facts should be
10 considered as of that time?

11 A. That is correct.

12 Q. I think you were also asked this morning just
13 as aside about whether or not the call center was an
14 improvement in service; is that correct?

15 A. Yes.

16 Q. Is there another Staff witness who can also
17 testify or testify in greater detail than you've been
18 able to as to that question?

19 A. Yes, there is.

20 Q. Who's that?

21 A. Ms. Deborah Bernsen.

22 MR. BATES: All right. I'd like to -- Your
23 Honor, I'd like to ask him some questions relating to
24 what's been marked for identification as Exhibit
25 No. 117, DR 479.

1 JUDGE THOMPSON: Okay. That's HC, you
2 understand. Do we need to go in camera?

3 MR. BATES: I need to -- I don't believe I'm
4 going to need to ask him any specific figures. He may
5 talk about whether one figure is higher than another,
6 but I don't think --

7 JUDGE THOMPSON: Whose secret information is
8 it, the Company's?

9 MR. BATES: It's the Company's.

10 JUDGE THOMPSON: Well, then I think maybe it's
11 up to the Company to tell us if they think we need to
12 go in camera.

13 And while they're conferring on that, let me
14 ask you, Mr. Bates, do you have any citation to any
15 authority showing that the reasonable person standard
16 applies to the decision made to join the national call
17 center?

18 MR. BATES: No. I believe I was asking him in
19 his mind --

20 JUDGE THOMPSON: Okay. Okay.

21 MR. BATES: -- what a --

22 JUDGE THOMPSON: So you were not talking about
23 a legal standard?

24 THE WITNESS: No.

25 JUDGE THOMPSON: Kind of a standard you use

1 when auditing?

2 THE WITNESS: Correct.

3 JUDGE THOMPSON: Okay. Fine.

4 MR. BATES: Thank you, Judge. I should have

5 made that more clear.

6 JUDGE THOMPSON: That's all right. I -- if I

7 had missed one, I wanted to know about it.

8 MR. CIOTTONE: May we go off the record for a

9 minute?

10 JUDGE THOMPSON: Absolutely.

11 You want me to shut down the TV broadcast,

12 too?

13 MR. CIOTTONE: Please.

14 (A RECESS WAS TAKEN.)

15 JUDGE THOMPSON: Do you feel we need to go in

16 camera right at this point?

17 MR. CIOTTONE: We -- we do not think that's

18 necessary, Your Honor.

19 JUDGE THOMPSON: And anybody know if

20 Ms. O'Neill was planning to be here?

21 MR. BATES: I hadn't heard.

22 JUDGE THOMPSON: People are just jumping ship,

23 you know.

24 MR. BATES: It's hard to imagine, considering

25 how fascinating this is.

1 JUDGE THOMPSON: I was gonna say, we're gonna
2 need some more Perry Mason moments this afternoon,
3 Bruce. I want you to come up with a couple.

4 BY MR. BATES:

5 Q. Mr. Cassidy, where were you on the night
6 of April 20 -- no, forget that.

7 Mr. Cassidy, I'm directing you to DR 479
8 marked for identification as Exhibit No. 117. Now,
9 without getting into any specific numbers right now
10 with -- dealing with any of the states, I would like to
11 ask you a few questions about that.

12 Does DR 479 detail the as-was cost for each
13 state that was a candidate to join the call center?

14 A. Yes, it does.

15 Q. Does the Data Request detail the allocation of
16 the call center -- if a state decided to join, would
17 the call -- let me ask you that question first.

18 Does it detail the allocation of the -- of
19 the -- of the resources of the call center if a state
20 decided to join?

21 A. Yes, it does.

22 Q. Okay. Sorry. I should have --

23 Would the costs, then, be assigned to that
24 state in -- on an allocation basis?

25 A. Yes.

1 Q. And how would that be done?

2 A. I believe by customer allocation.

3 Q. Were -- were any states allocated less costs

4 than what their as-was costs were?

5 A. Yes.

6 Q. More than one?

7 A. Yes.

8 Q. How many?

9 A. I believe 18.

10 Q. 18 out of how many states?

11 A. 19.

12 Q. Do I infer, then, that one state was allocated

13 more costs, as a result of joining the call center than

14 their as-was cost?

15 A. That is correct.

16 Q. Which state was that?

17 A. Missouri.

18 Q. And how much more?

19 Okay. Let me withdraw that.

20 And, Mr. Cassidy, has the Company in any way

21 attempted to base its arguments on the actual

22 information available at that time?

23 A. No, it has not.

24 Q. And how can you tell that?

25 A. By looking at their method of calculating

1 as-was costs and as-is costs in their updated response
2 to DR 110.

3 Q. Okay. Can you briefly explain what that
4 method was?

5 A. The Company took what it believes to be the
6 current facts in terms of number of calls and applied
7 it to a cost per call that it believes to -- that
8 existed during the time -- that it believes it exist --
9 that existed and multiplies those two numbers together
10 to develop an as-was cost.

11 And for their annualized amount they've taken
12 costs that are current and attempted to annualize them
13 in some way.

14 Q. Mr. Cassidy, do all of the states that use the
15 call center receive the same services that Mr. -- that
16 you were asked of when -- when they joined the call
17 center?

18 A. Yes, all of the states receive the same
19 services.

20 Q. Exactly the same, that you can tell?

21 A. Yes.

22 Q. Can you tell me, then, why Missouri should be
23 an anomaly on that?

24 A. No, I cannot.

25 Q. So given all the states, except Missouri, if

1 you consider them and they receive their services, then
2 that state still has got a lower allocation of cost
3 than their as-was cost?

4 A. All of the other states received savings,
5 except Missouri.

6 Q. Okay. I believe Counsel for the Company
7 characterized \$7.87 as critical to the issue in this
8 case.

9 Do you remember that?

10 A. I'm sorry?

11 Q. The \$7.87 is critical to the -- the issue in
12 this case?

13 A. I -- I believe that's their position.

14 Q. Okay. And do you recall why?

15 A. Because they -- they used that to attempt to
16 justify a decision to join the call center, based on
17 what they believe to be the current facts.

18 The problem with that is that they are
19 ignoring the fact that at the time that the decision
20 was made to form the call center, American Water had
21 calculated an overall savings.

22 Q. Let me ask you this: Would you agree that a
23 test year is utilized to determine the relationship
24 between revenues, expenses and rate base that would be
25 reflective of the years rates are in effect -- of the

1 year rates are in effect?

2 A. I would agree with that.

3 Q. Is it your intent to attempt to try to predict
4 a level of expense that will be incurred by the Company
5 during the year rates are in effect?

6 A. That's -- that's the purpose of restating a
7 test year is to determine that -- that situation, yes.

8 Q. And just for clarification, why is that
9 important?

10 A. Because it's important to match revenues,
11 expenses and rate base.

12 Q. Has that always been the method that you have
13 used in -- in cases similar to this one?

14 A. Yes, it is.

15 Q. And is that the normal method that Staff uses?

16 A. Yes, it is.

17 Q. In the -- in the cases where you have
18 participated in the fact that -- in the past, has that
19 been the method that the Commission has accepted, as
20 far as you know?

21 A. Yes, it is.

22 Q. Mr. Cassidy, have you ever annualized payroll
23 before?

24 A. Yes, several times.

25 Q. And what -- for what purpose do you do that?

1 A. Oftentimes pay -- pay increases will incur
2 midway through a test period. The test period will
3 have to be restated to be reflective for an entire year
4 for the pay increase.

5 You have to restate the months prior to the
6 time that the pay -- pay increase took place.

7 Q. Is your payroll annualization an attempt to
8 predict the level of payroll that will be in effect in
9 the years the rates are in effect?

10 A. That is correct.

11 MR. BATES: Okay. I believe that's all.

12 Thank you.

13 JUDGE THOMPSON: Okay. I've got one more
14 question for you. I know it's gonna to start the whole
15 parade again, but that's the way it goes.

16 FURTHER QUESTIONS BY JUDGE THOMPSON:

17 Q. If you know, what was the basis of the
18 allocation that gave Missouri additional costs and
19 18 other state operating companies participating in the
20 national call service cost savings? What was the basis
21 of that allocation?

22 A. They used customers to allocate.

23 Q. Customer numbers?

24 A. Customer numbers, yes.

25 JUDGE THOMPSON: Thank you.

1 Ms. O'Neill, any additional recross based on
2 that question?

3 MS. O'NEILL: No, Your Honor.

4 JUDGE THOMPSON: Mr. Ciottone?

5 MR. CIOTTONE: No, sir.

6 JUDGE THOMPSON: Mr. Bates, any additional
7 redirect?

8 MR. BATES: No, Your Honor.

9 JUDGE THOMPSON: Okay. Now, I think we're
10 done with you briefly, so you may step down.

11 (Witness excused from the stand.)

12 JUDGE THOMPSON: We're gonna put Mr. Jenkins
13 up; is that right?

14 MR. BATES: Yeah.

15 JUDGE THOMPSON: Okay.

16 You may inquire, Mr. Ciottone.

17 JAMES JENKINS, having been previously sworn, testified
18 as follows:

19 DIRECT EXAMINATION BY MR. CIOTTONE:

20 Q. Mr. Jenkins, I have three matters to discuss
21 with you.

22 MR. CIOTTONE: First of all, a -- a question
23 was phoned in, I believe, from Commissioner Gaw?

24 JUDGE THOMPSON: That's correct.

25 BY MR. CIOTTONE:

1 Q. He expressed interest in the impact of the
2 call center on Missouri employment; that is, to say
3 employment of individuals residing in Missouri.

4 Do you have access to that information?

5 A. Yes, I do.

6 Q. And what -- what is -- what is the answer to
7 that question?

8 A. As a part of going into the call center
9 statewide, the Company lost 37 jobs. And all the
10 individuals with the -- in terms of the call center
11 function were given opportunities to interview and take
12 employment at the Alton call center.

13 Today, out of the 509 employees that work at
14 the Alton call center, approximately 103 are Missouri
15 residents. So in terms of the State of Missouri, there
16 was a net gain in employment.

17 JUDGE THOMPSON: Do you know how many of
18 the -- of the 37 at the legacy call center went to the
19 Alton one?

20 THE WITNESS: I do not.

21 JUDGE THOMPSON: Okay. Thank you.

22 BY MR. CIOTTONE:

23 Q. No. 2, Mr. Jenkins, I'm want -- I'm gonna hand
24 you an exhibit marked Exhibit 116.

25 MR. CIOTTONE: May I approach?

1 JUDGE THOMPSON: You may.

2 THE WITNESS: Yes.

3 BY MR. CIOTTONE:

4 Q. Can you identify that, please?

5 A. Yes. These -- this is a summary of the
6 monthly bill that we get from the American Waterworks
7 on a monthly basis that my Staff reviews and -- every
8 month before we process for payment.

9 Q. All right. Now, the -- it purports on its
10 face to be the bills for the months of August,
11 September, October and November. And they are bills
12 from whom to whom?

13 A. They're bills from American Waterworks Service
14 Company to Missouri-American Water Company.

15 Q. And are those reasonable -- or accurate
16 facsimiles of bills that were, in fact, received?

17 A. Yes. I have verified that with my staff, and
18 they are the actual bills received.

19 Q. And you -- the -- MAWC has an obligation to
20 pay those bills?

21 A. Yes, they do.

22 MR. CIOTTONE: Thank you.

23 I would like to now offer that exhibit, having
24 laid the foundation for it, Your Honor.

25 JUDGE THOMPSON: Do I hear any objections to

1 the receipt of Exhibit 116?

2 MS. O'NEILL: Your Honor, just -- I'm gonna
3 continue my foundation objection, because it doesn't
4 appear that these are simply bills. There are also
5 some handwritten notations.

6 Maybe Mr. Jenkins knows what those are, too,
7 and maybe he can resolve my lingering foundation
8 problem.

9 But I still have that objection.

10 JUDGE THOMPSON: Okay.

11 MR. CIOTTONE: Your Honor, I'd be pleased to
12 address that concern if it --

13 JUDGE THOMPSON: Please do.

14 BY MR. CIOTTONE:

15 Q. Mr. Jenkins, the handwritten notations, can
16 you explain what those are -- the -- the numbers on
17 each and the compilation at the end?

18 A. Yes. The -- the numbers on each just
19 substantiate the actual calls for the call center.

20 Q. Where do they come from? I mean, they -- they
21 selected -- they're selecting items off that bill; is
22 that right?

23 A. Yes, specifically within authorizations. If
24 you had the details behind, you'd see the
25 three specific authorization codes relate to the call

1 center.

2 With -- with the -- the majority of the --
3 from -- from memory, for example, on the first
4 page -- let me do the November one first. This is the
5 last one, because --

6 JUDGE THOMPSON: Okay.

7 THE WITNESS: -- I'm most familiar --

8 JUDGE THOMPSON: Sure.

9 THE WITNESS: -- with the -- the November one.

10 The -- the three specific authorizations that
11 represent -- represent the charges on the service
12 company bill, specifically the \$284,248.43, the
13 \$38,726.85 and the \$1,487.65, if you -- I think I've
14 done the math correctly. If you add -- add those
15 together, that -- that's what represents the \$324,463.

16 BY MR. CIOTTONE:

17 Q. And then you would take those same
18 three entries from each of the other bills and arrive
19 at the --

20 A. That is correct.

21 Q. -- number in the margin?

22 A. That is correct.

23 Q. All right. On the last page is calculation.
24 Are you familiar with what that is?

25 A. It's simply a -- I -- I think we have in the

1 record the -- each month's from -- from May through the
2 June time frame and then --

3 Q. It's May through October.

4 A. May -- May through October. And so those are
5 the actual charges -- six months from May, and then
6 it's added the November monthly fee. And then it's
7 just annualized to get to an annualized level,
8 \$3,318,989.

9 MR. CIOTTONE: Thank you.

10 JUDGE THOMPSON: Okay. With that further
11 foundation --

12 MS. O'NEILL: I --

13 JUDGE THOMPSON: -- do you still have an
14 objection?

15 MS. O'NEILL: No, I don't.

16 JUDGE THOMPSON: Okay.

17 Mr. Bates?

18 MR. BATES: The Staff withdraws its objection.

19 JUDGE THOMPSON: Very well.

20 Exhibit No. 116 is received and made a part of
21 the record of this proceeding.

22 (EXHIBIT NO. 116 WAS RECEIVED INTO EVIDENCE.)

23 MR. CIOTTONE: Now, Your Honor, at -- at this
24 time I'd like to have two more exhibits marked and
25 presented to Mr. Jenkins, because of the convenience of

1 his presence.

2 JUDGE THOMPSON: Absolutely.

3 MR. CIOTTONE: And he can then lay the
4 foundation for these exhibits. I do not intend to
5 offer them, because I will use them for
6 cross-examination of Mr. Cassidy to prove relevance, at
7 which time I will offer them.

8 JUDGE THOMPSON: Okay.

9 MR. CIOTTONE: The first one will be a
10 comparative return on equity.

11 JUDGE THOMPSON: Okay. Exhibit 118, described
12 as comparative return on equity.

13 (EXHIBIT NO. 118 WAS MARKED FOR IDENTIFICATION
14 BY THE COURT REPORTER.)

15 MR. CIOTTONE: The next one I think we could
16 call modified surveillance numbers.

17 JUDGE THOMPSON: Okay. Exhibit 119, described
18 as modified surveillance numbers.

19 (EXHIBIT NO. 119 WAS MARKED FOR IDENTIFICATION
20 BY THE COURT REPORTER.)

21 THE WITNESS: Judge, while he's passing that
22 out, what -- I -- what was the first Exhibit, the
23 comparative return on equity -- the number?

24 JUDGE THOMPSON: That was No. 118.

25 THE WITNESS: 118. Thank you.

1 BY MR. CIOTTONE:

2 Q. Mr. Jenkins, let me hand you what has marked
3 first as Exhibit 119. And I'll ask you to describe
4 what that is and what the source of the numbers on that
5 document --

6 A. Yes.

7 Q. -- is.

8 A. Yes. Exhibit 119 reports the monthly net
9 income from May of '01 through November of '03 pursuant
10 to what we found on our surveillance reports, with the
11 exception of -- if -- I don't re-- recall if we filed
12 the November surveillance report --

13 MR. BATES: Excuse --

14 THE WITNESS: -- as of yet.

15 MR. BATES: I -- I apologize. But I'd like to
16 interrupt and ask if this is relevant and responsive to
17 the question Commission Gaw asked.

18 MR. CIOTTONE: No. This is gonna be --
19 this -- this is with respect to cross-examination of
20 Mr. Cassidy on his -- his issue -- the point of his
21 issue that transition costs need not be recovered,
22 because they were already earned.

23 MR. BATES: I wonder if it might be more
24 appropriate, then, to introduce them at that time
25 instead of now.

1 MR. CIOTTONE: Because I'd fall into the same
2 problem of not having laid the foundation that you
3 properly raised the last time I tried do exactly that
4 with Mr. Cassidy.

5 So I'm laying the foundation now so that I
6 don't have to do it after that.

7 MR. BATES: I do appreciate you saying I
8 properly raised it before.

9 MR. CIOTTONE: All right.

10 THE WITNESS: Yes, with respect to Exhibit 119
11 is -- what it -- what -- what this exhibit does is
12 it -- with -- in terms of the net income and common
13 equity figures, those are the rolling 12-month data
14 that we provide on a surveillance report, with the
15 exception of November 2003.

16 BY MR. CIOTTONE:

17 Q. So this is off documents that are already
18 filed with the Commission?

19 A. That is correct.

20 Q. Okay.

21 A. Then with respect to the items referred to as
22 transition costs, these are the -- the actual costs
23 expensed -- or the actual costs as -- if you would have
24 expensed them for the calls -- the call center and the
25 shared service center.

1 Q. Is it correct to say that that -- that's what
2 would happen if -- if the Staff prevails, that the --
3 that the recovery should otherwise be disallowed, this
4 is what would happen to them?

5 A. Yes, if we were to expense them, as opposed to
6 capitalize them.

7 Q. All right. And that is -- is what you did
8 with respect to all three years?

9 A. Right. And then what -- what we've done,
10 then, is -- is made the adjustment to -- to the net
11 income and common equity to reflect if we would, in --
12 in fact, haven't expensed them, we've made the
13 corresponding adjustments to the -- those figures.

14 Q. So this -- this is -- this is what -- what the
15 Company believes would be the financial result to the
16 Company of having to write off those costs?

17 A. Yes. For example, if we were to have to write
18 off those costs beginning May of '01, net income per
19 the surveillance report was \$15,827,997.

20 Reflecting those costs being expensed, the
21 adjusted net income figure would have produced
22 \$14,101,727.

23 Q. And why are they -- why do they not already
24 appear in the surveillance numbers, as reported to
25 the -- to the Commission?

1 A. Because we capitalized the costs.

2 Q. As you have put forth in this case as being
3 the proper treatment?

4 A. Yes.

5 Q. All right. Now, what's Exhibit 118?

6 A. What Exhibit 118 does is simply take the
7 average 12-month net income from May of 2001 through
8 November of 2003, and for the same -- same period with
9 the common equity.

10 And simply took a simple average of each
11 rolling 12-month period. And what that produces in
12 terms of the -- our actual unadjusted return on equity
13 during this period of time is 10.23 percent.

14 And what it demonstrates that if we hadn't
15 expensed these costs, our returns would be driven down
16 even lower -- well below our authorized return on
17 equity during this period to 9.45 percent.

18 Q. All right. Now I'm not going to offer those
19 at this time, but -- so Ms. O'Neill does not again
20 become upset with my testifying, the Company's position
21 on Exhibit 117, the Staff's desire to offer that into
22 evidence, we were -- were reserving objection.

23 What -- are you in a position to tell -- tell
24 the -- the Commission what our position is with respect
25 to the admissibility of that?

1 A. Exhibit 117 was the --

2 Q. That's the DR 0--

3 MS. O'NEILL: 479.

4 BY MR. CIOTTONE:

5 Q. 479.

6 A. Yes -- yes, sir. With respect that exhibit,
7 we have no problem with it being put in the record, as
8 long as the -- as all of it is put in the record.

9 Q. Why -- why is all of it important to be put in
10 the record?

11 A. It's important because what it shows is -- on
12 the -- the shared service center with respect to the
13 accounting service function is that Missouri-American
14 had a lot more savings in terms -- relative terms in
15 other states.

16 And, in fact, for example, Pennsylvania on an
17 ongoing basis had an actual expense -- or actual
18 increase in between the as-was and the to-be the costs.

19 MR. CIOTTONE: All right. And from a legal
20 point of view, this gentleman has stated our position,
21 and as the attorney, I will say we will withdraw our
22 objection on condition that the Staff is willing to
23 file the complete version of DR 479.

24 JUDGE THOMPSON: Staff?

25 MR. BATES: Staff would certainly have no

1 problem filing the complete exhibit.

2 JUDGE THOMPSON: Okay. So with the
3 understanding that Staff is gonna provide the entire
4 exhibit, I hear no objections to the introduction of
5 Exhibit 117. The same is received and made a part of
6 the record of this proceeding.

7 (EXHIBIT NO. 117 WAS RECEIVED INTO EVIDENCE.)

8 JUDGE THOMPSON: Okay.

9 MR. BATES: Your Honor, can I briefly voir
10 dire this witness about Exhibits 118 and 119.

11 JUDGE THOMPSON: I believe you can.

12 VOIR DIRE EXAMINATION BY MR. BATES:

13 Q. Mr. Jenkins, I know you've partially -- I -- I
14 think you've answered some of the questions I'm gonna
15 ask, but did you personally prepare these two exhibits?

16 A. It was prepared under -- under my direction,
17 yes.

18 Q. And when were they -- when were they prepared?

19 A. Were prepared yesterday.

20 Q. Okay. And from where did you get these
21 numbers?

22 A. Got those from the monthly surveillance
23 reports.

24 Q. Okay. And those are maintained in the normal
25 course of business?

1 A. Yes. We file the -- file those monthly, and
2 we have copies of those at our company. So the -- in
3 terms of the net income and common equity, those came
4 from the surveillance reports.

5 In terms of the transition costs, that comes
6 directly from our financial statements as if those
7 costs would have been expensed, as opposed to being
8 capitalized.

9 Q. When was the first time you were made aware of
10 the Staff's concern about this information?

11 A. I don't understand your question.

12 Q. When was the first time that the Company was
13 aware of the Staff's position on the issue of
14 transaction?

15 A. Could you repeat your question? I'm --

16 Q. When was the first time that the Company was
17 aware of the Staff's position on the issues that are
18 relative to Exhibits 118 and 119?

19 A. I guess when I completed my analysis of
20 Mr. Cassidy's -- I believe it was his surrebuttal
21 testimony.

22 Q. Do you recall when that was? I'm not asking
23 for a specific date if you don't know it, but --

24 A. Well it's within the last two to three days
25 for me personally.

1 MR. BATES: Okay. Thank you. That's all.
2 Thank you, Your Honor.
3 JUDGE THOMPSON: Thank you, Mr. Bates.
4 MS. O'NEILL: Your Honor, before Mr. Jenkins
5 is released, I don't know that --
6 JUDGE THOMPSON: Well, you guys have a chance
7 to cross-examine.
8 MS. O'NEILL: On this issue?
9 JUDGE THOMPSON: Yes.
10 MS. O'NEILL: Okay.
11 JUDGE THOMPSON: Absolutely.
12 MS. O'NEILL: That's all I wanted to know.
13 JUDGE THOMPSON: Anybody who comes up here
14 gets cross-examined.
15 MS. O'NEILL: Okay.
16 JUDGE THOMPSON: You may put Mr. Ciottone up
17 there before he leaves, I'm not sure.
18 MR. CIOTTONE: I'm through.
19 JUDGE THOMPSON: You're through. Okay. Thank
20 you, sir.
21 Okay. Ms. O'Neill?
22 MS. O'NEILL: Thank you.
23 CROSS-EXAMINATION BY MS. O'NEILL:
24 Q. Mr. Jenkins, directing your attention to
25 what's been marked for identification as 118, the

1 difference between -- this is what I -- I may be wrong,
2 so if you could just help me through this.

3 I'm looking at the first column with numbers
4 in it -- the actual per-- surveillance reports. Those
5 are the actual numbers of total company common equity
6 on the second line and that income total company?

7 A. Yes, based on a rolling 12-month basis, it's
8 an average during -- during that time period.

9 Q. Okay. And also on the 12-month basis, average
10 return on common equity actual based on the
11 surveillance reports; is that right?

12 A. Right.

13 Q. Okay. And that's under current conditions?

14 A. That -- that's actually what --

15 Q. Or current rates?

16 A. That's actually what's taking place under
17 current rates and demonstrates that -- that on an
18 average return basis we're earning below our authorized
19 return in this state.

20 Q. For part of your service territory, cuz the
21 other part's got a 10 percent, right?

22 A. In the last St. Louis District rate case, the
23 authorized return was 10.75 percent, and the last
24 Missouri-American rate case for those properties
25 outside the -- the St. Louis District was 10 percent.

1 Q. 10?

2 A. And the term -- when you use a weighted
3 cost -- the actual weighted cost of the authorized
4 returns for both old Missouri-American, the St. Louis
5 District and the United Water Properties, it's
6 approximately 10.48 percent.

7 Q. Okay. So a little bit under, but fairly close
8 to what the -- the weighted would be or --

9 A. Right.

10 Q. -- for all three of those --

11 A. Right.

12 Q. -- properties now?

13 And the adjusted is still looking at those
14 weighted --

15 A. You --

16 Q. -- that's still companywide, still current,
17 these last rolling average -- 12-month average on these
18 years?

19 A. Right. What that demonstrates that even with
20 the savings in both the call center and shared service
21 center that are currently taking place, if you were to
22 expense the costs instead of capitalizing it so the
23 cost to achieve, it clearly demonstrates that we -- we
24 would earn well below our authorized rate of return to
25 a --

1 Q. But these --

2 A. -- level of 9.45 percent.

3 Q. These only -- these only refer to --

4 everything else being equal, but you've changed from
5 the current method to expense on these two -- on these
6 two items; is that right?

7 A. That's correct.

8 Q. Okay. So every other issue is not considered
9 in these calculations?

10 A. That's correct.

11 Q. I want to go to Exhibit 119 marked for
12 identification. These are -- these are months that are
13 included in your rolling averages?

14 A. That's correct.

15 Q. Okay. And on page 3 of 3 of marked 119, that
16 current month note of tax charges, that's not
17 Company's -- that's not entire company revenues, that's
18 something else, isn't it?

19 A. Yeah, what -- what that demonstrates is
20 because you -- in a rolling 12 month -- for example, if
21 we looked at May of '01, the first page, May of 2000 is
22 removed and then May of '01 is added.

23 And that's the additional charges related to
24 actually expensing the call center and shared service
25 expenses that would have been capitalized. And then

1 what we've done, in order to get them properly
2 accounted for on the income statement, is tax affected
3 them.

4 Q. But May of '01 wouldn't have any effect on
5 November of '03, would it?

6 A. Okay. What's that?

7 Q. I'm looking at 3 of 3 --

8 A. Okay.

9 Q. -- last line.

10 A. Okay. With respect to November of -- November
11 of '03, you start to see negative numbers.

12 Q. But you don't have a negative net income for
13 your company right now, do you?

14 A. No. This has nothing to do with net income.

15 Q. Okay.

16 A. What -- what this has -- what this is
17 recognizing is an order that we don't double count --
18 is that beginning in May of '03 the depreciation that
19 we've taken exceeds what would have been the actual
20 expenses incurred, because the facilities are in
21 service -- both the St. Louis District was in service
22 prior to that, and then the new -- or the -- the out --
23 out -- the -- the facilities outside of the St. Louis
24 District are what I call the old Missouri-American call
25 center was put into the new call center in May of '03.

1 So in order to not double count, I'm making
2 sure that I add back the net so -- so I don't draw down
3 my net income too much.

4 Q. So when you say current month note of tax
5 charges, that's a number that you remove or put back,
6 depending on the circumstances to your monthly net
7 income?

8 A. That's correct.

9 Q. Okay. So the fact that it's down at the
10 bottom of the page doesn't mean this is, like, a
11 bottom-line result?

12 A. That's correct.

13 MS. O'NEILL: Okay. I just wanted to make
14 sure. I don't have anything further. Thanks.

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

16 Mr. Bates?

17 MR. BATES: Thank you, Your Honor.

18 CROSS-EXAMINATION BY MR. BATES:

19 Q. I've got just a few questions.

20 In your opinion, simply because the Commission
21 ruled against recovery, would this cause a write off?

22 A. I need you to explain that question a little
23 better, expand upon it. What -- what do you mean --

24 Q. Okay.

25 A. -- would this cause a write off?

1 Q. Let's say the Commission ruled against
2 recovery here.

3 A. In terms of the transition costs?

4 Q. Yes. What would the Company's re-- response
5 to that be?

6 A. Well, the Company would -- as I testified
7 before, the Company would be required to write off
8 close to \$10 million, which approximates around 25 to
9 30 percent of the net income levels, for example, in
10 November of 2003 on a 12-month period, which is just
11 absolutely devastating.

12 Q. So you're saying there would inevitably be a
13 write off?

14 A. If -- if the Commission rules that these costs
15 are not -- not allowed to be recovered in rates, and
16 since they've been capitalized, they would need to be
17 written off.

18 Q. Would there be any conceivable case where they
19 would not be written off?

20 A. If the Company was to appeal the Commission
21 decision, then the Company would be faced with
22 making -- making a determination at that time whether
23 the costs would be written off immediately or whether
24 the Company would write those costs off at a later
25 date.

1 Q. Did you write off the Avatar acquisition
2 adjustment?

3 A. I did not work for the Company when the Avatar
4 acquisition adjustment was addressed by the Commission.

5 Q. Do you know --

6 A. I do -- I do know on our financial statements
7 that we amortized the acquisition premium of the Avatar
8 facility --

9 Q. And --

10 A. -- Avatar asset.

11 Q. And could you explain for me what you mean by
12 that?

13 A. Well, we're talking about two thin-- two
14 different things. The Avatar property was -- was an
15 acquisition, so by definition it was an acquisition
16 premium, not call center and shared service center
17 costs.

18 Q. Did you write off the capacity adjustment to
19 the new St. Joseph plant approved by the Commission in
20 the last case?

21 A. No, we did not, because the -- the excess
22 capacity adjustment per financial accounting standards
23 is viewed as temporary. We do not expect for that
24 excess capacity adjustment to continue into the future.
25 And, in fact, in this case we're right back before the

1 Commission arguing why that adjustment should be
2 restored.

3 So, therefore, within the applicable financial
4 accounting standards we -- we did not have to write
5 that off -- off. As opposed to this, this would be a
6 permanent write off.

7 Q. Let me -- let me go back just a second and ask
8 you a couple of questions I should have asked you
9 before about the Avatar acquisition. Did the
10 Commission grant that -- grant the Company that?

11 A. My understanding with the Avatar acquisition
12 adjustment -- that that was determined in the -- in
13 terms of the settlement of a rate case, and that's the
14 extent of my knowledge.

15 I know that we do amortize those costs in
16 terms of -- on our financial statements over the
17 average remaining life of those assets.

18 Q. I'm not trying to -- to -- to ask you
19 something that may be beyond your knowledge. Do you --
20 do you happen to know if the Avatar acquisition is
21 still on the Company's books in any way beyond what
22 you've explained?

23 A. Yeah. The unamortized premium is still on the
24 Company's books and is being amortized off over period
25 of time.

1 Q. Okay. Now, referring back to exhibit --
2 proffered exhibits -- or I guess -- excuse me -- marked
3 Exhibits 118 and 119, do your figures reflect any
4 adjustments that are normally done in a cost of service
5 calculation?

6 A. In terms of a rate case?

7 Q. Yes.

8 A. No. We did -- these are actual numbers as
9 the -- as the Company has earned during this period of
10 time, and -- and no adjustments have been made to try
11 to do a rate case on each of the rolling 12-month
12 periods.

13 Q. Do your figures reflect the effect of normal
14 weather?

15 A. No, they do not.

16 Q. Okay. What do they affect -- reflect?

17 A. They reflect the actual results as reported on
18 the Company's financial statements.

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

20 JUDGE THOMPSON: Thank you, Mr. Bates.

21 There will be no questions from the Bench.

22 Mr. Ciottone, redirect?

23 REDIRECT EXAMINATION BY MR. CIOTTONE:

24 Q. Just -- just one question, Mr. Jenkins. In
25 preparing this exhibit at -- at my instruction, we --

1 we -- your instructions were to make it as simple as
2 possible and limit it to only the transition cost
3 changes, correct?

4 A. That is correct.

5 Q. Are there other elements in the -- on that
6 exhibit shown as earnings, which are not properly
7 regulatory earnings --

8 A. Yes.

9 Q. -- earnings that come from below the line and
10 should not properly be reflected in a calculation of
11 whether or not you are earning your rate of return?

12 A. Yes.

13 Q. What are they?

14 A. Well, one example would be land sales that
15 were -- that were sold -- sold during the period of
16 time. We didn't make any adjustments. These are the
17 actual raw numbers for the business.

18 Q. And why do they show up these days? In the
19 old days you used to have regulatory books and
20 corporate books. Why does that kind of stuff show up
21 in surveillance reports these days?

22 A. That's what the Commission requires us to
23 file.

24 Q. Everybody files the same thing --

25 A. That --

1 Q. -- the same type of books?

2 A. That is correct.

3 Q. So not all those earnings are the result of
4 regulatory revenue?

5 A. That is correct.

6 MR. CIOTTONE: Thank you.

7 JUDGE THOMPSON: Thank you very much,
8 Mr. Ciottone.

9 Thank you, Mr. Jenkins, for your testimony. I
10 appreciate it. We'll probably be hearing from you
11 again during the course of this proceeding.

12 THE WITNESS: Yes, sir.

13 (Witness excused from the stand.)

14 JUDGE THOMPSON: Now, I guess we're gonna be
15 bringing Mr. Cassidy back; is that correct?

16 MR. BATES: I believe that's correct.

17 JUDGE THOMPSON: Okay. And let me -- let me
18 get myself organized here.

19 Welcome back, Mr. Cassidy.

20 MS. O'NEILL: Your Honor, just to clarify, are
21 we on the -- the second issue or the third issue with
22 Mr. Cassidy?

23 JUDGE THOMPSON: I'm getting to that. Thank
24 you very much for reminding me. I'm still sort of
25 filling in my little cheat sheet on who gets to ask

1 questions when. If I don't have that, I'll get
2 confused, and --

3 MR. CIOTTONE: Well, I'm not next, am I?

4 JUDGE THOMPSON: No, you're not. She's next.
5 See, I wouldn't have known that if I hadn't filled in
6 my chart, so --

7 Okay. Mr. Cassidy, nice to see you. I will
8 remind you you're still under oath.

9 MR. CASSIDY: Okay.

10 JUDGE THOMPSON: It is my understanding that
11 we are now taking up transition costs, and we're taking
12 up all transition costs -- or should I say all those
13 identified in Issues 5 through 8 on the issues list
14 together.

15 Am I right or am I wrong?

16 MR. BATES: I believe that's correct.

17 JUDGE THOMPSON: And it's okay to tell me I'm
18 wrong.

19 MS. O'NEILL: Is that -- that's fine. I
20 think --

21 JUDGE THOMPSON: I just want to know what
22 we're talking about.

23 MR. CIOTTONE: Your Honor, I think we can
24 merge the -- the transition cost issues. They are both
25 with respect to the call center and to the shared

1 service center. I think what -- I can deal with them
2 both at the same time. If that's helpful or
3 problematic, I'll do it either way.

4 JUDGE THOMPSON: Part --

5 MS. O'NEILL: Your Honor, I don't have a
6 problem with that. And I -- and I don't think I have
7 any further cross-examination for Mr. Cassidy regarding
8 any of the transition costs, depending on what happens
9 at the Bench.

10 JUDGE THOMPSON: Okay. Hang on just a second
11 until I look through all of these papers. We're
12 generating a great deal of paper in this case.

13 Okay. Exhibit 6 is the call center. We do
14 not have -- and we have transition costs that are part
15 of Exhibit 6 -- or part of Issue 6, excuse me, right?

16 MS. O'NEILL: Uh-huh.

17 JUDGE THOMPSON: Okay. Then we have
18 Exhibit 7, which is transition costs to the national
19 shared services center, am I right?

20 (No response.)

21 JUDGE THOMPSON: And I think I was told that
22 there is no dispute about the O&M costs for the
23 national shared services center?

24 MR. CIOTTONE: That's my understanding.

25 JUDGE THOMPSON: Okay.

1 MS. O'NEILL: That's my understanding.

2 JUDGE THOMPSON: It's just the -- it's just
3 the transition part.

4 MS. O'NEILL: Yeah.

5 JUDGE THOMPSON: Okay. Bellville Lab --
6 there's no transition costs with the lab; is that
7 right?

8 MR. CIOTTONE: That's right.

9 JUDGE THOMPSON: Okay.

10 MR. BATES: Right.

11 JUDGE THOMPSON: Okay. So we'll do transition
12 costs, and then that will leave us with the AWR issue
13 to take up, which we'll take up separately, am I right?

14 MR. CIOTTONE: Yes, sir.

15 JUDGE THOMPSON: Excellent.

16 Okay. And Ms. O'Neill has no cross.

17 So, Mr. Ciottone?

18 JOHN CASSIDY, having been previously sworn, testified
19 as follows:

20 CROSS-EXAMINATION BY MR. CIOTTONE:

21 Q. Welcome back, Mr. Cassidy. I -- I will try to
22 be more brief and -- and hopefully we can cooperate.

23 As I read your testimony, I -- I do not find
24 these characterizations in any one place. But as I've
25 written down every reason that I've found that you have

1 attributed to reasons for -- for disallowing the
2 transition costs, I've come up with five.

3 Let me read them to you and see if you -- if
4 I've missed one or you disagree with one. You say
5 they're non-recurring, that's one reason; you say
6 they're not associated with owned assets; you say
7 they're not associated with controlled business
8 practices; you say they didn't result in savings; and
9 you say they were already recovered.

10 A. For the national call center it was not
11 prudent to incur the costs either, given overall cost
12 savings as calculated by DR 448.

13 Q. Well, that's because they didn't result in
14 savings?

15 A. Right. And -- and it wouldn't be prudent to
16 include those costs.

17 Q. Is that different?

18 A. It -- it was not prudent to incur additional
19 costs, given that overall cost savings had been
20 calculated.

21 Q. But didn't you and I agree -- notwithstanding
22 and I'm not gonna get into you with prudence, because I
23 think Commissioner Murray did a remarkable job of it
24 earlier today.

25 But did not you and I agree that had it

1 resulted in savings, it would have been prudent, even
2 by your definition?

3 A. For national shared services center that --
4 that would be -- if the fact that overall cost savings
5 had occurred, it made the costs -- it didn't make
6 the -- the costs wouldn't be considered imprudent.

7 The problem with national shared services
8 center is that they've already been -- they've already
9 been recovered.

10 Q. Yeah. Okay. You see we're do doing it again.
11 We're jumping around. Let's try to stay one at a time,
12 because you're gonna get a shot at every one of these.

13 A. Okay.

14 Q. I -- you said it's imprudent. I said, isn't
15 that the same as didn't result in savings? And you
16 said, not with respect to the shared services -- it
17 doesn't apply to that. We agree.

18 The call center, you said, it applies to that.
19 But now -- then I asked you, but didn't you say -- just
20 on that issue -- that on prudence for the national call
21 center that had it resulted in savings, you would have
22 said it was prudent?

23 A. Had it resulted in savings, yes.

24 Q. Okay. Thank -- okay.

25 All right. What are we talking about here in

1 dollars? The -- I've got for the transition center
2 \$5,263,822; is that correct?

3 A. Yes.

4 Q. And for shared services 4,448-- and I can't
5 read my last three -- 8--

6 A. 827.

7 Q. 827?

8 A. Correct.

9 Q. In round numbers 10 million bucks?

10 A. Roughly.

11 Q. All right. Okay. Now, let's look at each of
12 these criteria. We're gonna skip the value of the call
13 center, because we've gone through that until we're
14 both tired of it. We're gonna skip the prudence issue.
15 We're not gonna -- we're gonna get into costs, but
16 we're just not gonna argue with respect to Commissioner
17 Murray's characterization that prudence should be
18 determined as the front end/back end -- we're not gonna
19 do that.

20 How about -- let's start with non-recurring
21 and see if that's applicable. Now, you've said in your
22 testimony that one of the reasons that the -- you have
23 disallowed -- one of the reasons you've disallowed the
24 transition costs is because they're non-recurring?

25 A. That's correct.

1 Q. All right. Now, that is traditionally not
2 critic-- critically damming to a recovery of transition
3 costs, is it --
4 A. To --
5 Q. -- absent other criteria?
6 A. To transition costs?
7 Q. Yes.
8 A. That's -- that's one of the -- one of the
9 reasons for not allowing them.
10 Q. But you have, in fact, recommended allowance
11 of transition costs in the past that were
12 non-recurring?
13 A. Given that they achieved cost savings to the
14 ratepayers.
15 Q. So then not -- the fact that the transition
16 costs are non-recurring is not critically damming,
17 because you have overlooked it in the past?
18 A. If it achieved cost savings to the ratepayers.
19 Q. All right. And you did it in UE?
20 A. That is correct.
21 Q. So non-recurring is not the killer all by
22 itself?
23 A. Not in and of itself.
24 Q. All right. Now, how about the capitalization
25 of assets? Here's -- let's -- your -- your exact

1 language. I'm reading your Cassidy Direct, page 28.
2 And this paragraph is gonna come up several times, so
3 keep your finger on it.

4 JUDGE THOMPSON: Direct, page 28?

5 MR. CIOTTONE: Direct, page 28.

6 THE WITNESS: Okay.

7 BY MR. CIOTTONE:

8 Q. The sentence that begins, the Staff contends
9 that all of these costs are one time.

10 A. Yeah, I'm with you.

11 Q. All right.

12 A. I'm sorry.

13 Q. This is the sentence, the Staff contends that
14 all of these costs are one-time non-recurring expenses.
15 And, as a result, these costs should not be reflected
16 in M-- MAWC's ongoing cost of service.

17 The key point is that MAWC owns none of the
18 assets that either -- either the national call center
19 or at the shared service center. The service company
20 owns all of these assets and controls all of the
21 business processes related to these assets.

22 Therefore, the Company attempt to recover
23 these costs through rate base has no basis. No
24 tangible asset was created for MAWC. The Staff
25 contends it is inappropriate for MAWC to capitalize

1 these one-time transition experiences related to assets
2 that it does not own and business processes that are
3 not under its control, okay?

4 A. That's correct.

5 Q. All right. Let's look -- you -- you've
6 brought up two points in there, because -- first, you
7 say the key point is the ownership of the assets.

8 You're saying you can't allow recovery of
9 transition costs or you can't capitalize anything that
10 relates to some -- to -- to other than assets owned by
11 the entity?

12 A. That's correct. Because the def-- definition
13 of an intangible asset is that an asset has no physical
14 existence, but it has value, because of the rights
15 which ownership confers.

16 Q. All right. Then I sent you DR 27, and asked
17 you about a case that I myself had been involved in.
18 And the -- and the question was -- and this is about
19 the capitalization of administrative and general
20 expenses --

21 A. That is correct.

22 Q. -- because I litigated this with the
23 Commission and lost.

24 The -- the -- the question to you was, has the
25 Staff ever recommended rate base treatment of

1 administrative and general expenses for MAWC's
2 predecessor company, St. Louis County Water
3 Company? Answer, and I -- I don't know if this answer
4 is yes or no.

5 The answer is, I personally am not aware of
6 any such treatment at St. Louis County Water. Based on
7 discussions with Steve Rackers, the Staff has never
8 proposed rate based treatment of administrative and
9 general expenses that were not related to assets that
10 the Company owned and business processes that the
11 Company controlled.

12 Well, the question -- the question was
13 about -- here we were talking about asset ownership.

14 A. Correct.

15 Q. What is -- what is your answer to that
16 question? Has the Staff ever recommended rate based
17 treatment of administrative and general expenses?

18 A. To the extent that -- these expenses related
19 to -- I believe these expenses related to payroll -- I
20 believe it was a payroll capitalization study, which
21 you're referring to.

22 Q. It was \$800,000 worth of payroll expenses --
23 35.1 percent of A&G payroll.

24 A. And that payroll capitalization study related
25 to employees of St. Louis County Water Company.

1 Q. Correct.

2 A. And the resulting capitalization of that
3 payroll was applied to assets that St. Louis County
4 Water actually owned and controlled. And the payroll
5 and the capitalization related to the items were
6 continuous and ongoing.

7 Q. Well -- well, wait a minute. You were
8 capitalizing an ass-- we're -- we're -- you're saying
9 the key point is that there has to be an asset that's
10 owned or you can't capitalize it.

11 Are you saying that the employees-- that
12 31 percent of the payroll, which the order says
13 represents the presidents, five of its managers and
14 eight of its officers, were owned?

15 A. They were -- we're saying that a certain
16 amount of their time was devoted to items that related
17 to assets.

18 Q. They were not owned assets?

19 A. They were owned assets that related to
20 the --

21 Q. The --

22 A. -- that related to owned assets.

23 Q. That's different.

24 Were these people owned -- you capitalized the
25 costs of these people. Were these people --

1 A. Because --

2 Q. -- owned assets?

3 A. They're under the control of the Company.

4 Q. That's --

5 A. They're -- they're part of the -- they're part

6 of the pro-- business process of the Company.

7 Q. You switched again. Now, see, here's what we

8 did last time. Now you're jumping to the next one.

9 We're talking about these one at a time. We've got

10 five of them. Now we're talking about owned assets.

11 The next one is business processes. That's

12 where you're trying to go. We'll get there. Owned

13 assets -- were these people owned assets?

14 A. I guess it's -- it -- the employees of the

15 Company are not considered -- in a sense they can be

16 considered an asset to the Company. Employees are an

17 asset --

18 Q. Owned?

19 A. -- but -- but not as capitalized items.

20 Q. The employees whose salaries were capitalized

21 were owned assets. I was owned?

22 A. The time that is devoted to the capital

23 project is always capitalized. That -- that is an

24 amount of payroll expense that's always capitalized.

25 And just cuz it's associated with -- they're --

1 employees are not owned by Missouri-American.

2 Q. Thank you.

3 So it is not necess-- it -- it's not -- you're
4 getting -- now we're going to move into the controlling
5 business process. But it's not key -- you said the key
6 point is that MAWC owns none of the assets. That's not
7 the key point.

8 The key point is -- now you're saying it's not
9 necessary that they own the assets, they just have to
10 be related to the assets or involved in the assets or
11 controlled business processes. We're moving on to
12 that, right?

13 A. Correct.

14 Q. All right. So the fact that they're not owned
15 assets is not what we'd call the key point, it's the
16 other point?

17 A. Perhaps my phrasing of using the word "the key
18 point" was a little off.

19 Q. So you can capitalize things that are not
20 owned assets and have -- insisted upon doing so in the
21 past with the capitalization of the A&G?

22 A. That's correct.

23 Q. All right. Now, the third one, then -- and
24 when -- when I asked you about that in your DR, I
25 said -- I said -- I -- I -- this is DR 26.

1 You said, essentially, I think what you're
2 saying now. I said, with respect to Mr. Cassidy's
3 observation in regard to his disallowance of transition
4 costs and rate base that "the key point" is that
5 MAWC owns none of the assets at the national call
6 center or at the shared services center.

7 Please list any and all Staff recommendations
8 within the preceding 20 years, whether Staff has
9 recommended capitalization of costs that do not
10 correspond through physical assets owned by the
11 effective utility.

12 Your answer moves, as I suspect we are
13 now -- your answer says, this quotation from my
14 testimony ignores another crucial point that was made
15 in conjunction with that fact. That point being that
16 MAWC also does not control the business processes.

17 Okay. That's what -- so now we're on to
18 business processes as being more important -- the
19 control of the business processes?

20 A. I -- I -- I don't know that I would
21 characterize one as being more important than the
22 other. They're both important.

23 Q. Well, apparently in isolation, being
24 non-recurring and an isolation not being an owned
25 asset, neither -- neither one of those are critically

1 damming because they have been overlooked in the past
2 in favor of some other reason for disallowance?

3 A. Given the variance in situations.

4 Q. All right. So now let's talk about the
5 control of the business processes. And you are not
6 convinced that there is any control of the business
7 processes at the national call center?

8 A. It's my understanding that -- that the service
9 company is in control of its business processes.

10 Q. And -- and the shared services organization --
11 and I'm getting confused with these names, too --
12 the -- the shared services -- the SSC?

13 A. The NSSC or the national shared services
14 center and the national call center are --

15 Q. They --

16 A. -- are in control of their own business
17 processes.

18 Q. They are -- so they suffer the same failure.
19 So that is to say they -- their business processes are
20 not sufficiently controlled by MAWC so that transition
21 costs related to them certainly could not be
22 capitalized; is that your point?

23 A. That's my point.

24 Q. I'm reading from your direct testimony,
25 page 23. First back on -- first back on that sentence

1 we just read a few moments ago from 28 that I -- I
2 cautioned you we would be -- we would be coming back
3 to, you said, the key point is that MAWC owns none of
4 the assets that either the national call center or the
5 shared services center, the -- the service center
6 company owns all of the assets -- the service company
7 owns all of these assets and controls all of the
8 business processes related to these assets.

9 Therefore -- and then you go on to say that's
10 why the -- so certainly shouldn't be capitalizing. But
11 based on that, you shouldn't be capitalizing the
12 transition costs at the service center?

13 A. That's -- that's the understanding I've gained
14 through talking with Company Witness Ed Grubb.

15 Q. Now, let's go to page 3 of your testimony --
16 Cassidy Direct, page 23.

17 A. Okay.

18 Q. Based on discussions with the Company, the
19 Staff learned that all of the service company national
20 shared service costs are charged to expense on MAWC's
21 books; however, the Staff determined that some portion
22 of the accounting services being provided to MAWC
23 pertained to fixed assets and would, therefore,
24 appropriately be a capitalized cost.

25 The Company provided an estimate of these

1 capitalized costs, and the Staff used this in the
2 calculation of adjustment S1424.

3 In the future the Company should be required
4 to trap the capitalized portion of the national ser--
5 shared services costs for the Staff to review.

6 How, given your conviction that it is
7 inappropriate to capitalize anything associated with an
8 enterprise unless they have control of the business
9 processes, can you recommend, insist and demand that
10 they capitalize costs of the shared service
11 company? How can you reconcile --

12 A. Be--

13 Q. -- those two events?

14 A. Because these costs are continuous and
15 ongoing.

16 Q. So -- oh, so now we're back to non-recurring.
17 So since -- then, I guess, control of the business
18 process isn't critical either -- that can be
19 overlooked, if necessary?

20 A. Is that a question or --

21 Q. Yeah, that's a question.

22 Can -- can you, in the interest of pragmatism,
23 overlook this -- what we thought was a critical
24 criterion that -- do you have to have control over the
25 business practices?

1 A. The Company has no other choice, given that
2 all of these costs have -- all of this function related
3 to the national shared services has transitioned to the
4 shared services company.

5 When these costs come allocating back, they're
6 continuous costs. And some of these costs relate to
7 assets. So given that it's continual, that's the
8 appropriate treatment.

9 With the national shared services center
10 transition costs and the national call center
11 transition costs, those are one-time non-recurring
12 events, and they -- they also do not relate to assets
13 Missouri-American Water owns or controls -- or business
14 processes that it -- that it controls.

15 Q. But you've testified that the service company
16 controls all -- all of the business processes related
17 to these assets, and then you've turned around and
18 capitalized costs associated with the service company.

19 A. In that situation, those costs are continuous
20 and ongoing costs. Those aren't related to a one-time
21 event to implement and design a concept.

22 Q. So now we're up to -- of the five things, each
23 one of these can be overlooked when it expedient so
24 far?

25 A. All five of these things are taken together --

1 in consideration together.

2 Q. It's discretionary?

3 A. Well, I wouldn't agree with that.

4 Q. Well, how can you overlook them then? They're
5 either universally applicable or they're discretionary.

6 A. The national shared ser-- again, I don't agree
7 with that. The national shared services costs that
8 you're referring to are continuous ongoing expenses.
9 If the Company wants their accounting functions to
10 continue, they -- that is something they have to keep
11 paying to the -- or the fee has to be paid to them.

12 Q. But the service company controls all of the
13 business processes related to these assets. That's
14 your testimony?

15 A. That's correct. And it -- but as I said,
16 those costs are recurring.

17 Q. So then it's okay that they control these
18 business processes -- you can overlook that now,
19 because they're recurring?

20 A. That's correct.

21 Q. Okay. Didn't result in savings. Now, we've
22 beaten that one to death.

23 That's -- we dis-- we understand our
24 disagreements. I'm not even gonna attempt to
25 recharacterize them. It's been done over and over

1 again.

2 We say the savings has -- has materialized in
3 per-call cost, and you say that dollar per dollar is
4 higher, and that's different?

5 A. Correct.

6 Q. All right. So the last one, then, is the
7 savings were not -- were already recovered?

8 A. That's correct.

9 Q. Okay. Now, that -- your argument in that --
10 correct me if I'm wrong -- is tied to the significant
11 savings realized in the test year attributable to the
12 changeover to the shared services organization?

13 A. Correct. That's based on the Company's
14 calculations.

15 Q. Couple million bucks or more of savings?

16 A. Approximately 2.57 million --

17 Q. And -- and you're saying --

18 A. -- per year.

19 Q. -- they've -- they've saved all of this money
20 then, and regulatory lag should swing both ways so the
21 transition costs, then, should be applied against those
22 dollars -- that -- that's your argument?

23 A. Given that this -- this transi-- that this
24 transition occurred after the dates when rates were
25 established in all three of the rate cases,

1 Missouri-American Water, St. Louis County and United
2 Water's last rate cases, these savings have been
3 recaptured --

4 Q. All right.

5 A. -- by the Company.

6 Q. Now, are you suggesting that they were
7 recaptured because the Company was already earning its
8 authorized rate of return, and these savings were gravy
9 and should, therefore, offset the transition costs?

10 A. I'm say-- no. What I'm saying is, is that
11 these costs resulted in quantifiable savings that the
12 Company has actually achieved for its ratepayers, and
13 it has -- it has already collected these savings. And
14 these savings have exceeded the costs that created
15 these savings.

16 Q. Doesn't it matter whether or not the Company
17 was earning its allowed rate of return -- whether it
18 was overearning or underearning? Doesn't that -- isn't
19 that the critical determining factor as to whether or
20 not they actually received -- received the -- the
21 benefit from these savings?

22 A. I believe the Company had -- if the Company
23 felt it needed to file a rate case, it always had that
24 option to do so.

25 Q. What's the answer to that question, though,

1 sir? Does -- isn't the critical factor as to whether
2 or not the savings from one aspect offset costs
3 incurred at the same time -- when you do that wash and
4 that arithmetic, isn't the critical underlying
5 determination whether they earned their rate of return
6 or not?

7 A. I don't agree with that. I -- I would say
8 that these sa-- this is taken in -- in separation from
9 that. If the Company, at any point during this time
10 when these savings were occurring, believed it was
11 underearning, it always had that option to come in and
12 file for a rate increase.

13 And had the Company not achieved recovery of
14 all of these costs during that point in time, the Staff
15 would have proposed some sort of amortization to
16 recover those costs.

17 Q. Okay. Do you know what this authorized rate
18 of return was for the Company during the period of the
19 test year?

20 A. I don't -- I don't know. I -- I --

21 Q. 10.48 --

22 A. What is 10?

23 Q. -- sound right?

24 A. That -- that sounds somewhere in the ballpark.

25 Q. All right. Do you know whether or not the

1 Company was underearning or overearning during that
2 period of time?

3 A. I don't know that personally. The Company
4 believes it was.

5 Q. If the Company was underearning during that
6 period of time, would that change your opinion about
7 whether or not these transition costs were already
8 recovered?

9 A. No, it would not.

10 Q. So it doesn't mat-- if -- if the Company is
11 not earning its rate of return and then they have these
12 transition costs that they have to write off on top of
13 that, that doesn't matter to you? You still think that
14 is -- they've realized the benefit of these savings,
15 even though they have costs?

16 A. Yes, because there are other variables driving
17 the earnings of the Company that have to be addressed.
18 And the Company needs to assess all of the variables in
19 making its decision when to file a rate case.

20 Q. And that would be reflected in some
21 computation of their earnings during that period of
22 time?

23 A. That's correct. And if the Company felt like
24 they needed to file for a rate increase, they should
25 have done so.

1 Q. Let me hand you what has been marked as
2 Exhibit 18 -- 118 and 119. I gave out copies of them.

3 Now, Exhibit 119 has been identified by
4 Mr. Jenkins as being a representation of the
5 surveillance report numbers across the top line that
6 are on file with the Commission.

7 That includes all income that the Company
8 receives per book, regulated and unregulated. There
9 are even dollars in there associated with unregulated
10 revenues, such as the sale of real estate.

11 A. Are you looking at 119?

12 Q. I am looking at 119. 119 represents
13 three years.

14 Q. Okay.

15 Q. '01, '02 and '03.

16 A. Okay.

17 Q. They're identical, but for the fact that
18 they're three different years.

19 A. Okay. All right.

20 Q. All right. Now, those numbers across the top
21 there -- the Company at that time was doing what
22 they've -- what they had reason to believe the
23 Commission would accept, and that is to say they were
24 booking -- capitalizing the transition costs.

25 And so a very small amount of them -- that

1 cost shows up in there. If you prevail on the -- your
2 recommendation is that the numbers be completely
3 disallowed, correct -- the transition costs be
4 completely disallowed?

5 A. That's correct.

6 Q. All right. So then all of those dollars would
7 have to have been absorbed as expenses during this
8 period of time -- these -- this is the period of time
9 during which the costs are incurred?

10 A. If they're disallowed, yeah, you would -- you
11 would absorb costs and if --

12 Q. This is what you say should have happened?

13 A. No. I don't agree that this is what should
14 have happened. I'm saying that the Company -- are you
15 saying if I disallow it, what will happen?

16 Q. No. I'm saying if you have -- if you disallow
17 it, something is gonna happen going forward. What
18 we're saying, they're not gonna go back and restate
19 three years of income, they're gonna have to disallow
20 it going forward.

21 I'm -- you -- you are saying that they -- they
22 already got these transition costs back in savings, and
23 I'm saying they were below their authorized rate of
24 return anyway.

25 A. Okay.

1 Q. All right?

2 A. Now I'm with you.

3 Q. All right. Now, this is a characterization of
4 what their earnings were during those three years. And
5 had they simply written them off, what Mr. Jenkins has
6 done is remove them. That's the SC-- S-- or CSC and
7 SSC costs there.

8 A. Okay.

9 Q. Do you follow that?

10 A. Okay. I follow.

11 Q. All right. Now, look at Exhibit 118, which is
12 the arithmetic computation.

13 A. I -- I have no reason to doubt this is
14 Company's position on this.

15 Q. And your response to this is it doesn't
16 matter. Is that your --

17 A. My response is that if -- if you write it off,
18 it -- it could result in reduced earnings. But you
19 don't -- I don't believe that you -- I don't believe
20 that you always write stuff off.

21 Q. The savings from the shared service center
22 that's a couple of million dollars -- that's
23 necessarily reflected in the surveillance reports,
24 right, because those are materialized and realized
25 expenses?

1 A. Correct.

2 Q. All right. So now it's just whether or not
3 you go in and detract the costs of the transition costs
4 from them or whether you pick them up later, correct?

5 A. Correct.

6 Q. All right. Now, why do you distinguish
7 between the -- well -- well, first of all, we've
8 established that you don't care that they're
9 underearning -- it doesn't matter to you in your
10 analysis of whether or not they've earned the money
11 back?

12 A. That's correct. And that's cuz there are
13 other variables affecting your earnings.

14 Q. And -- and if this -- if -- if they were
15 forced to expense -- had been forced to expense all of
16 these transition costs during the year of incurrence --
17 incurring them, the fact that it would have reduced
18 their return even lower, and there would have been a --
19 a more significant underearnings situation, that
20 doesn't matter to you either -- to your theory?

21 A. Correct.

22 Q. All right.

23 A. The -- the shared services, you know, are --
24 the fact that you're achieving savings are helping your
25 earnings.

1 Q. But wouldn't the earnings be reflected in that
2 number? I'm pointing to the calculated average return
3 on equity.

4 A. Correct.

5 Q. Still didn't get up to the authorized amount?

6 A. But there are other variables driving that.

7 Q. Do you argue or do you disagree with the
8 contention that something was going to have to be done
9 sooner or later with the legacy system?

10 A. I don't know. Based on the complaints that I
11 saw per customer, I didn't see anything wrong with the
12 existing call center. I -- I don't know.

13 Q. Would it -- it would last forever?

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

15 Q. Without regard to increased call volumes?

16 A. I don't know.

17 Q. All right. Mr. Van Den Berg says at page 23
18 of his rebuttal that 5 point -- 5.3 million in
19 transition costs are on line, whether lower than what
20 Missouri-American would have had to have spent in a
21 stand-alone company to install the same level of
22 customer service achieved at the Alton center.

23 Do you have reason to disagree with that?

24 A. As I testified earlier, I -- I just -- I don't
25 know what the basis for that is.

1 Q. And if the investment had been made at the
2 stand-alone company, you would have no question, but
3 that it would be rate based, true -- or would you say
4 perhaps not unless it resulted in savings?

5 A. It would have to be shown to be a prudent
6 investment.

7 Q. And -- and your definition, I -- now, I did
8 not want to get into this again. But your -- you
9 insist that prudence -- a mandatory element of prudence
10 is that it must result in savings?

11 A. No.

12 Q. There's no other basis that would justify a
13 prudent investment unless it resulted in savings?

14 A. Not -- not always. Not in every se-- every
15 case.

16 Q. There are situations where an investment would
17 be prudent that did not inj-- result in savings, do you
18 concede that?

19 A. Yes.

20 Q. All right. Van Den Berg said the Company
21 would need upgrades to the IVR, CTI and switches. He
22 says this at page 24 of his rebuttal.

23 These upgrades -- upgrades would cost 3 to
24 5 million bucks. Do you have reason to disbelieve
25 that?

1 A. I -- I don't -- I don't have any opinion on
2 that.

3 Q. So your answer would be the same with respect
4 to his contention that on page 25 is -- of his
5 rebuttal, that the estimated industry benchmark to put
6 in a new CIS system and other associated front-office
7 technologies would be between 10 and 27 million?

8 A. What page is that on, 27?

9 Q. 27 -- 25.

10 A. 25.

11 And was that 19 -- I -- I don't know what
12 industry benchmarks he's comparing that to.

13 Q. You have no reason to disbelieve him, you're
14 just sceptical?

15 A. I -- I'm not sure that you can make that
16 comparison, because he may be comparing apples to
17 oranges industries.

18 Q. Well, are you familiar with Mr. Van Den Berg's
19 credentials with respect to call center work?

20 A. I reviewed them. I can't honestly say that I
21 re-- recall them.

22 Q. Do you consider them to be respectable? Does
23 he have a -- a significant level of experience in call
24 center work?

25 A. Mr. Van Den Berg seems to be a very

1 intelligent individual.

2 Q. And his experience, is it significant?

3 A. I believe he has significant experience.

4 Q. In rebuttal at page 14 he says, the level of
5 service increase -- and he's talking about the new call
6 center -- is significant and consistent with the level
7 of service being demanded by the customer.

8 And -- and you -- you disbelieve that, because
9 the Company did not provide and -- and interrogate its
10 customers?

11 A. I'm sorry. Where was this statement at?

12 Q. Page 14 of Van Den Berg's rebuttal.

13 A. What was the statement again?

14 Q. The level of service increased. It's
15 significant and consistent with the level of service
16 being demanded by the customer.

17 A. I think that's a very generic statement, and I
18 don't know what customer he's referring to. So, again,
19 I think that may be an apples to oranges comparison. I
20 believe some of the industries he compares --

21 Q. Well, here's -- here's -- here's his
22 explanation. In his rebuttal on page 16, he defines
23 his customers. He says -- quote -- this is his
24 rebuttal at page 16. Today's customers have
25 expectations that are driven by industry standards for

1 customer service. The Alton call center meets these
2 standards.

3 A. And -- and where -- what line is that on?

4 Q. I'm sorry. I don't know. I've just re-typed
5 it myself.

6 A. Okay. So I -- I believe that's lines 1
7 through 3. Again, I don't -- it -- what
8 industries? He doesn't identify what industries he's
9 referring to.

10 As we've established earlier through his
11 testimony, he referenced industries that were in the
12 competitive fields. He referenced industries that were
13 electric and gas utilities. He referenced a municipal
14 water utility, all of which don't compare to
15 Missouri-American's regulated operation.

16 Q. All right. Let's get to -- back -- let's get
17 to the end, which is where we started, I think,
18 yesterday morning.

19 Did you look at the consequences of your
20 adjustment -- what the likely ramifications are of your
21 adjustment, both to this company and to other utilities
22 in this state?

23 A. I realize that it was a disallowance that --
24 of -- of those costs. Yes, I considered it somewhat.

25 Q. So what -- what message should the board of

1 directors of the Company hear from you? That they
2 should not --

3 A. That --

4 Q. -- invest in transition costs to any asset,
5 unless -- certainly the transition costs to any type of
6 a shared services venture is going to be non-recurring.

7 Certainly it's not gonna be -- they're not
8 gonna own the assets, because by definition it's gonna
9 be a shared center.

10 By your characterization, they're not gonna
11 have sufficient control of the business practices, even
12 if they put the president on the board of directors.

13 And -- and you're saying it is absolutely
14 critical that it has to reduce costs. So what -- so
15 you're saying that unless they can come up with
16 something that's going to reduce costs, they sure
17 better not do it?

18 A. That -- that seems to make good business
19 sense, too. Why would -- why would you transition to a
20 shared services center and incur more costs if you
21 could currently do it more cheaply?

22 Q. I might suggest that you could reduce the cost
23 per call to the customer, and that the customer might
24 be pleased with that.

25 A. And I -- and I believe we've already dis--

1 agreed to disagree on that.

2 Q. But your message, loud and clear, is it better
3 meet your standard of being less expensive than what
4 the costs were before they -- before they started the
5 enterprise or in the State of Missouri they better not
6 make that investment.

7 Because they need to know this. This is \$10
8 million.

9 A. I understand. And that's -- that's -- unless
10 it achieves -- unless it achieves cost savings that --
11 that results in savings to the ratepayers, it's not
12 appropriate.

13 Q. And in your calculation of cost savings it is
14 simply a measure of what was being spent out of the
15 pocket before, and what is being spent out of the
16 pocket today without regard to valuing increased
17 services, increased levels or volumes of activities
18 with customers -- all that stuff doesn't matter, cost
19 per call doesn't matter, it simply -- you start with
20 the cost when it's started, and if they're higher,
21 you're gonna lose 10 million bucks, Mr. Company?

22 A. So when you start talking about the im--
23 improved benefit or the improved service, the problem
24 is with that Missouri-American doesn't control that,
25 and it doesn't own those assets. That's totally out of

1 Missouri-American's control. That's in the service
2 company's control.

3 And, furthermore, the Staff's determination of
4 whether to allow transition costs is not driven by
5 whether these activities were beneficial to the Company
6 or the ratepayer.

7 Q. All right. We -- we hear you -- we understand
8 the message. Now, let's get -- let's just move quickly
9 to shared services, because it'll be much shorter.

10 You have disallowed all of the shared services
11 transition costs, and they're in the amount of
12 \$5,263,822; is that correct -- no, I've got that
13 backwards. 4,488,000, and three digits I can't read.

14 A. 827, yes.

15 Q. And you're disallowing all of those costs?

16 A. That's correct.

17 Q. And they were non-recurring?

18 A. The -- it's -- it's -- that's not -- what --
19 what is the problem there is that they have achieved
20 cost savings to the ratepayers, but the problem is, is
21 the Company has already recovered it.

22 Q. Well, let's go through that.

23 A. Okay.

24 Q. Because they're non-recurring, correct?

25 A. But they've met the first hurdle.

1 Q. They're non-recurring.

2 A. Okay.

3 Q. They're -- they're not related to assets, by

4 your characterization?

5 A. Correct.

6 Q. They -- they don't have control over the

7 business processes by your characterization, but for

8 the capitalization of some salaries you've -- you've

9 elected to capitalize?

10 A. That's correct.

11 Q. They resulted in significant savings -- a

12 couple of million bucks in savings plus?

13 A. That's correct.

14 Q. And now you're telling the Company that they

15 have to eat it because -- eat the transition costs for

16 that because?

17 A. You've already recovered the savings.

18 Q. And that savings came from the test year when

19 they were underearning already -- you're gonna add that

20 into their expenses and make their underearning even --

21 A. If --

22 Q. -- greater?

23 A. I don't agree with that. If the Company was

24 underearning, there are other variables that could

25 drive that underearnings. And the Company always had

1 the choice to file a rate case to capture that.

2 Q. So that's an issue of -- before they did the
3 transition costs, they should have filed the rate case.

4 Would you have authorized the transition costs
5 in advance --

6 A. I --

7 Q. -- the amortization in the future?

8 A. I believe the Company did file a rate case
9 before these costs began to be -- to be recaptured.

10 Q. Would you have authorized a future
11 amortization of -- of transition costs?

12 A. Had the -- no. Had the Company come in and
13 filed a rate case in -- in the time that it took to
14 recover these savings in between November 7th and
15 now -- or November 7th and the time that when these
16 costs were actually recovered at some point during
17 2003, the Company would have been allowed to recover
18 the unrecovered portion.

19 Q. It -- it's non-recurring immediately?

20 A. But -- but the -- these generated cost
21 savings.

22 MR. CIOTTONE: The shared services --
23 two-and-a-half million bucks in savings. But now
24 you're saying it's non-recur-- recurring and the
25 fact -- I think I -- I think I'm through, Your Honor.

1 I think we've -- all understand where we are.
2 I'm through with shared services. I tender him, to the
3 extent that that's my ability to do so, and we'll move
4 on to AWR at your convenience

5 JUDGE THOMPSON: Thank you, Mr. Ciottone.

6 We need to take a break for the reporter
7 now -- five minutes, and we'll come back with questions
8 from the Bench.

9 Thank you.

10 (A RECESS WAS TAKEN.)

11 JUDGE THOMPSON: Okay. We'll go back on the
12 record now.

13 Commissioner Murray, questions from the Bench?

14 COMMISSIONER MURRAY: Thank You, Judge.

15 QUESTIONS BY COMMISSIONER MURRAY:

16 Q. Good afternoon, Mr. Cassidy.

17 A. Good afternoon.

18 Q. I'm sure you're getting used to that chair by
19 now.

20 A. Yes, I am.

21 Q. Transition costs for the call center, I want
22 to approach those first.

23 A. Okay.

24 Q. Well, first of all more generally, what is
25 your definition of a capitali-- capitalizable asset or

1 an asset that can be capitalized?

2 A. It has to be -- let's see if I can give you a
3 good definition.

4 I believe for an item to be included, it has
5 to be used and useful and a prudent investment. It
6 also has to be owned or controlled by -- by the
7 company.

8 Q. Is -- is that it?

9 A. I believe so.

10 Q. And how would you distinguish a capitalizable
11 asset from an asset that -- or -- or something that
12 would have to be expensed?

13 A. Something that is expensed is something that
14 will be considered reasonable and ongoing. It's
15 recurring. A capital investment is something that --
16 that -- it's something that's capable of providing the
17 utility service to the consuming public on a -- and --
18 and it's allowed to be recovered for through
19 depreciation and return.

20 Q. Now, that's confusing me, because I thought
21 assets that were capitalized are depreciated.

22 A. Assets that are capitalized are -- are
23 depreciated.

24 Q. And assets that are expensed?

25 A. Assets aren't expensed. They're -- expenses

1 are expenses, and --

2 Q. Okay. But you just mentioned depreciation, I

3 thought, in relation to --

4 A. That's -- that's how the asset is depreciated.

5 An asset is killed off through depreciation.

6 Q. Okay. But you weren't trying to say that an

7 asset is expensed and depreciated?

8 A. I'm saying an asset is -- is killed off

9 through depreciation expense and that's --

10 Q. Okay.

11 A. -- offsets -- that's what --

12 Q. All right.

13 A. -- offsets that asset.

14 Q. I -- I just want to be clear on what you said,

15 because I misunderstood what you said. Thank you.

16 Okay. And assets, how do you -- how do you

17 define assets?

18 A. An asset is something that's capable of

19 providing service to -- to the consuming public.

20 Q. Now, can that be anywhere from a piece of land

21 or a building to employees?

22 A. I don't -- I don't believe an employee is an

23 asset per se.

24 Q. So you're talking about something -- some

25 tangible material?

1 A. Assets can be tangible or intangible.

2 Q. Okay. Give me an example of an intangible
3 asset.

4 A. A -- a franchise organization. Organizational
5 costs can be intangibles.

6 Q. Organizational costs.

7 How do -- how do organizational costs compare
8 to transition costs? Is there any similarity?

9 A. Organizational costs -- I -- I don't know if
10 I could -- could make that comparison adequately for
11 you.

12 Q. Can intangible assets be capitalized?

13 A. Yes, I believe they can.

14 Q. Is a transition cost an intangible asset?

15 A. Yes, I believe a transition cost is -- could
16 be considered an intangible asset.

17 Q. Okay. In this case is it Staff's position
18 that the transition costs should not be capitalized,
19 because they don't make -- meet the definition of a
20 capitalizable asset?

21 A. The -- the Staff -- no, I believe it's because
22 they -- they are not -- those assets -- those costs --
23 those transition costs don't relate to assets that
24 Missouri-American controls or that they own.

25 They don't relate to assets that they own and

1 they don't relate to business processes that they
2 control.

3 Q. Okay. But we're talking about whether the
4 transition costs would be a capitalizable asset,
5 correct?

6 A. Correct.

7 Q. And you're saying that -- I think you're
8 saying they're not. And I think you're saying the
9 reason they're not is that the Company doesn't own or
10 control them?

11 A. That's -- that's some -- part of the reasons,
12 yes.

13 Q. And is it Staff's position that the transition
14 costs of the call center should not be allowed, even if
15 they did meet the definition of a capitalizable asset,
16 because movement to the call center was imprudent?

17 A. For -- for the call center transition costs,
18 yes.

19 Q. So a part of the reason for disallowing them,
20 in Staff's view, is that they were imprudent?

21 A. Correct. Just for the call center --

22 Q. All right.

23 A. -- transition costs.

24 Q. Now I want to move onto the share services
25 transition costs.

1 A. Okay.

2 Q. But before I do, what was the amount

3 associated with the call center transition costs?

4 A. Okay. Call center transition costs,

5 \$5,263,822.

6 Q. Okay. And where -- where would I find Staff's

7 adjustments in your schedule? I -- I was having

8 trouble locating those particular adjustments.

9 A. They would be in the plant adjustments, P87.1.

10 Q. In -- in this (indicating)?

11 A. Yes.

12 Q. And is there be a tab called plant

13 adjustments?

14 A. Well, it would be -- you'd have to look under

15 the corporate -- for -- for the national call center,

16 you'd have to look under the St. Louis District and the

17 corporate district.

18 Q. Okay. Let's start with St. Louis. And then I

19 go to -- where do I go in there?

20 A. The plant service schedule.

21 Q. Which is numbered -- is it numbered?

22 A. Yes. I don't have it in front of me.

23 Q. Is it No. 4 -- yes, No. 4.

24 And now you have it in front of you.

25 A. Okay.

1 Q. I'll let you turn to it.

2 A. I -- I believe, Commissioner Murray, that the
3 Staff's adjustments may have changed since this direct
4 filing, so the numbers may not match, but --

5 Q. I realize it may be updated, but just working
6 from these --

7 A. Okay.

8 Q. -- to give me some reference, if you would.

9 A. Sure. If you turn to page -- Accounting
10 Schedule 3-3. I'm -- I'm under St. Joe. Sorry.

11 I'm sorry. It must -- oh, I know what
12 happened. Let's -- I'm sorry. Let's turn to
13 corporate.

14 JUDGE THOMPSON: Turn to where?

15 THE WITNESS: Corporate.

16 JUDGE THOMPSON: Okay.

17 THE WITNESS: I think they may have been taken
18 out of corporate entirely during the direct filing.

19 Okay. If you turn to Accounting Schedule 4
20 under the corporate district, you'll find the
21 adjustment summaries there.

22 BY COMMISSIONER MURRAY:

23 Q. All right. So we're looking down under what
24 is called off-- office furniture?

25 A. Correct.

1 Q. Category P87?

2 A. That's where the Company chose to capitalize
3 those items.

4 Q. And there you show transition costs to the
5 call center -- I mean, you said they may be different
6 numbers, and that's significantly different. But if
7 I'm looking at the right number, it's
8 2-million-something?

9 A. That's correct.

10 Q. And --

11 A. And the Company gave me updated information
12 since the time that I filed that direct testimony in
13 that -- that -- in this schedule.

14 Q. So instead of disallowing 2 million, you're
15 now suggesting that 5.2 million should be disallowed?

16 A. That's correct.

17 Q. And has it been covered today as to why that
18 number changed or is it covered in your surrebuttal
19 testimony?

20 A. Yes, I believe it -- it's covered in my
21 surrebuttal. The Company just -- they gave me some
22 updated information. I -- I don't believe that the
23 amounts are in dispute between the Staff and Company.

24 Q. All right. Now, let's go on to shared
25 services transition costs.

1 A. Okay. And that -- that would be also on that
2 same page there.

3 Q. Yes, I saw it there.

4 And it's not that much different than the
5 updated number?

6 A. Right. And that was because of my mistake. I
7 posted that adjustment incorrectly.

8 Q. Okay. You're not claiming that the shared
9 services are imprudent, correct?

10 A. No, I'm -- no, I'm not.

11 Q. Do these transition costs result from
12 capitalizable assets?

13 A. No, they did not. They -- they related to,
14 again, assets Missouri-American didn't own and business
15 processes that Missouri-American has no control over.

16 JUDGE THOMPSON: You're gonna have to speak
17 louder, Mr. Cassidy.

18 Thank you.

19 COMMISSIONER MURRAY: I think when the witness
20 is closer to the one questioning, it seems like -- it
21 just seems natural to talk more softly. But I -- I
22 always have to remember that, too, because I sit close
23 to the witness.

24 BY COMMISSIONER MURRAY:

25 Q. If the -- if the expenses -- these transition

1 costs were prudently incurred, they ordinarily, then,
2 would be expensed, rather than capitalized, correct?

3 A. If they were prudently incurred and if they
4 were owned and controlled by Missouri-American, and
5 they achieved cost savings and the Company hadn't
6 recovered those cost savings, then it would be
7 appropriate to allow some amortization and expense for
8 those items, yes.

9 Q. Okay. Well, I want to break that down,
10 because I thought the ownership and the control related
11 to whether or not you could capitalize them.

12 A. That's -- that's one of the factors of whether
13 you can capitalize.

14 Q. And I didn't realize that related to being
15 able to expense something.

16 A. The theory is, is that you would get a quicker
17 recovery -- you would get recovery in 10 years through
18 expense. It's always been Staff's position not to give
19 a return on those assets. It's a return of the asset.

20 Q. Now, wait a minute. Now, you're really
21 confusing me.

22 A. Maybe I'm misspeaking. Staff has always
23 allowed recovery of something that creates a cost
24 savings through a return of that item.

25 Q. And what -- how is that --

1 A. And not to allow it -- not to allow in -- in
2 as a capital item to where there would be a return on
3 applied to it.

4 Q. And that would be done by expensing it?

5 A. Correct.

6 Q. Okay. And you're saying that this, although
7 it was prudently incurred, it shouldn't be expensed
8 even, because there was no cost savings?

9 A. For national shared services?

10 Q. Right.

11 A. No, because national shared services
12 transition costs weren't owned or controlled by
13 Missouri-American. And -- and on top of that --

14 Q. I'm not -- I'm not asking you why it shouldn't
15 be capitalized.

16 A. Okay.

17 Q. I'm asking you why they shouldn't be expensed.

18 A. Why it shouldn't be expensed, because the
19 Company has already recovered all of its -- all of
20 the -- all of the money that the Company spent to
21 transition to the shared services center, it has
22 already recovered.

23 Q. Okay. I want to pursue that with you, because
24 I know that's -- that's what you've testified to.

25 So let's assume, just for a hypothetical, that

1 they were in-- were allowed to expense those transition
2 costs. Assume that we agree they're not capable of
3 being capitalized, but we'll allow them to expense
4 them.

5 When would that have been done -- when would
6 that normally be done and how would it be done?

7 A. If you -- if you looked at page 52 of my
8 surrebuttal, let's -- let's say that the Company made
9 this transition on November 7th, and then they -- they
10 filed a rate case sometime in 2001, early 2002.

11 Q. So that the test year would have been --

12 A. So that their --

13 Q. -- the year that --

14 A. So that --

15 Q. -- the -- that this would have been --

16 A. So that that savings would not have gotten --
17 let's just say somewhere along that scale in that chart
18 that the savings had not reached a point of \$4,488,827.

19 To the extent --

20 Q. Where are you getting that from, Mr. --

21 A. That -- that is the amount that -- the
22 4,488,827 is the amount that the Company spent on
23 transition costs to -- to -- to design and implement
24 the concept of the call -- of the national shared
25 services center.

1 Q. Okay. I -- I think -- I think we're not
2 talking about the same thing here.

3 A. Okay.

4 Q. Let me try again.

5 A. But I -- but I'm saying if -- if the
6 Company -- what I'm trying to say is along this chart,
7 if the Company hadn't recovered anywhere up to
8 4,488,827, the Staff would allow recovery of that in
9 the expense.

10 Q. And that would be shown how?

11 A. You would have to slide through that -- that
12 scale there -- that chart. So if -- if you could have
13 implemented rates by, say, December 31st, 2002, that
14 would represent approximately \$2.8 million of savings
15 that they would have recovered.

16 Q. They would have --

17 A. So --

18 Q. -- recovered before the rate --

19 A. That they would have recovered. So then --
20 then it would have been appropriate to allow 4,488,000
21 less the 2.8, if that makes sense, if you follow me.

22 Q. I -- I think I do. Go ahead.

23 A. And that amount -- that difference could be
24 allowed in an amortization. And that is given if --
25 that the -- the asset -- you also have to make the

1 assumption that that asset is owned and controlled by
2 Missouri-American Water Company.

3 Q. Why do you have to make that assumption if
4 you're not capitalizing it?

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

6 Q. Are you sure that you do?

7 A. I -- I just -- I don't know that I could
8 answer that question.

9 Q. And the -- the -- which question are you
10 speaking about? Whether you're sure that they --
11 you're not -- you don't know if you can answer whether
12 you're sure that they would have to show that they
13 control it and/or own it in order to expense it?

14 A. I guess what I'm saying is it's -- it's
15 been -- consistently been the Staff's treatment to
16 allow recovery through an amortization of
17 unrecovered -- of unrecovered co-- of unrecovered costs
18 that achieve cost savings.

19 And that -- that that --

20 Q. Through expensing --

21 A. Through expensing.

22 Q. -- rather than capitalizing?

23 A. Right.

24 And -- and what I'm -- I guess I'm trying to
25 explain is -- and maybe I'm doing a poor job -- is that

1 in my example that I was showing you there, let's say
2 that -- that the Company filed a rate case and the
3 rate -- that rates the operational dates of rates would
4 have been December 31st, 2002 in this example and --
5 and assuming Missouri-American owned and controlled
6 those assets.

7 Q. And that's where I'm getting hung up.

8 A. Okay. And -- and -- see, with the -- with
9 these transition costs, they relate to transitioning to
10 a shared service center, which is separate and
11 distinct. That -- that ser-- the shared services
12 center is a service company function.

13 It's not something Missouri-American owns.
14 It's not something Missouri-American controls. It's
15 totally in the control of the service company.

16 Q. But that's --

17 A. So it's inappropriate to have
18 Missouri-American ratepayers pay for something that
19 they -- that's not part of the utility's control or
20 part of their -- under their business process. They
21 don't control that business process either.

22 Q. Well, I thought the ratepayers paid for
23 whatever the costs were to serve them, whether --
24 whether those costs were incurred by the Company paying
25 somebody else or -- or incurred by the Company's

1 operating its own --

2 A. To the extent --

3 Q. -- assets?

4 A. To the extent that they're also recurring and

5 ongoing also, that's another aspect of this.

6 Q. But we haven't even gotten there yet.

7 A. Okay.

8 Q. We've gotten hung up on the control and

9 ownership aspect. And you're saying that in order to

10 expense an item, you have to control it and/or own it?

11 A. Not -- not just any item in -- in this case,

12 in order to amortize this type of -- this type of

13 cost -- the transition cost.

14 Q. So transition costs are -- even if it's not

15 capitalized, in order to recover, always has to be

16 under the ownership or control of the utility?

17 A. That would be one criteria, yes.

18 Q. And that's a -- that's a statement that you're

19 making -- that it has --

20 A. Yes.

21 Q. -- to be?

22 A. Yes. I mean, that's --

23 Q. Okay. Now, let's see if I can go to my next

24 question here.

25 In this particular case you were pointing out

1 with your numbers on page 52.

2 A. Okay.

3 Q. And there's -- I think there's a little -- I'm
4 still confused. Because I believe I heard you say that
5 if the rate case had taken effect on December 31st,
6 '02, then --

7 A. And -- and if these costs were owned -- if you
8 assumed that these costs were owned.

9 Q. And the service center was only --

10 A. Right. If it was under --

11 Q. -- controlled by --

12 A. If it was under -- owned by Missouri-American
13 and it was controlled -- that this process was
14 controlled by Missouri-American. But in this case
15 that's not the case.

16 I mean, there's a multitude of reasons why
17 these costs shouldn't be included in rates. In this
18 situation for national shared services it's a --
19 it's -- it's already been recovered. If it was
20 included in rates again --

21 Q. Okay. I --

22 A. -- then -- then it would constitute a -- a
23 recovery a second time for these costs.

24 Q. Yeah. And I want -- I want to pursue that,
25 too, because that's another problem that I'm having

1 understanding.

2 What or which portion of these expenses
3 occurred during the test year in this case?

4 A. Okay. That's identified on page 26 of my
5 direct testimony.

6 Q. Now, where are the -- okay. These are the
7 transition costs, the ones on the -- in the right-hand
8 column on the --

9 A. Right.

10 Q. -- shared services?

11 A. That's for the national shared services
12 transition. And in the test year, the Company incurred
13 \$1,182,285.

14 Q. And it's your position that the Company should
15 not even recover the amount that it occurred --
16 incurred in the test year, because in the test year
17 there were not savings --

18 A. It --

19 Q. -- or there were savings?

20 A. At -- my -- my -- it's -- it's not just
21 specific to the test year, it's specific to all of the
22 costs that they've charged to -- to their -- as a
23 capital item -- as a capitalized item.

24 Q. Because they want to capitalize it?

25 A. Right. So --

1 Q. But if you were looking at whether they could
2 expense it, on what basis would you say that they
3 shouldn't recover the amount that was incurred during
4 the test year?

5 A. I -- I don't think you can expense it. It's
6 like dollar for dollar in expenses, because it's
7 one time non-recurring. And it -- it -- it would be
8 inappropriate, because this -- these costs -- assuming
9 nothing else, these costs would be more of an
10 intangible asset and you wouldn't -- you wouldn't
11 expense it -- an intangible asset.

12 Q. And did you say that you could capitalize an
13 intangible asset?

14 A. Yes, given ownership and all of the other
15 issues I've mentioned before.

16 Q. So is any of what you're saying here in terms
17 of the Company already having recovered -- and I -- and
18 I want to see where you're getting that, because I -- I
19 don't hear the numbers matching up. But --

20 A. Okay.

21 Q. -- assuming that that's -- that you've got
22 numbers to show that they've recovered --

23 A. Uh-huh.

24 Q. -- for those transition costs through
25 savings --

1 A. Uh-huh.

2 Q. -- that were achieved prior to the effective
3 date of this rate case?

4 A. Correct. And that's identified in the chart
5 on the top of page 52 of my surrebuttal testimony.
6 That's what that calculation represents. Beginning
7 November 7th of 2001 the Company began achieving
8 savings, as a result of this decision.

9 If you add the savings up, it totals --
10 through the operation of law date in this case it
11 totals to \$6.2 million, \$6.3 million. And that exceeds
12 the amount that they've spent, which was the 4,488,827,
13 so --

14 Q. Okay. So let's assume that the -- the savings
15 were \$1 million.

16 A. Okay.

17 Q. Would Staff's position, then, be that there
18 could be a recovery of 3,488,827 transition?

19 A. Again -- again, in this case, these -- these
20 are -- these -- these aren't assets Missouri-American
21 owns or controls. That's another -- just another
22 factor -- another thing on top of -- sorry -- another
23 reason why these costs can't be recovered by
24 Missouri-American, because they're not under their --
25 they don't own them and they don't control them.

1 It's -- those are service-company related
2 costs. They're one time and they're non-recurring.

3 Q. And I'm having trouble with the ownership
4 part -- the ownership and control part ruling out being
5 able to expense something. So can you tell me what
6 other reasons they couldn't expense the cost -- expense
7 this cost?

8 A. You mean, these -- these costs -- why they
9 just couldn't be put into expense?

10 Q. Yes.

11 A. Because they're -- they're more appropriately
12 treated as an asset, which would be a capitalized item.

13 Q. But you said they can't be capitalized.

14 A. By Missouri-American.

15 Q. Okay. So it's a Catch-22 -- there's no way
16 that this could ever be classified to allow
17 Missouri-American to recover whatever it costs them to
18 transition to shared services?

19 A. In this situation, yeah, Missouri-American
20 does not have the right to capitalize these -- these
21 items.

22 Q. And you're saying they don't have the right to
23 expense them?

24 A. That's correct.

25 Q. So there's no way -- they couldn't have done

1 anything --

2 A. Because --

3 Q. -- that would have allowed recovery?

4 A. Because it's service-company related.

5 Q. So if they take -- if they decide that --
6 let's say they've got -- they own their own well
7 somewhere in one of their districts, and there's
8 significant problems with it. And there's a large
9 municipality right next door that has excess capacity
10 and really good rates.

11 And they would even give Missouri-American
12 better rates, because they'd be buying in bulk. And
13 they would incur significant savings by just abandoning
14 the well they own and going to take service from the
15 municipality and pay that municipality.

16 But there would be costs in doing so, because
17 they would have to make certain changes in their piping
18 in order to -- to actually get that water from the
19 other -- from the municipality.

20 Are you saying that even though that
21 would -- that would be a prudent decision and it would
22 result in significant cost savings -- that whatever it
23 costs them to do that, they would never be able to
24 recover from ratepayers because they wouldn't own and
25 cont-- and/or control that property that they'd get --

1 be getting the water from?

2 A. Commissioner Murray, I'm -- I'm not sure if I
3 could -- I -- I don't know. I don't -- I don't know if
4 I could answer that question.

5 Q. And I don't know if I can understand what it
6 is you're trying to say about transition costs, if you
7 can't.

8 A. Okay. Your -- your question is -- let me see
9 if I can break it down to where I can understand it.

10 Q. Okay.

11 A. You're saying that if Missouri-American had a
12 well that was -- they wanted to -- to get rid of
13 because they could start purchasing water from a
14 municipal water supply?

15 Q. Let's say the well had some -- I don't know --
16 some kind of pollution problem or some other
17 significant problem that was costing a significant
18 amount and was not allowing them to provide good
19 service to the customers in a certain district.

20 A. Okay.

21 Q. And right -- and very close by was a
22 municipality --

23 A. Okay.

24 Q. -- that had excess capacity.

25 A. All right.

1 Q. And the municipality could sell them -- could
2 sell Missouri-American what they needed to serve that
3 district. And in order for -- for Missouri-American to
4 serve their customers adequately and less expensively
5 than to either repair this well that they're currently
6 serving from or build -- dig another one or whatever
7 they would have to do to serve them from the own --
8 owned assets --

9 A. Okay.

10 Q. -- they're gonna take service from the
11 municipality instead. But to do that, there are going
12 to be transition costs, because they don't currently
13 have pipes that run between the municipality and the
14 district that they're -- they're serving.

15 So they're gonna have to put in some piping,
16 they're gonna have to do some other connection things,
17 they're probably gonna have some make some changes in
18 your bookkeeping.

19 A. Uh-huh.

20 Q. I'm not sure what else the costs would be, but
21 there would be -- likely be transition costs, would
22 there not?

23 A. Would -- would Missouri-American be purchasing
24 the municipality?

25 Q. No. Missouri-American would be buying water

1 from the municipality. And I -- and what I'm asking
2 you is, would it be your position that whatever it cost
3 Missouri-American to transition those customers to
4 receive water through the municipality system, the
5 Company could not recover?

6 A. The Company would have to -- I guess in that
7 situation you're saying, then, they couldn't build
8 their own -- another well themselves to serve
9 themselves more efficiently than --

10 Q. I'm saying it would be less expensive -- it
11 would cost the ratepayers less if they took the water
12 from the municipality.

13 A. I -- I don't know if I could answer that
14 question. I mean, I -- I just --

15 Q. Do you see it as involving the same
16 principles?

17 A. I think it involves some additional variables.

18 Q. Such as?

19 A. Whether or not you could build another well.

20 Q. So let's stop.

21 A. I think it makes them --

22 Q. Where -- I want to stop. One by one.

23 A. The purchase of water would be more of a --

24 Q. I said stop, please.

25 A. Okay.

1 Q. I want to ask you about the first assumption
2 there. You said the first variable you can think of is
3 whether they could build another well. So let's
4 compare that to the service going to shared services.
5 How -- how -- what's -- what's the comparison there?

6 A. I -- I think here if -- if a -- okay. I think
7 I can answer your question maybe. If you -- if
8 Missouri-American was to start taking water from the
9 municipality, that would be a continuous and ongoing
10 expense that Missouri-American, I guess, would have to
11 pay for that water to the municipality.

12 Q. But wouldn't the transition expenses, putting
13 in the new pipes so they could connect with that
14 municipality -- wouldn't they be one-time expenses?

15 A. I guess that -- I guess in that situation
16 that -- assuming your -- your example that
17 Missouri-American would -- if it -- if you showed cost
18 savings and it was Missouri-American's pipe -- they
19 owned that pipe, then I guess that would be a
20 capitalized event.

21 Q. Capitalized.

22 All right. That's because they own the
23 pipe -- Missouri-American owns the pipe?

24 A. Correct.

25 Q. But they don't own the municipality from which

1 they'd be taking the service?

2 A. Correct.

3 Q. Okay. So the only -- I mean, I'm -- I'm

4 trying to see where -- where there would be a

5 difference. Let's say that to take service from the

6 municipality they didn't have to put in any pipe, but

7 they had to send notices to their customers and incur a

8 lot of new expenses for customer calls, explaining what

9 was happening.

10 A. In terms of connecting to the municipal?

11 Q. Yes. First time -- one-time costs. You're

12 saying they couldn't recover those costs; is that

13 right?

14 A. Well, those costs would -- would represent

15 unusual, abnormal events. That wouldn't be a normal

16 ongoing event. So it would more likely either be

17 disallowed or not treated as an ongoing thing.

18 Q. So it would be treated the way you're treating

19 shared services transitions?

20 A. I think we're kind of comparing apples and

21 oranges here a little bit.

22 Q. But I'm just trying to figure out how -- how a

23 company ever recovers transition costs --

24 A. Okay.

25 Q. -- if they don't own all --

1 A. If the don't --

2 Q. -- of the assets.

3 A. If they don't own the assets, then -- then
4 that's the standard. That you can't recover it if you
5 don't own it. I mean, it's not -- if you don't own or
6 control the asset, why should you get to recover it?

7 It's -- an asset has value to the entity that
8 owns it.

9 Q. Okay. And what -- what is the relevance of
10 the savings that have already been achieved?

11 A. That's -- that's just another reason that
12 shared services costs -- on top of the fact that it's
13 not owned or controlled by Missouri-American.

14 Missouri-American has already recovered the
15 savings that would exceed what they spent to achieve
16 the savings. So if it was to be allowed in rates
17 again, it would constitute another recovery. They
18 would recover that cost twice.

19 Q. And is that recovery a result of regulatory
20 lag?

21 A. Yes, in that the Company hasn't re-filed the
22 case since they implemented this -- they've made this
23 implementation or change. This implementation has
24 occurred since the last -- since the rates were
25 established in all of the last three rate cases

1 involving Missouri-American Water and its properties,
2 Missouri-American Water, St. Louis County, United
3 Water.

4 Q. Now, assuming that rather than savings there
5 had been additional costs, what would your position be?

6 A. And assuming that Missouri-American owned it?

7 Q. No. Same thing --

8 A. Okay. If --

9 Q. -- same situation --

10 A. If they're --

11 Q. -- that you said that there were additional
12 costs.

13 A. Then it would be disallowed.

14 Q. And on what basis, then, would it be
15 disallowed?

16 A. It didn't achieve savings. Why would
17 you -- why would you do something like that if it wound
18 up just costing you more?

19 A. Would it also be because they didn't own it
20 and control it?

21 A. Yes.

22 Q. So they can't recover, on the one hand,
23 because it does achieve savings, and they can't recover
24 on the other hand, because it didn't achieve savings?

25 A. It's because of the -- it's because of the

1 ownership that comes into play.

2 Q. So the savings really is not -- not a part of
3 it?

4 A. Well, savings -- in this instance, really it's
5 just another -- it's another reason why.

6 Q. Okay. But either way that -- either way
7 if the savings issue had gone, it would be a reason not
8 to allow recovery, correct?

9 A. Yes. Either -- either -- both -- both apply
10 to why it shouldn't be recovered.

11 Q. But I mean a cost savings or a -- an
12 additional cost -- either one would have been an
13 additional reason to not allow this?

14 A. May-- maybe this example would help. If -- if
15 Missouri-American wanted to implement an accounting
16 system that was Missouri-American specific, okay, and
17 this -- this concept involved, like, transitioning all
18 of its districts, like St. Joe, Jefferson City,
19 St. Louis and -- and they centralized their
20 accounting -- this accounting function at
21 Missouri-American in St. Louis and they eliminated all
22 of their accounting aspects at all of the districts.

23 And that -- let's assume that it achieved cost
24 savings for Missouri-American. Well, this would be a
25 situation where Missouri-American owned and controlled

1 these aspects. And let's assume further that this
2 savings -- this savings did not exceed the -- that the
3 savings that Missouri-American had recovered did not
4 exceed the costs that were required to -- to implement
5 this concept to the extent that Missouri-American had
6 not -- had unrecovered costs, the Staff would allow
7 some recovery for that. But this is something
8 different.

9 This is where Missouri-American has taken
10 accounting functions out of its regulated function and
11 put them in the service company. And now the service
12 company owns and controls all of those assets and
13 business processes.

14 So now it's inappropriate for
15 Missouri-American to come along and say, we want this
16 recovery for this function that's over here in the
17 service company.

18 Q. Okay. Is it your position that there will be
19 ongoing savings attributable to shared services?

20 A. Yes.

21 Q. And will there be ongoing costs attributable
22 to shared services?

23 A. Only to the extent that they're at the
24 allocation -- the normal allocation of costs. But in
25 terms of transitioning, no, no more transitioning

1 costs.

2 Q. I -- I'm not talking about transitioning right
3 now.

4 A. Okay.

5 Q. I'm talking about ongoing.

6 A. The -- the shared services center sends a bill
7 to Missouri-American to take service each month.

8 Q. Okay. And Staff is not proposing to disallow
9 either the ongoing expenses for -- to not consider the
10 ongoing savings, correct?

11 A. I -- I'm sorry.

12 Q. That -- that was poorly stated.

13 In the future --

14 A. Okay.

15 Q. -- the ongoing expenses will be considered,
16 correct?

17 A. Yes. The Staff is not making any disallowance
18 for the shared services annual or -- or monthly bills
19 to the Company.

20 Q. In -- in this case --

21 A. No.

22 Q. -- and in -- and in the future, right?

23 A. No.

24 Q. I mean, that would be likely. Of course, you
25 don't know what it will be in the future, but assuming

1 that --

2 A. No, it -- it saved Missouri-American money,
3 and the Staff has recognized those service company
4 bills coming to Missouri-American.

5 Q. Okay.

6 A. It's not disallowing that in any way.

7 Q. And how about the savings that -- how are they
8 recognized in the future?

9 A. Well, it's -- it's just recognized, because
10 now the -- the fact that they're taking this service --

11 Q. The costs are lower?

12 A. Right.

13 Q. And that's what's passed through to the
14 ratepayers?

15 A. Right.

16 COMMISSIONER MURRAY: All right. Thank you.

17 JUDGE THOMPSON: Thank you, Commissioner.

18 QUESTIONS BY JUDGE THOMPSON:

19 Q. Mr. Cassidy, non-recurring, and so
20 inappropriate rate base that applies to both the call
21 center and the shared services transition costs?

22 A. Yes, they both apply.

23 Q. Right. Not associated with owned assets
24 applies to both?

25 A. Yes.

1 Q. Not associated with controlled business
2 processes applies to both?

3 A. Correct.

4 Q. Did not result in savings and, therefore,
5 imprudent applies only to call center?

6 A. Yes. And given -- and given overall cost
7 savings calculated by American Water.

8 Q. Already recovered applies only to shared
9 services?

10 A. Correct.

11 Q. Okay. And then in response to Commissioner
12 Clayton you responded that the two reasons you raised
13 against recognizing the cost of the call center, No. 1,
14 that it was imprudent, because it didn't result in
15 savings as expected and, No. 2, that no customer survey
16 had been taken. You testified that these both applied
17 to the transition costs to the call center.

18 Do you recall that?

19 A. Yeah, I -- I do recall that.

20 Q. Okay. So we could add a No. 6, no customer
21 survey, and that applies only to the call center
22 transition costs, correct, not to the shared services
23 center?

24 A. Yes, just the call center.

25 Q. Okay. Now, the first three have to do with

1 recognizing the transition costs as an asset and
2 placing them in rate base; isn't that correct?

3 A. Yes.

4 Q. Okay. In other words, the Company is seeking
5 really two things here. They want a recovery of the
6 transition costs, so that's what we call a return of,
7 correct?

8 A. Right.

9 Q. They also want interest, a return on the
10 transition costs?

11 A. Correct.

12 Q. So when they capitalize them and put them in
13 rate base, they're saying it's a regulatory asset?

14 A. That's -- that's what they're saying, yes.

15 Q. And so they would earn interest on it just as
16 if it were a water plant?

17 A. Correct.

18 Q. Okay. Now, so there's really two questions
19 here. These expenses -- these are related with various
20 functions, all of which, as you have indicated, were
21 one-time expenditures in order to make that transition
22 from -- why don't we say in-house accounting --

23 A. Okay.

24 Q. -- to centralized accounting in New Jersey,
25 and centralized data control and all of those things

1 that the shared services center does.

2 A. Okay.

3 Q. And similar sorts of functions to get to the
4 national call center, right?

5 A. Correct.

6 Q. Okay. So why are those not just expenses?

7 A. Because I believe they -- they tend to
8 repre-- better represent an intangible asset to the
9 service company. I mean, there's -- these -- these --

10 Q. So you're saying -- you're saying, in effect,
11 that Missouri-American purchased assets for the service
12 company; in other words, the -- the Company evidently
13 ran these under office furniture. You're saying they
14 furnished offices for the service company?

15 A. I -- I'm just saying that -- call them what
16 you want, they're not Missouri-American's. They're --
17 they're --

18 Q. Okay. But you still feel they're better
19 viewed as assets than as expenses?

20 A. I believe they could be characterized as
21 intangible assets.

22 Q. Okay. Cuz as I understand what the Company
23 wants is a recovery of -- at a rate of 20th -- 1/20th
24 per -- per year plus interest at a rate of over
25 10 percent?

1 A. The Company's -- I think Company has a 20 --
2 approximately a 23-, 24-year --
3 Q. Okay.
4 A. -- recovery period.
5 Q. 20-- 23.4, right, amortization period.
6 A. Uh-huh.
7 Q. Now, that amount of interest if the Com--
8 if -- if the Commission allows it, is that gonna be the
9 same every year? It's not gonna change, is it, as the
10 amount is amortized?
11 A. It would be based on whatever return the
12 Commission established.
13 Q. Because the -- the tariffs just said rates.
14 They don't provide for rates to automatically change to
15 recognize the amortization of anything?
16 A. Correct. Whatever -- whatever rate this
17 Commission established, that -- that would represent
18 the return.
19 Q. Now, what if the Commission simply allowed
20 recovery of? I think that the Company's witness
21 indicated an alternative position that if the
22 Commission wasn't going to permit capitalization, then
23 they would want recovery of on I think a three-year
24 horizon?
25 A. And -- and I -- I wouldn't with that -- that

1 time frame. The Staff has -- the Staff would
2 recommend, if that were to be the treatment, that --
3 given that it doesn't agree that that should be the
4 treatment, but if that were, that the Company has
5 indicated in a DR that both of these functions are
6 expected to have -- and let -- why -- why don't you let
7 me read that in -- what -- what they indicated to me.

8 Q. Sure. Go ahead.

9 A. It is -- it is known that the concept of call
10 centers has been around for over 10 years, and that
11 these assets can be viewed as having a life of 20 or
12 more years.

13 So the Company believes that the call center
14 and the shared service center can have a life of 20 or
15 more years. So it would be the Staff's position that a
16 20-year amortization would be more appropriate.

17 The -- the Commiss-- the -- the Staff has
18 recommended, as I've stated in my testimony,
19 amortization periods of 10 or 20 years.

20 Q. I thought the Staff recommended no recovery at
21 all?

22 A. I'm just saying genera-- generically speaking,
23 if you said if the Commission were to allow an
24 amortization, given that --

25 Q. So your fall-back period --

1 A. -- given that the Staff disagrees with that.

2 Q. Okay. So am I correct in identifying a Staff
3 fall-back position -- if that's the right way to put
4 it -- of being return of, but amortized to 23.4 years
5 or whatever it was?

6 A. The Staff doesn't believe it should be
7 amortized, but if the Commission chose that route --

8 Q. Right. If the Commission chose that --

9 A. -- it would suggest a -- it would suggest a
10 20-year amortization.

11 Q. Thank you.

12 And with respect to the shared services
13 center, there were savings, right?

14 A. Correct.

15 Q. And -- and your view was that the savings
16 exceed the transition cost by over a million dollars?

17 A. Correct. They -- and that's -- the Company
18 has already recovered that.

19 Q. Through those savings?

20 A. Correct.

21 Q. Okay. But now that doesn't apply to the call
22 center?

23 A. No, the call center did not --

24 Q. Whether --

25 A. -- achieve savings.

1 JUDGE THOMPSON: Okay. Thank you. I have no
2 further questions for you.

3 Further questions, Commissioner Murray?

4 COMMISSIONER MURRAY: No. Thank you.

5 JUDGE THOMPSON: Okay. Recross, based on the
6 questions from the Bench. I believe it's Ms. O'Neill.

7 MS. O'NEILL: Thank you, Your Honor.

8 JUDGE THOMPSON: Please proceed.

9 MS. O'NEILL: Thank you.

10 RECROSS-EXAMINATION BY MS. O'NEILL:

11 Q. Mr. Cassidy, when we talk about a return
12 of, we're talking about the Company getting back the
13 money that it actually invested; is that right?

14 A. Correct.

15 Q. To -- to put it on, like, a really simple
16 term -- terminology?

17 A. Yes.

18 JUDGE THOMPSON: One that I can understand.

19 MS. O'NEILL: Or at least that I can.

20 BY MS. O'NEILL:

21 Q. And so when you've testified that the
22 transition costs regarding the shared services center
23 have already been recovered through savings -- the
24 savings that the company has been able to document and
25 that -- or that you have been able to verify, based on

1 company documentation -- exceed the actual outlay of
2 cash that Missouri-American incurred?

3 A. That is correct.

4 Q. And that's the reason why, although there were
5 savings to customers, the Staff is not recommending
6 that transition costs be recovered going forward?

7 A. That's correct.

8 Q. Okay. Now, your approach regarding return of
9 certain types of transition costs, is that consistent
10 with the position Staff's taken in the past?

11 A. Yes.

12 Q. And is your position regarding disallowing a
13 return on also consistent with the position Staff has
14 taken in the past?

15 A. Yes.

16 Q. And we've talked kind of about this return on
17 being like on interest but, in fact, it is subject to
18 the same rate of return that everything else in rate
19 base is subject to?

20 A. That is correct.

21 Q. So it's analogous to interest, but it's not
22 like you pay somebody interest directly?

23 A. That's correct.

24 Q. It's not an interest expense?

25 A. No.

1 Q. And the criteria that you've talked about
2 today, and I think even a little bit yesterday,
3 regarding criteria for what transition costs might be
4 appropriate for a recovery of a return of, has -- are
5 those consistent with positions the Staff has taken in
6 the past?

7 A. Correct, they are.

8 MS. O'NEILL: No further questions.

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

10 Yes, ma'am.

11 COMMISSIONER MURRAY: I think it would be
12 better to interject at this point, but I'm sorry I have
13 a question to ask.

14 JUDGE THOMPSON: When -- whenever you have
15 additional questions, just -- just start then.

16 COMMISSIONER MURRAY: I apologize.

17 JUDGE THOMPSON: We'll pick back up from that
18 point.

19 FURTHER QUESTIONS BY COMMISSIONER MURRAY:

20 Q. Mr. Cassidy, I -- I just wanted to go through
21 something with you. In your calculations that the
22 savings have resulted in the Company already
23 recovering --

24 A. Okay.

25 Q. -- what -- did you use their authorized rate

1 of return? How did you calculate those savings?

2 A. Those savings are identified by the Company in
3 Schedule 12 of my surrebuttal testimony, and
4 specifically it's shown on 12-2. And there -- there is
5 the annual savings that the Company calculated. This
6 is their calculation of the savings.

7 Q. Now, would -- when -- would some of those
8 savings have been passed through to ratepayers?

9 A. Yes, beginning November 7th, 2001, as I show
10 on page 52 of my surrebuttal. That is when the savings
11 would begin to be passed on to the ratepayers.

12 Q. Let's go through that -- page 52.

13 And what was the date that they began to be
14 passed through to ratepayers?

15 A. Oh, actually it hasn't been passed -- I
16 take -- I amend that. It's -- this is -- the savings
17 has been passed through to Missouri-American. Rates
18 have not been re-established.

19 I amend that. The -- the savings have not
20 been passed on to ratepayers. They've been passed on
21 the Missouri-American. Rates were not re-established
22 since this transition has taken place.

23 Q. Okay.

24 A. This transition has taken place since the last
25 three rate cases that Missouri-American was involved

1 in, involving St. Louis County Water, Missouri-American
2 Water and United Water. Tho--

3 Q. Right.

4 A. The -- the rates were estab-- okay. Do you --
5 do you know --

6 Q. Yes, I understand.

7 A. Okay.

8 Q. Thank you.

9 So no savings that have resulted from the
10 transition have been passed through to ratepayers
11 today?

12 A. Right. The rates haven't been re-established.

13 Q. And these are the Company's numbers?

14 A. In Schedule 12-2, yes, that's the Company's
15 calculations.

16 Q. I see the 2-- 2,575,688 -- I see that number
17 on their Schedule 12-2.

18 A. Correct.

19 Q. Where are the other numbers?

20 A. Are -- are you saying where are the other
21 numbers, as -- as shown in my -- my --

22 Q. Yes.

23 A. -- page 52?

24 Q. Yes.

25 A. Well, the first number -- the 388,117

1 represents the -- if you took that 2,575 and determined
2 how much of that would be -- if you calculated the
3 number of days out of 365, so that would represent
4 23 days in November, 31 in December. That's, like,
5 54 days divided by 365. That would represent, like,
6 14 percent of the days in the year times the 2,575,688
7 or roughly \$388,000.

8 Q. So you allocated to those months a proportion
9 of savings, based upon the savings that were actually
10 achieved?

11 A. Correct.

12 Q. That the Company gave you the numbers for?

13 A. Right.

14 COMMISSIONER MURRAY: Thank you, Judge. Sorry
15 to --

16 JUDGE THOMPSON: No, that's quite all right.

17 COMMISSIONER MURRAY: -- prolong the process.

18 JUDGE THOMPSON: I'm very glad you brought
19 that out.

20 Ms. O'Neill, additional re-cross?

21 MS. O'NEILL: No, Your Honor.

22 JUDGE THOMPSON: Mr. Ciottone?

23 MR. CIOTTONE: Your Honor, I had forgotten to
24 offer Exhibits 118 and 119. I'd like to do that now,
25 if I may.

1 JUDGE THOMPSON: You may. Let me find my
2 exhibit sheet.

3 Do I hear any objections to the receipt of
4 Exhibit 118?

5 (No response.)

6 JUDGE THOMPSON: No objections.

7 Do I hear any objections to the receipt of
8 Exhibit 119?

9 (No response.)

10 JUDGE THOMPSON: No objections.

11 Exhibits 118 and 119 are received and made a
12 part of the record of this proceeding.

13 (EXHIBIT NOS. 118 AND 119 WERE RECEIVED INTO
14 EVIDENCE.)

15 RECROSS-EXAMINATION BY MR. CIOTTONE:

16 Q. Mr. Cassidy, the Union Electric transition
17 costs, what -- what was Staff's recommendation with
18 respect to those in the merger?

19 A. Okay. Hold on. Let me get there.

20 I wasn't involved in that case, but it's my
21 understanding that -- that there were costs that Union
22 Electric was able to demonstrate that would be to
23 sufficient efficiencies in cost savings to cover those
24 merger transition costs and --

25 Q. Arith-- arithmetically what was the -- not the

1 reason for it -- what was the recovery of the costs?

2 A. I -- I don't know. I -- I couldn't provide
3 that for you.

4 Q. I thought it was in your testimony that it was
5 10 years.

6 A. Oh -- oh, yes, the amortization period was
7 10 year.

8 Q. And that was recovery of and not recovery on?

9 A. Right. That was just a return of with no rate
10 base -- no return on -- no rate base treatment or
11 return on treatment.

12 Q. Why 10 years there when you suggest to His
13 Honor that it ought to be 20 here? Why -- why would
14 you double it?

15 A. Because the Company has indicated in a Data
16 Request that it believes call center concept -- or call
17 centers have a 20-year life.

18 Q. So if it was \$10,000 over the 20 years, that
19 would be \$50,000 a year?

20 A. If it was how much? I'm sorry.

21 Q. \$10 million over 20 years recovery of, without
22 recovery on?

23 A. Over 20 years, correct.

24 Q. Would you loan me \$50,000 today if I paid it
25 back to you 20 years from now at no interest?

1 A. I -- I wouldn't have that much money to loan
2 you.

3 Q. Well, I'm not being flip with you. There --
4 there is a cost of money, is there not?

5 A. I -- I believe that's correct.

6 Q. So when you say recovery of without recovery
7 on, you're really not giving the Company recovery of,
8 are you? If you give them an amortization over
9 20 years with no interest, they're getting -- they're
10 losing all of the cost of that money for the period of
11 time they do without it; is that true?

12 A. If it's achieved savings, it's lowering the
13 cost. And in that case the cost would begin to be
14 recovered for UE when the rates were implemented.

15 Q. That's through other adjustments. The
16 recovery of the transition costs itself. If you're
17 saying you're -- you might be willing to offer recovery
18 of without recovery on, then I ought to get all of the
19 money, not the money absent --

20 A. As opposed --

21 Q. -- my cost of doing without it --

22 A. As opposed --

23 Q. -- for 20 years?

24 A. As opposed to not getting any recovery, given
25 that it's a -- a one-time event.

1 Q. So we should be grateful for small favors is
2 what you're suggesting?

3 A. I wouldn't characterize it in that --

4 Q. Thank you.

5 A. -- light.

6 MR. CIOTTONE: That's all I have.

7 JUDGE THOMPSON: Thank you, Mr. Ciottone.

8 I have an additional question myself. We'll
9 start the entire parade over again. That's the way it
10 goes with this stuff. I'm sorry.

11 Yeah, I'm gonna do it. I hate to, but I have
12 to.

13 FURTHER QUESTIONS BY JUDGE THOMPSON:

14 Q. \$2,575,688, that's the identified amount of
15 annual savings realized by switching to the shared
16 services center; is that correct?

17 A. That's correct.

18 Q. Okay. Now, tell me why this would not be an
19 appropriate treatment: Given that the transition
20 cost -- the -- of going to the shared services center
21 did not result in any assets owned by
22 Missouri-American, why would it not be appropriate to
23 give them the 4,488,826, a one-time transition expense
24 amortized however that might be appropriate, and then
25 reduce rates by the 2,575,688 to pass the ongoing

1 annual savings on to ratepayers?

2 Why would that not be an appropriate
3 treatment?

4 A. Because it -- are you saying ignore -- ignore
5 the fact that Missouri-American has already recaptured
6 the savings, because rates hadn't been re-established?

7 Q. So you're saying they -- they've gotten the
8 savings --

9 A. Right.

10 Q. -- in that they've been earning revenue --

11 A. Right. Because rates --

12 Q. -- under the old rates?

13 A. Rates had not been re-established. Because if
14 you turn to page 51 of my testimony, rates -- I show
15 where rates had been established for Missouri-American
16 September of 2000; St. Louis County, May of 2001 --

17 Q. Uh-huh.

18 A. -- and then additionally there's another one.
19 United Water, their rates were established in December
20 of 2000 also. I don't have that specifically mentioned
21 in my testimony, but that -- that is when theirs were
22 established.

23 JUDGE THOMPSON: Okay. Thank you.

24 Additional recross, Ms. O'Neill?

25 MS. O'NEILL: No, Your Honor.

1 JUDGE THOMPSON: Mr. Ciottone?

2 MR. CIOTTONE: No, sir.

3 JUDGE THOMPSON: Redirect, Mr. Bates?

4 MR. BATES: Thank you, Your Honor.

5 REDIRECT EXAMINATION BY MR. BATES:

6 Q. Mr. Cassidy, I'd like to take you back to one
7 of Mr. Commi-- to one of Commissioner Murray's examples
8 about pipes.

9 Do you recall that?

10 A. Yes.

11 Q. Who would own new pipes that the Company would
12 put in the ground?

13 A. I believe Missouri-American would own them.

14 Q. All right. On Commissioner Murray's example
15 who controls the business operations that involved with
16 notifying customers?

17 A. Missouri-American would.

18 Q. All right. Isn't it true that in the last
19 case of the St. Louis County Water Company the
20 Commission ruled against recovery of the transition
21 costs related to the merger?

22 A. That is correct, and that has been identified
23 in, I believe, my direct testimony.

24 Q. And wasn't the Commission's reasoning there
25 that the transition costs were non-recurring and

1 one time only?

2 A. That is correct.

3 Q. And isn't it true that a portion of the costs
4 that are charged to Missouri-American Water Company
5 from the shared service center relate to the
6 construction of plant that is owned by
7 Missouri-American Water Company?

8 A. I -- I'm sorry. Repeat your question.

9 Q. Isn't it true that a portion of the costs that
10 are charged to Missouri-American Water Company from the
11 shared service center relate to the construction of
12 plant that is owned by Missouri-American Water Company?

13 A. That's correct.

14 Q. And isn't it true that on the other hand the
15 transition costs relate to assets owned by the service
16 company?

17 A. That is correct.

18 Q. All right. If you discovered during an audit
19 that expenses from an affiliate to the regulated
20 utility contained charges for capital items, wouldn't
21 you adjust the expense to reflect the portion
22 capitalized?

23 A. Yes.

24 Q. If you didn't do that, wouldn't you agree that
25 the utility would be paying too much to the affiliate?

1 A. That would be correct.

2 Q. Is the rate of return a static number between
3 rate cases or do the factors which influence the rate
4 of return earned change constantly?

5 A. Those factors change constantly.

6 Q. Isn't the amor-- amortization in expense a
7 return of the investment that is identified as a
8 transaction cost?

9 A. I'm sorry?

10 Q. I'm sorry. Isn't the amortization in expense
11 a return of the investment that is identified as a
12 transactional cost?

13 JUDGE THOMPSON: Do you mean transition cost?

14 MS. O'NEILL: Transition?

15 MR. BATES: Transition cost. I'm sorry.

16 THE WITNESS: Yes.

17 BY MR. BATES:

18 Q. Okay. Now, does it follow, then, that the
19 asset, which would be subject to capitalization, the
20 Company must have ownership of those assets?

21 A. Yes.

22 Q. And isn't it also correct that only items for
23 which Missouri-American Water Company has ownership or
24 control of are items that currently are in the Staff's
25 rate base?

1 A. That is correct.

2 Q. Would it be appropriate or would it not be
3 appropriate to include in Missouri-American Water
4 Company rate base an asset of, say, Union Electric that
5 was related to Union Electric's billing program?

6 A. Yes.

7 Q. So would that be appropriate or inappropriate?

8 A. That would be -- restate your question one
9 more time.

10 Q. Would it be appropriate or inappropriate to
11 include in Missouri-American Water Company's rate
12 base --

13 A. Oh.

14 Q. -- an asset of Union Electric that was related
15 to Union Electric's billing?

16 A. No, that would be inappropriate.

17 Q. Okay. And isn't this -- would you agree with
18 me that this would be the same result as the
19 transitional costs related to shared services?

20 A. Yes, that would be the same result.

21 Q. Are you aware that at the end of the customer
22 call at the call center -- that many times a customer
23 survey is performed to check the customer satisfaction
24 with their operation?

25 A. I believe that is what is -- that is what

1 takes place at the call center.

2 Q. Would this be an example of the survey that
3 you testified to earlier?

4 A. Yes, it would.

5 MR. BATES: Thank you very much.

6 Thank you, Judge.

7 JUDGE THOMPSON: Thank you, Mr. Bates.

8 Okay. I think we're ready to start AWR; is
9 that not correct -- the final issue with this witness?

10 MR. BATES: Yes, I think it is, Your Honor. I
11 wonder -- this witness has been on the stand quite a
12 long time. Would it be possible for us to have a short
13 break?

14 JUDGE THOMPSON: Absolutely. Let's take
15 five minutes.

16 (A RECESS WAS TAKEN.)

17 JUDGE THOMPSON: Okay. Ladies and gentlemen,
18 if I could call you to order.

19 MS. O'NEILL: Judge, I had an inquiry from
20 Ms. Bolin.

21 JUDGE THOMPSON: Yes.

22 MS. O'NEILL: I told her that I -- she
23 probably wasn't gonna be testifying today, but she was
24 kind of wondering what the schedule is -- whether
25 anybody had talked about the schedule for Monday and

1 Tuesday.

2 JUDGE THOMPSON: Yes, sir.

3 MR. RACKERS: We're gonna talk about the
4 schedule at the end of the day or maybe sooner than
5 that.

6 MS. O'NEILL: Okay.

7 JUDGE THOMPSON: Well, let's talk about
8 schedule now. That works for me. We are finishing up
9 Issues 5 through 8, which were scheduled to be heard on
10 December 17th. Today is December 19th. And I'm not
11 letting anyone go home until we're done with
12 Mr. Cassidy today. Okay. So I hope you brought your
13 toothbrushes.

14 Acquisition premium and transaction cost
15 adjustment is the next issue, and I have no reason
16 to -- I have yet to hear why we're not -- well, wait.
17 We've still got to hear Bernsen and Bolin on this one.

18 MS. O'NEILL: Well, actually --

19 MR. SNODGRASS: I was gonna throw that one in
20 there, Your Honor.

21 MS. O'NEILL: Yes.

22 JUDGE THOMPSON: Macopa (phonetic sp.) --
23 Macopa, so --

24 MS. O'NEILL: Actually Ms. Bolin is not
25 scheduled for the -- she's -- she's on the list by

1 mistake for this issues, but she is up --

2 JUDGE THOMPSON: Oh, really?

3 MS. O'NEILL: -- for acquisition premium.

4 Yes.

5 JUDGE THOMPSON: Okay. So we don't have to

6 hear Bolin on these?

7 MS. O'NEILL: Right.

8 JUDGE THOMPSON: Great. Look at my glee to

9 cross her name off. Not because I don't want to hear

10 from her, but just because it would be exciting to move

11 on to a new issue. It would -- it would.

12 MR. RACKERS: Judge, we --

13 JUDGE THOMPSON: We have beaten this dog a

14 long time.

15 MR. RACKERS: We had made an agreement among

16 the parties --

17 JUDGE THOMPSON: Yes.

18 MR. RACKERS: -- to just do depreciation and

19 the two St. Joe issues next week, so -- so that we

20 could have a specific time to do those items. It's

21 gonna be kind of a short week.

22 JUDGE THOMPSON: What about all of these other

23 issues?

24 MR. RACKERS: Well, part of what we're gonna

25 talk about the hearing is maybe briefing some of those

1 issues or getting rid of some of those issues.

2 JUDGE THOMPSON: Well, you guys are -- are
3 absolutely free to settle any of them that you want on
4 an ongoing basis. Don't let me stand in your way.

5 But I -- I don't know that I'm willing to say
6 brief them, we have no questions. Personally I find
7 the opportunity to question the witnesses to be perhaps
8 the most single useful element in the trying of the
9 rate case, because that's when I find out the dollars
10 that are involved and how they were calculated and why
11 and that sort of thing.

12 So -- now, the parties have made an agreement
13 that they would like to do depreciation and the St. Joe
14 plant and new St. Joe plant next week?

15 (No response.)

16 JUDGE THOMPSON: Okay. I -- I will certainly
17 entertain that. It's all right with me, as long as we
18 get to everything eventually. I -- the one problem
19 that we hit is that the Commissioners, in attempting to
20 prepare for this hearing and read the many hundreds of
21 pages of -- of highly technical, extremely professional
22 expert testimony, are reading it in order.

23 Okay. So when you change the order, you're
24 telling them that many hundreds of pages that they have
25 already read they should now forget while they go and

1 read pages they have not yet read.

2 Okay. So I guess they'll have the weekend to
3 do that, although some of them are already gone -- some
4 of the Commissioners, that is. So why don't I say that
5 provisionally I will accept that agreement. But if the
6 Commissioners want to hear acquisition premiums on
7 Monday morning, then that's what we're gonna hear.

8 How's that? Okay. And -- and when did you
9 want us to hear Ms. Bernsen?

10 MR. SNODGRASS: We're ready any time with
11 Ms. Bernsen.

12 JUDGE THOMPSON: Well, we're not gonna be
13 ready today.

14 MR. SNODGRASS: Okay.

15 JUDGE THOMPSON: I mean, I apologize, but
16 that's just the way it is. Can we do Ms. Bernsen first
17 thing Monday --

18 MR. SNODGRASS: That's fine.

19 JUDGE THOMPSON: -- even if we adhere to your
20 agreement?

21 MR. SNODGRASS: That's fine with me. I don't
22 know how the Company feels about it.

23 JUDGE THOMPSON: I don't know how they feel
24 about it either. Perhaps they'll tell me.

25 Mr. Ciottone?

1 MR. CIOTTONE: I -- I don't think that's a
2 problem. The only thing I'm not aware of -- I'm due to
3 be up Monday morning, and I would be delighted to have
4 a little more time with my witness, who I've not yet
5 spoken to him.

6 But I don't know schedule for Monday afternoon
7 and how those people will feel about it. I can't speak
8 for them.

9 MS. O'NEILL: Your Honor, I think that the
10 agreement Mr. Rackers is talking about was the one that
11 we had before the hearing started. And I think one of
12 the major concerns that we had was I think there's some
13 out-of-state people coming in regarding depreciation.

14 JUDGE THOMPSON: Okay.

15 MS. O'NEILL: And that's the afternoon of
16 Monday and all day Tuesday.

17 JUDGE THOMPSON: Who -- who do we got coming
18 in to do depreciation?

19 MS. O'NEILL: I think Mr. Spanos is out of
20 state.

21 MR. SCHWARZ: Mr. Spanos is coming in from --
22 from Pennsylvania, I think.

23 JUDGE THOMPSON: Okay. Well, as -- as I said
24 this morning, based on travel plans of out-of-town
25 witnesses, we will always take witnesses out of order

1 to accommodate travel plans. Because I know, you know,
2 they're -- they're probably not buying the plane ticket
3 the day they hear they're coming, right? So that's
4 fine.

5 If Mr. Spanos is going to be here on a
6 particular day, we will hear from Mr. Spanos that day,
7 even if we're not gonna hear from the other witnesses
8 on that issue that day, okay.

9 And I'm simply saying that because, as I said,
10 if the Commissioners are -- are determined to do
11 Issues 9 through 14 on Monday, I ain't gonna tell them
12 no, okay.

13 Okay. That being said, are we ready to start
14 with Mr. Cassidy in the AWR issue?

15 MS. O'NEILL: Yes.

16 JUDGE THOMPSON: This is -- make -- let me
17 make sure I understand it. This is Staff's contention
18 that revenue requirement should be reduced by \$100,000
19 to reflect value -- imputed value of a customer list
20 and the participation of Mr. Thornburg (phonetic sp.)
21 and the use of letterhead in sending out the mailings
22 to customers for the water line protection program?

23 MR. CIOTTONE: Right.

24 JUDGE THOMPSON: And it's a revenue
25 requirement issue, not a rate base issue?

1 MR. CIOTTONE: Right.

2 JUDGE THOMPSON: Okay. And so Company's
3 position is zero; Staff's position is 100,000. And I
4 think Company had a fall-back position, which was --
5 let me see if I can find it here. I've kept careful
6 notes of these things.

7 Company has a fall-back position of \$8,400 to
8 be done in three years; is that right -- 2,800 a year.

9 MR. CIOTTONE: Well, you artfully twisted
10 Mr. Grubb's arm into saying that.

11 JUDGE THOMPSON: Well, I mean --

12 MR. CIOTTONE: We think that if you -- if you
13 are so inclined to necessarily put a price on it, that
14 you've got to put a reasonable price on it. And that
15 is considerably more reasonable than \$300,000.

16 JUDGE THOMPSON: If -- if -- if I'm misstating
17 your position, please tell me.

18 MR. CIOTTONE: Our position is zero.

19 JUDGE THOMPSON: Zero.

20 Okay. Great. You want to roll the dice,
21 zero, 300,000, right?

22 MR. CIOTTONE: (Nodding.)

23 JUDGE THOMPSON: Okay. Fine with me. It's
24 your case. Yeah, see, I'm already getting messages
25 from very unhappy DPAs saying, what, you're changing

1 the order of witnesses for Monday? Do you
2 understand?

3 You throw this rock into the pond and the
4 ripples -- there's just no telling where they're gonna
5 go.

6 Okay. Mr. Cassidy -- so Ms. O'Neill.

7 MS. O'NEILL: Judge, I think I asked my
8 initial cross-examination on this issue sometime
9 yesterday, so I don't have any further questions right
10 now.

11 JUDGE THOMPSON: I appreciate that. Well,
12 Mr. Ciottone?

13 JOHN CASSIDY, having been previously sworn, testified
14 as follows:

15 CROSS-EXAMINATION BY MR. CIOTTONE:

16 Q. Mr. Cassidy, what's the Company's
17 involvement -- let's -- let's see if we can define this
18 in -- in this issue that you think merits some
19 imputation of income.

20 They -- the president wrote a letter?

21 A. That's -- that's one item.

22 Q. The pres-- they provided a mailing list?

23 A. That's correct.

24 Q. And that --

25 A. They provided two mailing lists.

1 Q. Two mailing lists.

2 That were used four times?

3 A. I believe it's been used five times.

4 Q. Okay. Okay. Anything else?

5 A. Missouri-American has lended its name -- its
6 company logo to the letter that was sent to all of the
7 customers offering the program that -- that name and
8 logo is prominently displayed at the top of the letter.

9 The language in the letter is a full
10 endorsement of the program by Missouri-American
11 encouraging customers to sign up. It contains the
12 signature of Missouri-American president, Eric
13 Thornburg, giving his wholehearted endorsement of the
14 program.

15 The Missouri-American name is on the outside
16 of the envelope. I believe the Missouri-American name
17 lends a lot of credibility to this offer. Customers,
18 as Mr. -- Mr. Thornburg eloquently testified earlier in
19 this proceeding, place a great deal of trust in the
20 Missouri-American name, given that they ingest the
21 product that they are taking from Missouri-American.
22 So I believe that trust in the Missouri-American name
23 has transferred to this AWR offer.

24 Missouri-American should have appropriately
25 sought compensation for that item -- those items, as

1 well as for the customer list. I believe that the
2 customer list -- the value of the customer list that
3 Mr. Grubb has provided me is an inappropriate
4 comparison. Because I have spoken to those two
5 providers, and they have indicated that they can't
6 provide a list like the one that Missouri-American
7 provided.

8 Q. Okay. And you say absent si-- I'm -- from one
9 of your DR answer you say, absent significant
10 compensation, the Staff doubts that MAWC would turn
11 over its customer mailing list, lend its company's
12 name, logo and the president's time to provide a full
13 endorsement of the water line protection program if
14 some external or outside third party offered the plan,
15 right?

16 A. That's correct.

17 Q. That -- that's where we are.

18 Okay. Let's look at what the service line
19 problem is all about. What -- what -- what does the
20 service line insurance program do?

21 A. I -- I believe it offers the customers the
22 opportunity to, if they so desire, pay a monthly fee to
23 cover any unexpected costs that would result if their
24 water line -- their service line had a problem.

25 Q. And the service line is the line that runs

1 from the house out to the Company's facility, and it's
2 privately owned by the customer, correct?

3 A. The -- the service line runs from the house to
4 the main.

5 Q. Right. And if it breaks, the customer finds
6 out, he's faced with the plumbing bill to repair that
7 and is universally displeased to find that -- discover
8 that, true?

9 A. That's -- that is the case.

10 Q. All right. Now, do you have -- did you
11 perform any investigation of the seriousness of this
12 problem historically in the water business?

13 A. I -- I have not conducted any such study.

14 Q. Did you talk to your customer service people
15 at all about it -- about how big a problem it is to
16 them?

17 A. Yeah, I -- I think -- generally I think that
18 it's a problem that the Staff would like -- like to
19 have seen addressed by the Company. I think that's
20 been kind of Staff's position that we believe the
21 Company could do something to cover those types of
22 repairs.

23 Q. Well, is it -- would it surprise you if I told
24 you that the two largest sources of complaints in the
25 water com-- business for years have been leaking

1 service lines and estimated bills?

2 A. I don't know that.

3 Q. We sent you a DR 17. We said, with respect to
4 the AWR service line protection program referenced on
5 page 20 of Mr. Cassidy's direct testimony, has
6 Mr. Cassidy performed an analysis of or is he otherwise
7 aware of the number of communications, complaints or
8 inquir-- inquiries presented to the Commission or to
9 the Commission Staff relating to service line leaks in
10 the MAWC service area?

11 If so, what did that analysis produce. And
12 your answer was, the Staff has performed no such
13 analysis?

14 A. That's correct.

15 Q. So you don't -- you don't have a feel for or
16 you have no knowledge about how big of a problem this
17 is to the Company?

18 A. I -- correct. I can't identify what degree
19 this problem is.

20 Q. Do you have any idea of how much of the
21 Company's resources were dedicated to dealing with this
22 problem over the past 20 years or so with disgruntled
23 customers and the problem of leaking service lines?

24 A. In what sense in -- in terms of resources?
25 Can you explain what resources you're talking about?

1 Q. Well, do you know what happens when a service
2 line leaks? Do you know what the process usually
3 involves, what's the first thing that happens?

4 Do you know anything about this in--
5 involvement of local government, the involvement of
6 police departments, icing, complaint calls in the
7 middle of the night, service line people having to go
8 out?

9 Do you know anything about any of that? Did
10 you investigate any of that?

11 A. Other than just the general knowledge of what
12 would take place if a customer experienced a service
13 line leak.

14 Q. So would -- would you consider it to be a
15 major concern to the Company to eliminate service line
16 problems or -- or are -- are you reluctant to place a
17 quantification on -- of value on it?

18 A. I think it's been the Staff's position that --
19 that they would like to see a water -- see the Company
20 do something about the service line leaks that
21 customers experience.

22 Q. Is -- is Mr. Grubb exaggerating his
23 characterization -- this is on his -- Grubb rebuttal,
24 page 22. He says, the problem of customer ownership of
25 service lines and concurrent responsibility for repair

1 of those lines has been a consistent and serious cause
2 of customer dissatisfaction for many years so much so,
3 in fact, that in the St. Louis County entity the Staff
4 filed multiple complaint cases attempting to force the
5 Company to address the customer repair responsibility
6 problem.

7 And even went so far as to sue the Company in
8 an unsuccessful attempt to force the Company to
9 maintain service lines, and then he gives a cite; is
10 that an overstatement?

11 A. Is this page 22?

12 Q. Yes.

13 A. Okay. Are you talking about the -- the
14 question that starts with, has the Staff or the
15 Commission commented or are you talking --

16 Q. I'm just reading Grubb's statement.

17 A. Okay.

18 Q. I don't know what the preceding question is.
19 The problem of customer ownership of service line.

20 A. Okay. I -- I'm with you. Let me read that.

21 Q. Yeah.

22 A. Right. And I -- I think that's -- that was
23 Staff's position in those cases, that given that the
24 meter is, you know, in between the service line and the
25 main, it seemed reasonable that that part of the

1 service line should be covered by the Company.

2 Q. Well, both -- can we agree that both the Staff
3 and the Company thought the -- the customer ownership
4 and maintenance of service lines was a problem that
5 needed attention?

6 A. And I believe I've indicated that -- that
7 the -- that Randy Hubbs has stated that in testimony
8 before.

9 Q. Now, in two preceding rate cases in -- in
10 entities that are now merged into MAWC, St. Joe and the
11 Jefferson City unit here, the Staff even insisted that
12 the Company itself accept maintenance responsibility
13 for service lines; isn't that correct?

14 A. In this case here?

15 Q. In -- well, I've cited -- one is WR-95-205 and
16 the other -- other is WR-99-326.

17 A. I -- I think that's correct.

18 Q. You're aware of that.

19 All right. Did you look at the reasons
20 why? Did you look at it to quantify the -- the concern
21 over this service --

22 A. I --

23 Q. -- line problem?

24 A. I -- I did not.

25 Q. Would you disagree with what Mr. Merciel

1 testified to -- page 5 of per Merciel's direct in the
2 United case -- this is WR-99-326 -- this is what
3 Mr. Mer-- Merciel -- well, first of all, who's
4 Mr. Merciel?

5 A. James Merciel is a member of the water and
6 sewer department at the Commission.

7 Q. Considerable amount of res-- experience?

8 A. He -- he has been with the Commission a number
9 of years, yes.

10 Q. Well respected?

11 A. Yes.

12 Q. All right. Wow you agree with what he said
13 here that -- does the Staff -- the question was, does
14 the Staff advocate the Company fixing customer-owned
15 service lines? And Mr. Merciel said this: Yes. There
16 are basically two reasons.

17 The first is that it is more difficult and
18 expensive for individual customers to maintain service
19 connections that could be under a public right-of-way,
20 such as a paved street. The other reason that
21 customers have a good incentive to repair leakage that
22 is registered by the meter; whereas, customers have
23 little incentive to repair leakage on the portion of
24 the piping that is ahead of the meter.

25 In such cases, the utility often must work

1 with the customer and sometimes threaten disconnection
2 of service for non-compliance with the rules.

3 A. Okay. I -- I'll accept your reading of that
4 testimony.

5 Q. All right. So he's suggesting that it's a
6 problem to the Company to have water leaks in front of
7 the meter because of lost water and the -- and the
8 customers' willingness to let it leak.

9 Do you understand that is a problem?

10 A. I -- I guess that's a problem he identified.

11 Q. Something the Company would want to address
12 because of lost water concerns?

13 A. Yes.

14 Q. Leaking water in wintertime can freeze. Are
15 you aware of that?

16 A. Sure. Certainly.

17 Q. Serious problem with icing, falls, traffic
18 accidents?

19 A. I -- I have no reason to dispute your claims.

20 Q. In your surrebuttal on page 18 you said, the
21 Staff thinks it is reasonable to believe that
22 Mr. Thornburg spent time discussing the programs --
23 program in meetings. Concluding -- this is the
24 part -- concluding that the program was a value to
25 MAWC and its customers, reviewing similar programs,

1 et cetera, et cetera, et cetera.

2 Are you conceding in that sentence that
3 there -- that a conclusion could have and should have
4 been drawn that the program was of value to MAWC and
5 its customers?

6 A. I guess when I made that statement --
7 and -- and maybe I could clarify it. Mr. Thornburg may
8 have gone through some analysis in concluding that it
9 was of value, in that could he allow AWR to offer the
10 program or could he have chosen to have
11 Missouri-American offer the program instead.

12 As he has indicated in testimony in
13 Pennsylvania, this -- this offering has -- has been
14 included in the regulated operations in that state.

15 The Staff believes that that similar treatment
16 in Missouri would be appropriate.

17 Q. Or he could have found a way to make the
18 problem go away completely for free?

19 A. No, that -- I disagree with that. He could
20 have made the problem go away and, in addition, earned
21 revenues on the program thereby possibly reducing
22 rates.

23 Q. Do you understand that the programs in
24 Jefferson City and -- and -- and in St. Joe require
25 even though who don't want to participate in it to pay

1 for the protection?

2 A. I -- I -- I'm not --

3 Q. Everyone has to pay?

4 A. I'm not suggesting that everyone pay, but --
5 but Missouri-American could -- could have instituted
6 such a program that -- they could have offered the
7 program and left it optional to those who desired
8 that -- that service.

9 I'm not suggesting that Missouri-American
10 implement that to all of its customers.

11 Q. But Missouri-American is a rate based
12 regulated company. They wouldn't make any money on
13 that, would they?

14 A. I disagree with that. I believe -- I believe
15 Mr. Thornburg has said that the Pennsylvania
16 regulated -- AWR type of program that's in
17 regulation -- in the regulated rates have -- have
18 performed well in that state. And it's reasonable to
19 believe that it would do so in Missouri.

20 Q. So is that your gripe? You wanted the Company
21 to do this and you don't like it that Mr. Thornburg got
22 rid of this problem with no cost to his -- his -- his
23 ratepayers who are disinclined to be involved in it?

24 A. No. My problem in this case is that
25 Missouri-American has been adequately compensated for

1 the credibility it lended to AWR or for the list that
2 it provided or for the endorsement or for the lending
3 of its logo and its company name, and all of those
4 things that have provided great value too AWR's offer.

5 Q. So he should have received value in return?

6 A. Correct.

7 Q. Value for value, correct?

8 A. I agree, yes.

9 Q. Okay. Let's go on with that then.

10 The Commission's report and order in
11 WC-2002-146, page 8, this is what the Commission says.
12 I'm -- this -- I'm reading from the report and order,
13 so it's a matter of record.

14 In general, the water service line re--
15 replacement program is very beneficial to property
16 owners who might otherwise find themselves responsible
17 for extremely costly repairs.

18 A. I -- I --

19 Q. It would be difficult for you to disagree with
20 that?

21 A. Yeah, I -- I -- I don't disagree with your
22 statement.

23 Q. All right. Now, if you -- if you do not have
24 such a program, the Company is faced with angry
25 customers when they have a water leak?

1 A. Customers who are experiencing water leaks are
2 unhappy, yes.

3 Q. Potential shutoffs of service to customers who
4 are unwilling or disinclined to fix the facilities?

5 A. That's correct.

6 Q. Potential liability for leaks that
7 continue -- that continue to run and the water isn't
8 turned off quickly enough or salted or whatever else?

9 A. That -- that's correct. That's a pot--
10 potential.

11 Q. Involvement with local governments who are
12 placing orders on the utility to do things and then
13 specific period of times to stop the leaks?

14 A. I -- I don't know about that.

15 Q. When a shutoff occurs, lost water sales?

16 A. Yeah, I guess you could -- I would agree with
17 that.

18 Q. So here -- in your surrebuttal on page 15, you
19 said, the Staff believes that a properly administered
20 water line protection pro-- program can benefit
21 customers who wish to protect their service lines.

22 A. At --

23 Q. This is your surrebuttal, page 15.

24 A. Page 15.

25 Okay. That's correct, and that's consistent

1 with what I have told the Company in a Data Request.

2 Q. And those who don't wish to -- you say those
3 who do wish to protect their service lines. But those
4 who don't want to protect their service lines,
5 shouldn't they have the option to not be involved?

6 A. Those customers in St. Louis County don't have
7 that option.

8 Q. That's --

9 A. I don't have that option.

10 Q. That's --

11 A. But --

12 Q. It's a lot better to have the option, isn't
13 it?

14 A. Well, that was -- but that doesn't relieve
15 Missouri-American Water Company from not seeking
16 adequate compensation for their services that they
17 provided.

18 Q. Let's try again.

19 A. Okay.

20 Q. It's better to have the option, isn't it?

21 A. I would -- I would say yes. I would say it's
22 better to have the option.

23 Q. Now, before we get -- before we get to the
24 amount of the compensation, I have to talk about the
25 St. Louis situation.

1 Do you have any idea -- do you -- do you know,
2 did you do any investigation or did you even speak to
3 anyone in this agency down here about what went on with
4 the establishment of that St. Louis Water Company
5 plant?

6 A. Are you talking about the St. Louis County
7 plant?

8 Q. Yes.

9 A. Yes, I've -- I've spoken to the director of
10 that plan.

11 Q. All right. Do you understand that that
12 involved many meetings with state Legislature --
13 legislators, committee meetings, debates, re-drafts,
14 arguments for literally three or four years?

15 A. I understand it was a long process.

16 Q. And that after the bill was enacted, it
17 involved negotiations with St. Louis County, contract
18 drafting, disagreements about that, setting up
19 administration with St. Louis County for administration
20 of the program.

21 Do you know anything about that?

22 A. I -- I'm not aware of that.

23 Q. Do you know that then thereafter foll--
24 followed a considerable amount of litigation here at
25 the Commission that Judge Thompson knows only too well

1 about -- about how the program should be administered
2 and how it should be billed, are you aware of that?

3 A. I -- I'm not aware specifically of all of
4 that.

5 Q. You didn't know that case went on?

6 A. I -- I didn't know it at the time that it was
7 going on.

8 Q. Do you know about it now?

9 A. I knew of it subsequent to its occurrence.

10 Q. Why do you think the Company did all of that?

11 A. I -- I can't speak for why the Company made
12 that decision.

13 Q. Well, you -- you -- everyone spoke to it back
14 here in these things we agreed to. The service line
15 problem is a serious problem that everybody wanted to
16 go away, and the Company was willing to do almost
17 anything to make it go away; is that -- is that
18 logical?

19 A. I -- I -- I -- that's your characterization.
20 I -- I assume if that's what you say, that's what it
21 is.

22 Q. Do you have any amount of money -- do you have
23 any concept of the amount of money that St. Louis
24 County Water Company spent in the negotiation,
25 implementation, legislation, confrontations and

1 litigation over that program just to get that into
2 affect?

3 Do you have any idea what that cost them?

4 A. No, I do not. But to the extent that those
5 costs were included in the determination of rates or in
6 a prior rate case or in the current case,
7 Missouri-American received or will receive recovery for
8 those costs.

9 Q. So maybe they got even?

10 A. Yes.

11 Q. What was the significant compensation that you
12 say they should have gotten before they should do
13 anything like that?

14 A. Missouri-American didn't lend its customer
15 list to St. Louis County. Missouri-American didn't
16 lend credibility to an offer to St. Louis County.

17 Q. Missouri-American sends out bills to each and
18 every customer in St. Louis County. St. --
19 Missouri-American collects the collars. St. Louis
20 County administers the collection of the dollars,
21 organizes it and -- and -- and provides it to St. Louis
22 County.

23 St. Louis County Water Company -- or pardon
24 me -- Missouri-American Water Company answers the phone
25 calls and handles all of that. And what compensation

1 do they get for that?

2 A. I believe they get one percent. And I've --
3 I've audited those costs, and Missouri-American incurs
4 no additional costs for that -- for doing those things.

5 Q. So -- so they get -- what's the significant
6 compensation for everything that they do for that,
7 because that's your point, isn't it?

8 MR. BATES: I'm -- I'm sorry. Could he answer
9 the first question?

10 THE WITNESS: What -- what is the question
11 again?

12 BY MR. CIOTTONE:

13 Q. Well, you said, absent significant compen--
14 compensation, the Staff doubts that MAWC would turn
15 over its customer mailing list, lend its customer name,
16 logo and president's name to provide full endorsement
17 of the water protection if some external or our--
18 external third party offered the plan.

19 And I'm saying --

20 A. And.

21 Q. -- look what they did for St. Louis.

22 A. And --

23 MR. BATES: Wait. Is that a question or is
24 that a statement?

25 MR. CIOTTONE: That's a question.

1 THE WITNESS: I --

2 MR. BATES: Well, what's the question again?

3 Would you restate the --

4 BY MR. CIOTTONE:

5 Q. Why would -- why would they do that for
6 St. Louis without compensation?

7 A. Missouri-American apparently -- well, first of
8 all, Missouri-American didn't lend all of these things
9 that you mentioned to St. Louis County. So, I mean,
10 you're -- it's not the same.

11 The -- the -- trying to compare what
12 Missouri-American did for AWR is not comparable to what
13 Missouri-American did with St. Louis County. St. Louis
14 County -- the voters approved that measure in St. Louis
15 County.

16 Q. After St. Louis County Water Company wrote the
17 bill.

18 MR. BATES: Is that a question?

19 MR. CIOTTONE: No. You're right. Point well
20 taken.

21 BY MR. CIOTTONE:

22 Q. Why -- isn't the reason that St. Louis County
23 Water Company did all of this -- jumped through all of
24 these hoops for three or four years and incurred all of
25 these expenses without being paid for was because they

1 got value -- they got rid of the service line problem?

2 MR. BATES: I'm sorry. Is that a question,
3 too?

4 MR. CIOTTONE: That's a question.

5 THE WITNESS: Based on my conversations with
6 Ms. Genevieve Wolf (phonetic sp.), who is the director
7 of the St. Louis County water line protection program,
8 she indicated to me that -- that the service line
9 protection program was -- stemmed from an outgrowth of
10 a couple of things. One was to protect service lines
11 in St. Louis County.

12 Another was the result of customers
13 experiencing -- having their service line be re-- being
14 moved as a result of capital improvement projects, such
15 as road widening and those types of events. And that
16 St. Louis County program covers those types of costs.

17 And, in fact, she said that was -- that type
18 of event was really what spearheaded this program.
19 It's in its initial stages.

20 BY MR. CIOTTONE:

21 Q. Well, it would if I could testify, because I
22 did it for 10 years.

23 But that's -- the -- the Company -- isn't it
24 true that the Company did this because they wanted to
25 get rid of the service line problem, as you've defined

1 it?

2 A. I -- I have no reason to doubt that the
3 Company was attempting to do that, yes.

4 Q. And when they got rid of the service line
5 problem, they cut into their customer complaints and
6 all of these other things we just talked about, true?

7 A. Yeah. I don't have any reason to doubt that.

8 Q. Having to shut people off for leaks, true?

9 A. That's -- I'm -- that's correct.

10 Q. Lost water from leaks that are unrepaired,
11 true?

12 A. That's correct.

13 Q. Potential exposure for -- for icing and things
14 like that from unattended-to leaks?

15 A. Yes.

16 Q. So that's the value -- that's -- is that not?

17 A. In --

18 Q. That's the value they --

19 A. In --

20 Q. -- got for what they did?

21 A. In the St. Louis County District, yes.

22 Q. All right. Now, Mr. Thornburg here got the
23 same value, did he not? He's got his service line
24 problem gone, too?

25 A. Not in the same sense, because in St. Louis

1 all customers -- it eliminated it entirely. In the
2 other districts it's up to the customers' option, and
3 it still doesn't relieve Missouri-American from seeking
4 compensation for services it provided and assets it
5 provided to AWR.

6 Q. So what was Mr. Thornburg's or MAWC's cost for
7 getting rid of the service line program? He -- he
8 wrote a letter?

9 A. Correct.

10 Q. And he gave them the customer lists?

11 A. That's correct.

12 Q. That's it?

13 A. And he lended -- he lended credibility.
14 There's considerable value to -- as I stated earlier,
15 that -- that customers, as Mr. Thornburg eloquently
16 stated earlier in these proceedings, that customers
17 have a great deal of trust in the Missouri-American
18 name.

19 Q. Goodwill?

20 A. They -- they ingest -- no. They ingest the
21 product that Missouri-American delivered to them. So
22 there's a great deal of trust from the customer from
23 that vantage point.

24 Q. So that's --

25 A. And now having Missouri-American Water lend

1 its name to that offer, that gave American Water a
2 great deal of credibility in the customers' mind.

3 And, in fact, some customers have testified in
4 public hearings that they thought Missouri-American was
5 offering the program. And I -- I believe that was in
6 the Joplin public hearing. A customer got up and
7 testified to that fact.

8 Q. For those things that you've just described,
9 Missouri-American Water Company in the non-St. Louis
10 areas got rid of their service line problem?

11 A. For those things I just described --

12 Q. They got -- you said they should --

13 A. -- they got rid of --

14 Q. -- have got some value for value. I'm saying
15 that's the value -- they got rid of their service line
16 problem?

17 A. It allowed those customers who -- who wanted
18 to participate in that program to do so, yes.

19 Q. They -- they didn't have to set up their own
20 program?

21 A. No, they did not.

22 Q. They didn't have to go through an
23 administration process?

24 A. No, they did not.

25 Q. They didn't have to allocate space and

1 equipment and technology to administer into it?

2 A. No.

3 Q. They didn't have to go through the Staff's
4 normalization of the expenses incurred in repairing
5 the -- in the service lines and some calculation of
6 what the appropriate revenue should be for it in each
7 rate case?

8 A. No, they did not. Plus they did not --
9 they -- they also passed on the opportunity to -- to
10 earn profit on that.

11 Q. And incur losses?

12 A. That's -- that's correct.

13 Q. That's correct.

14 And that was for a letter and a mailing list?

15 A. A letter and a mailing list and the
16 endorsement and the credibility to the -- that
17 Missouri-American lended, in addition to the
18 Missouri-American name and logo.

19 Q. Now, had -- had Mr. Thornburg said, I refuse
20 to do this unless you give me money, hypothetically,
21 and had AWR said, no, he should have walked away and
22 said we're not doing this?

23 A. It -- it seems that if these two entities were
24 operating as -- at -- at an arm's length transaction
25 with each other, that compensation would have been

1 exchanged.

2 And given that it's been included in the
3 Pennsylvania regulated operations, that could have been
4 another -- that could have been another option that --
5 that Mr. Thornburg could have explored.

6 Q. What's my question -- my -- the answer to my
7 question? Had Mr. Thornburg insisted on compensation
8 and had AWR said no, he should have walked away, no
9 program?

10 A. Yes, I --

11 Q. Okay.

12 A. -- I agree.

13 Q. All right. So then he'd be left with this
14 service line problem again?

15 A. Or he could have chosen to implement the
16 program through Missouri-American Water Company.
17 That -- that's always an option for them.

18 Q. All right. Now, let's look at the
19 compensation, as you characterize it. We'll jump to
20 that, and then we'll finish. I promise I'll let you
21 go.

22 Where did you come up with 100,000 bucks?

23 A. Because the Company has objected to all of my
24 requests regarding AWR in terms of how many
25 Missouri-American customers signed up for the program,

1 how much revenue expense or profit that AWR has earned
2 from -- as a result of Missouri-American Water Company
3 customers signing up for that program, the Staff has no
4 evidence to examine.

5 The Company contends that the evidence is not
6 in their custody; however, I would say that that --
7 that custody of information flows -- seems to be
8 flowing only one way. AWR did not have custody of
9 customer lists, but Missouri-American had no problem
10 with providing that list to AWR.

11 So that's -- that's my problem with this.

12 Q. So you -- you think they should get a share of
13 the profits. Is that where you came up with 100,000?

14 A. Yes.

15 Q. What if this out-- what if this program loses
16 money?

17 A. I -- I would say that that's highly unlikely.
18 And especially after speaking with Ms. Genevieve Wolf
19 where customers in St. Louis County pay \$1 a month,
20 which is one-fourth of the amount that
21 Missouri-American -- I mean, that AWR is requesting
22 from its customers per month.

23 Ms. Genevieve Wolf has indicated to me that
24 since the inception of the St. Louis County program,
25 that it has been more than sufficiently funded. And to

1 the extent that they are able to set monies aside each
2 year, and given that it addresses more than just the
3 service line leaks that occur, it also addresses more
4 issues than what AWR's program offers.

5 It covers the costs associated with capital
6 improvement projects which take place in St. Louis
7 County that would, as a result of St. Louis County
8 government or those municipalities in St. Louis County,
9 conducting capital improvement projects which would
10 require the relocation of customers. Water service
11 lines, as a result of, say, things like road -- road
12 widening.

13 Q. That's because everybody in St. Louis County
14 has to pay, whether they've got a brand new ser--
15 copper service line or an 80-year-old service line,
16 they all have to pay?

17 A. That's correct.

18 MR. BATES: Is that a --

19 THE WITNESS: That's correct. They --
20 everyone in St. Louis County is -- is -- does pay.

21 BY MR. CIOTTONE:

22 Q. If you had an old service line and you lived
23 in the area where this was available to you and you
24 thought it might break, would you be inclined to buy
25 this program?

1 A. Specu-- that's speculation. I don't know.

2 Q. Let's assume that you did and your service

3 line broke that year and was replaced. Would you be

4 inclined -- and you have a brand new service line.

5 Would you be inclined to continue with that

6 program the next year?

7 A. If I had a brand new program the next -- I

8 mean, I --

9 Q. If you had a brand -- you have a brand new

10 service line.

11 A. So you're -- you're asking me to assume

12 that -- that I've had my service line replaced, I have

13 a brand new line, would I want to continue and provide

14 paying for that?

15 Q. I'm suggesting that --

16 A. Well, it -- it may --

17 Q. -- this business is --

18 A. It happened -- it may have happened --

19 Q. -- a weak enterprise.

20 A. -- once it might again. I mean, it might

21 happen again.

22 Q. So your theory that the value of

23 Mr. Thornburg's services is not really the measure, you

24 want to ignore the affiliated enterprise distinction --

25 you want them to share in the profits -- that's what

1 you want them to do?

2 A. I want Missouri-American Water Company to be
3 adequately compensated for the -- for the goods and
4 services it has supplied to AWR.

5 Q. All right. Now, let's look at the value of
6 this list. Is the -- is -- is a mailing list worth
7 \$100,000?

8 A. I don't know that I could specifically give
9 you a value of -- of a mailing list, but let -- let me
10 put it to you this way: After speaking to the
11 two entities that Mr. Grubb identified to me as being
12 comparable -- as being entities that could provide a
13 comparable list on an annual basis for \$8,400, both of
14 the -- both of those entities indicated to me that they
15 would not be able to provide such a list as specific as
16 the one that Missouri-American Water Company provided
17 to AWR.

18 Q. Well, is a mailing --

19 A. They -- they don't have any kind of list that
20 identifies water utility specific companies as all
21 encompassing as Missouri-American has in its
22 possession. So Missouri-American's list is much more
23 valuable than the list that Mr. -- Mr. Grubb is trying
24 to compare it with.

25 Q. Is a mailing list worth is \$100,000? That was

1 the question.

2 A. I don't know what exactly -- the exact value
3 of customer list is.

4 Q. Now, Judge -- Judge --

5 A. Given in comb-- combination with all of the
6 things, this is what I believe an adequate op--
7 compensation level to be.

8 Q. All right. Now, Judge Thompson observed early
9 on that your adjustment -- while you seemed very
10 comfortable in amortizing over a number of years, due
11 to the -- due to the number of years that rates are
12 likely to be in effect, virtually every expense,
13 wouldn't there be a reverse amortization of this
14 \$100,000 to -- in other words, since you're charge --
15 imputing \$100,000 in income to this company, if the
16 rates stay in effect for three years, that's \$300,000,
17 isn't it?

18 A. If -- if rates were re-established, that's
19 correct, yes.

20 Q. So it's now \$100,000 every year for this
21 mailing list?

22 A. That -- that's correct.

23 Q. All right.

24 A. That's the effect of this adjustment.

25 Q. Now, the -- the mailing list is -- is

1 specialized in that it is directed toward the water
2 customers. And that's what you -- you testified a
3 moment ago that the people you explored said they
4 couldn't produce that?

5 A. That's correct.

6 Q. All right. Now, people who sell mailing
7 lists, aren't they universally dedicated towards some
8 interest group? Isn't that the whole concept of
9 mailing lists? I want a list of -- I want a list of
10 people who buy lots of CDs. I want a mailing list of
11 people who buy new cars.

12 Isn't that what the mailing list business is?
13 You want to direct it. That's the idea, isn't it?

14 A. You -- yeah, I -- I -- that's what a mailing
15 list group does, but -- but -- but they don't have a
16 utility-specific mailing list in their custody.

17 Q. But virtually every single mailing list they
18 sell is somehow specialized and directed towards
19 something?

20 A. Yes. That's how -- that's how they conduct
21 business, yes.

22 Q. And Mr. Grubb said he could buy those for
23 8,400 bucks with the license to contin-- for continued
24 utilization?

25 A. For -- for a period of covering one year.

1 Q. For continued utilization during that
2 one year?

3 A. During one year, yes.

4 Q. Use as many -- as many times as you want, and
5 that's specialized?

6 MR. BATES: I think that's been asked and
7 answered, Your Honor.

8 THE WITNESS: Yes.

9 BY MR. CIOTTONE:

10 Q. All right. So -- so then let's say that these
11 people could not ascertain specifically who the water
12 company customers were. How difficult would it be for
13 someone to come up with a list of people in a community
14 area that are likely to be water users?

15 How difficult would that be with the internet
16 and the phone book, the Hanes directory?

17 A. I --

18 Q. How difficult would it be --

19 A. I'd say that --

20 Q. -- to come up with a mailing list?

21 A. I think that'd be a significant undertaking.

22 I -- I don't think you can identify -- they told me
23 that both Experion and Amerilink, the two entities
24 that -- that I talked to, said that they could not
25 provide -- I asked, could you provide a customer list

1 that would be -- would specifically identify all
2 Missouri-American Water Company customers in a given
3 city, such as Jefferson City? And they said, no, we
4 couldn't provide you a list like that.

5 Q. It -- all right. Good example. You come to
6 Jefferson City. How many customers in Jefferson City
7 are likely to not be Missouri-American Water Company
8 customers?

9 A. I -- I think I think they have public
10 districts surrounding Jefferson City.

11 Q. So if they mailed to everybody, what's the
12 worst that would happen?

13 A. I don't know that they could get a list that
14 would -- would encompass everybody in Jefferson City.
15 I don't know. I don't know.

16 Q. There's a phone book.

17 A. I don't know what it would take -- I don't
18 know what goes into entailing taking a phone book
19 and --

20 Q. Would -- would it cost less than \$100,000?

21 A. I don't know.

22 Q. Would it be less than \$100,000 in wasted
23 postage?

24 A. I don't know.

25 Q. So they're buying simply efficiency in mailing

1 by getting this mailing list?

2 A. Who -- who is -- who is buying efficiency in
3 mailing?

4 Q. AWR.

5 A. AWR didn't buy any list.

6 Q. You're suggesting that they ought to.

7 A. I'm suggesting that, yes, they should
8 compensate Missouri-American Water Company adequately
9 for that list.

10 Q. In the interest of efficiency?

11 A. In the interest of Missouri-American Water is
12 entitled to compensation for that.

13 Q. No. No. In the AWR -- in the --

14 A. From AWR's perspective?

15 Q. -- interest of AWR's --

16 Yes.

17 A. Yes. AWR can't obtain a list like the one
18 Missouri-American Water Company has.

19 Q. They don't want to waste stamps?

20 A. It -- it would -- it would probably be very
21 expensive to -- to provide -- or to acquire a list that
22 would encompass everything that Missouri-American Water
23 Company.

24 Q. And they want to get as many people as
25 possible?

1 A. I guess, yes.

2 Q. Now, what -- what do you think that's worth to
3 them? Do you think that's worth \$100,000 a year?

4 A. Given that -- that without the list they
5 wouldn't earn a -- very much profit. They would --
6 wouldn't earn nearly as much profit as they would with
7 Missouri-American's listing.

8 Q. They could use the phone so they could mail to
9 the phone book.

10 MR. BATES: I -- Your Honor, I think this
11 whole line of questioning has been ans-- asked and
12 answered several times.

13 JUDGE THOMPSON: I disagree, Mr. Bates.

14 Please proceed.

15 THE WITNESS: I -- I don't know. I can't --
16 I can't say what -- what goes into trying to
17 mail cu-- mail an offering to customers by using a
18 phone book. I -- I haven't done any research in that
19 area.

20 BY MR. CIOTTONE:

21 Q. All right. A -- can we agree that AWR can
22 indeed do its business albeit less efficiently, perhaps
23 more expensively without this mailing list?

24 A. I -- I -- I would say, yeah, it would be
25 more -- much more difficult for AWR.

1 Q. Can we agree that Missouri-American Water
2 Company is getting considerable value by getting rid of
3 this service line problem that is -- that is documented
4 in PSC files throughout this building as being a
5 nuisance to both the Company and an irritant to the
6 customers -- that's good?

7 A. There's -- there's value to Missouri-American
8 Water in that, yes.

9 Q. And you think 300,000 -- \$100,000 a year in
10 income ought to be imputed -- you ought to penalize the
11 Company by a reduction of revenues at 3-- of \$100,000 a
12 year for every year these rates are in effect for
13 cooperating with this company to get rid of this
14 program?

15 A. I would not characterize it as penalizing.
16 I -- I would characterize it as adequately compensating
17 Missouri-American Water Company.

18 MR. CIOTTONE: Thank you, sir.

19 JUDGE THOMPSON: Thank you, Mr. Ciottone.

20 Questions from the Bench. Chairman Gaw?

21 COMMISSIONER GAW: Thank you, Judge.

22 QUESTIONS BY COMMISSIONER GAW:

23 Q. Let me ask -- let me ask you something, sir,
24 is -- is the customer list of Missouri-American
25 considered highly confidential?

1 A. I have -- I have done a little research into
2 that. I don't know that there's any rule in Missouri
3 at this time that prevents that, but I think that's
4 something that needs to be looked at. I -- I know
5 that --

6 Q. Did you ask that question --

7 A. I -- I did ask --

8 Q. -- of Missouri-American?

9 A. I did ask that question. I can't recall if I
10 asked it in a -- in a written request or -- or on the
11 phone.

12 Q. The answer is you don't know?

13 A. I don't know.

14 Q. I'm sure somebody in this room knows the
15 answer to that question. I'll find out from someone
16 else. You said you had difficulties in the -- in -- in
17 attempting to discover information in regard to -- to
18 this issue.

19 Will you give me more specifics? What -- what
20 are you talking about?

21 A. On page 16 of my surrebuttal testimony I list
22 five areas that I attempted to acquire from the
23 Company -- five Data Requests. And each one of those
24 were denied or objected to.

25 Q. What was the reason for the -- for the

1 objection? What was the objection stated?

2 A. I believe they -- the primary reason was they
3 didn't -- that Missouri-American Water Company did not
4 have custody of the information.

5 Q. And -- and did you -- did -- did anyone on
6 your behalf, the Staff counsel, attempt to take the
7 deposition of any individual representing the Company
8 to attempt to find out the information that you sought?

9 A. No, we did not.

10 Q. And why was that?

11 A. I'm not certain why that decision wasn't made.

12 Q. And can you tell me what the information that
13 you sought -- what -- what you believe that would have
14 told you, what -- what you were trying to assess from
15 that information?

16 A. It would have showed me that how -- like by
17 reviewing board of directors' minutes, I could have
18 perhaps seen how this decision was made to conduct
19 business between Missouri-American Water Company and
20 AWR -- some of the rationale behind that.

21 I could have seen how many Missouri-American
22 Water Company customers actually signed up for the A--
23 AWR program, how much revenue and expense and profit
24 that AWR had generated, as a result of that.

25 Those were things that the Staff was very

1 interested in seeing.

2 Q. All right. But you didn't get that
3 information?

4 A. No, I did not.

5 Q. And the Commission, as far as you know,
6 doesn't have any information about that up to this
7 point in time in the record?

8 A. I believe President Thornburg mentioned in his
9 opening statement that that information could be
10 supplied to the Staff. I -- I don't know how to
11 reconcile that, given that the Company indicated to me
12 in a Data Request that -- that that information wasn't
13 in their custody.

14 Q. I -- I don't -- I'm not sure how to reconcile
15 that either. Maybe that can be reconciled and
16 clarified at some point. That's interesting.

17 Can you tell me how often the customer lists
18 are intended to be replaced? Is this an ongoing
19 program, in other words?

20 A. I -- I believe the Company testified earlier
21 that this customer list is actually maintained at the
22 service company level, and that AWR can access it.
23 They -- they -- or, in other words, AWR contacts them
24 and tells them it's time to send out another mailing.

25 Q. So this is an ongoing relationship?

1 A. Yes. AWR has sent out five mailings to
2 Missouri-American customers in eight months of time.

3 Q. Five mailings.

4 So do you know how often the customer lists of
5 Ameri-- Missouri-American is updated to AWR?

6 A. The Company's indicated that they have
7 provided two lists. It has been updated or in two --
8 on two occasions.

9 Q. Is there a contract between AWR and
10 Missouri-American in regard to this repair -- this
11 water line repair service?

12 A. No, there is not.

13 Q. And again, AWR -- AWR's relationship with
14 Missouri-American, tell me how that is corporately.

15 A. They -- they are affiliated companies.
16 AWR --

17 Q. I -- I want you to draw that picture for me in
18 my --

19 A. Okay.

20 Q. -- verbally.

21 A. I -- I have a -- I have a chart that would
22 show you.

23 Q. That's fine.

24 A. On Schedule 4 of my direct testimony.

25 Q. Go ahead.

1 A. American Water resources is directly
2 underneath the American Waterworks. Just to the right
3 of that American Water Resources, Inc.

4 Q. All right.

5 A. And then Missouri-American is one of those in
6 the -- in the long list of many operating companies on
7 the far right-hand side there.

8 Q. Okay.

9 A. Both -- both entities are wholly owned
10 entities of American Waterworks.

11 Q. AWS is a -- is a a subsidiary of American
12 Water Services, Inc.; is that correct?

13 A. That's -- that's correct.

14 Q. And American Water Services, Inc. is a sister
15 corporation to Missouri-American Water?

16 A. That -- that's my understanding.

17 Q. And I'm sure you've already -- somebody's
18 already testified to this. The -- are there any common
19 directors between Missouri-American and American Water
20 Services, Inc. -- common directors or officers of one
21 who are directors of the other?

22 A. I -- I don't have any information about
23 American Water Services, Inc. The Company indicated to
24 me in Data Requests that they conduct no business with
25 them, and I've been denied.

1 Q. So they said they didn't know?

2 A. I -- I have no access to that information.

3 Q. That's strange.

4 A. Now, I -- I do know --

5 Q. Go ahead.

6 A. I do know that Missouri-American Water

7 Company, American Waterworks Service Company, American

8 Water Resources and American Waterworks Company, the

9 parent, all have two common board of director members.

10 Q. Who are they or are -- are those different

11 individuals?

12 A. I believe it's James McGivern and Ellen Wolf.

13 Q. All right.

14 A. I believe Mr. Thornburg testified earlier

15 that -- that Ms. Wolf was stepping down or was in the

16 process of leaving.

17 Q. AWS, do you know about their directors?

18 A. I don't know.

19 Q. Their officers?

20 A. I don't know.

21 Q. Did you ask that question?

22 A. Yes, I did.

23 Q. And what response did you get?

24 A. The Company objected to providing that

25 information.

1 Q. They said they didn't have it -- they didn't
2 know and they didn't have that information in their
3 control?

4 A. I believe that was part of their argument.

5 Q. And there's -- to your knowledge, there's no
6 information about that on the record in front of the
7 Commission --

8 A. That's correct.

9 Q. -- up to this point?

10 A. Other -- other than that Missouri-American has
11 conducted no business with that entity.

12 Q. Are all the shares of Missouri-American Water
13 Company owned by American Waterworks Company, Inc.?

14 A. That's my unders-- that's my -- yes, that's
15 my -- and American Waterworks Company, yes, that's my
16 understanding.

17 Q. Are all the shares of American Water Services,
18 Inc. owned by American Waterworks Company, Inc.?

19 A. Yes.

20 Q. Are all the shares of AWS Corporation owned by
21 American Water Services, Inc.?

22 A. Yes.

23 Q. Who -- who will do the -- the service line
24 work? Who actually will do the service line work if
25 there's a break and -- and someone has this service, do

1 you know?

2 A. With -- with AWR?

3 Q. Yes.

4 A. I believe AWR contracts the costs out. They

5 hire a contractor to come perform the repair.

6 Q. All right. So they -- they would -- they

7 would have a relationship with a contractor in the

8 particular area that they're doing business?

9 A. That's my understanding.

10 Q. Now, if you were a contractor doing business,

11 backhoe work and plumbing work and that sort of thing

12 and you -- and would that be a -- of any type of

13 advantage to you if you had a relationship with AWS --

14 AWR? Excuse me.

15 A. I suppose it would.

16 Q. What kind?

17 A. You would have a -- a great volume of business

18 or a steady flow of income from -- as a result of that

19 relationship.

20 Q. Yeah. Is that -- is that a val-- would that

21 be a value to that contractor?

22 A. I suppose it would.

23 Q. Would it give them a competitive advantage

24 over other contractors?

25 A. If -- if that was the only contractor that was

1 used, yes.

2 Q. All right. Are you -- are you aware of any
3 other relationships of -- of this type that -- that
4 have -- have been involved with utilities, other than
5 water companies in Missouri that have been the subject
6 of legislation?

7 A. Of -- for -- for a water line?

8 Q. Have you heard of H-back legislation?

9 A. I've heard of it, but I'm not very familiar
10 with it.

11 Q. All right. You -- you wouldn't be aware about
12 whether or not there was a legislative package that
13 was -- that was fiercely debated in the Missouri General
14 Assembly as to whether or not an individual company
15 ought to be able to have special relationships with
16 contractors, as opposed to other contractors because of
17 the extra competitive advantage that that might give --
18 you wouldn't be aware of that?

19 A. Commissioner, I don't know.

20 Q. Would that indicate to you if that would have
21 been the case that there might be some value to these
22 kinds of contracts?

23 A. I -- I believe it -- it would.

24 COMMISSIONER GAW: That's all I have.

25 Thank you, Judge.

1 JUDGE THOMPSON: Thank you, Chairman Gaw.

2 Commissioner Murray?

3 COMMISSIONER MURRAY: Thank you.

4 QUESTIONS BY COMMISSIONER MURRAY:

5 Q. Mr. Cassidy, can you put a value -- I -- I
6 know you said \$100,000 is what Staff is recommending
7 would be equivalent -- that Staff suggests
8 Missouri-American should consider as -- as -- well, I
9 guess you're talking about considering it as if they
10 were sharing in the revenue that A-- AWR would be
11 receiving; is that right?

12 A. Yes. Missouri-American asked that question
13 to -- of me in a Data Request. And -- and my response
14 to them was, given that you've objected to all of my
15 DRs, I have no -- no way to audit anything.

16 And I just -- I made a calculation of, if
17 10 percent of Missouri-American's customers signed up
18 for the program, those customers who were offered the
19 program, that would generate \$500,000 of revenues.

20 And --

21 Q. Okay. I want to walk through that more
22 slowly, if I could.

23 A. Sure.

24 Q. What's the eligible number of customers -- or
25 the number of eligible customers, rather?

1 A. I -- I believe it's 83,000, and at the -- and
2 that is -- that number has changed since I've made my
3 calculations.

4 Q. All right. And --

5 A. I -- I assumed previously that there were
6 110,000.

7 Q. So your 10 percent was based on
8 110,000 eligible customers?

9 A. That is correct.

10 Q. But there are actually only 83,000?

11 A. And that's -- I -- I had just learned that
12 yesterday or the day before.

13 Q. Okay. So what would your 10 percent of the
14 83,000 result in then?

15 A. That would result in \$398,400 of revenues.

16 Q. And what would be the amount there that you
17 would be recommending?

18 A. Based on those assumptions, I -- I really
19 didn't have any -- I mean, it would -- that would
20 result in \$79,680.

21 Q. That you would recommend that
22 Missouri-American should be --

23 A. Assuming the assumptions I -- I made.

24 Q. Okay. And that's what I'm just trying to work
25 from is your assumptions, cuz that's really all we have

1 at this point.

2 How many -- how many customers -- you said you
3 would expect 10 percent of them to take the service?

4 A. That -- that's merely an estimate on my part,
5 because the Company wouldn't provide that information
6 to me.

7 Q. Okay. And then what -- if a customer took the
8 service, do you know what the charge would be?

9 A. It's \$4 a month.

10 Q. That's for -- and that's sort of like an
11 insurance policy they're buying; is that right?

12 A. You could -- you could liken it to that, yes.

13 Q. And for that they would be paying AWR?

14 A. That's correct.

15 Q. And for collecting that \$4 per month from
16 however many customers who actually took the program,
17 they would be then required to go out and make the
18 repairs or replacements when something happened?

19 A. Right. AWR would be responsible for that,
20 yes.

21 Q. And do you know what the average cost of doing
22 that would be?

23 A. I do not.

24 Q. Do you have any idea of what kind of numbers
25 AWR would be looking at for a profit for selling these

1 things that are like insurance policies?

2 A. I -- I don't know what -- what profit they
3 have. Only -- only that I have spoken to St. Louis
4 County and in their program, and they have indicated
5 that they are able to set monies aside by collecting
6 just \$1 a month.

7 Q. And they're saying that the cost of the
8 replacements that they actually have to perform -- or
9 the repairs they actually have to perform is less than
10 what they're recei-- it's less than what they are
11 receiving in premiums?

12 A. Right. Revenues would have to exceed expense
13 for profits.

14 Q. And that is what your -- you are told that is
15 the case is St. Louis?

16 A. That -- that -- oh, yes. Yes. In St. Louis
17 they have told me that the amount -- the director
18 there, Ms. Genevieve Wolf, told me that the amount that
19 they collect is more than sufficient to cover all of
20 their costs in making repairs.

21 And in addition, they also pay for the
22 relocation of service lines that are a result of
23 municipalities and the St. Louis County government
24 performing capital improvement projects, such as road
25 repairs that result in customer service lines having to

1 be relocated.

2 Q. Okay. And I think when -- when I questioned
3 you earlier about the AWR issues, I think I covered the
4 rationale that Staff is using to say that
5 Missouri-American should be compensated from AWR for
6 any costs that they have experienced by assisting AWR,
7 however they've assisted AWR, right?

8 A. Right. They should cover for their costs and
9 be compensated for the credibility that they've lent
10 with their name and endorsement.

11 Q. And is it that portion -- the credibility, the
12 lending of their name that you are saying should
13 require that they share in any profits?

14 A. Yes. I believe that has significant value to
15 AWR, because of the great deal of public trust that is
16 placed in the Missouri-American Water Company name.

17 Q. Now, if -- if AWR had no affiliation with
18 Missouri-American Water Company, would your position be
19 different if -- let's just -- I'll stop the question
20 there -- if AWR had no affiliation with
21 Missouri-American Water Company, would you have a
22 different position about the Company participating in a
23 letter and lending its credibility to someone who was
24 offering a service?

25 A. The Staff would -- would believe that

1 Missouri-American would -- should receive adequate
2 compensation in -- in such occasion. And that if that
3 was the -- if the party was an external party, yes,
4 Missouri-American would still be entitled to
5 compensation.

6 Q. Would it be -- would you think you would be
7 estimating the same compensation?

8 A. Absent any information, yes.

9 Q. So it's not purely based on the affiliate
10 status?

11 A. That's -- that's a concern of Staff's, but
12 I -- I -- I don't know that I made the adjustment with
13 that specifically in mind.

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

16 Thank you.

17 JUDGE THOMPSON: Thank you, Commissioner
18 Murray.

19 Commissioner Forbis?

20 COMMISSIONER FORBIS: Nothing additional.

21 QUESTIONS BY JUDGE THOMPSON:

22 Q. Mr. Cassidy, tell me again how you calculated
23 the \$100,000 figure.

24 A. As an example for how you could get to that
25 level, I -- I assumed 10 percent of 110,000 customers

1 signing up for the program at \$48 a year or \$4 a month.

2 Q. Okay. So you're saying 11,000 customers at
3 \$48 a month --

4 A. Yeah.

5 Q. -- \$48 a year, pardon me?

6 A. Which -- right. Which equated to an amount
7 over \$500,000, which was 528 specifically. And then I
8 made an assumption of 10 percent of that.

9 That -- that's all -- that -- I had nothing to
10 look at. Everything I had asked for had been --

11 Q. I understand. I'm not asking you about how
12 you didn't get what you asked for. I'm asking you how
13 you --

14 A. That --

15 Q. -- calculated \$100,000.

16 A. Okay. I'm sorry. Yes.

17 Q. And then you estimated 10 percent of that?

18 A. Correct -- or I'm -- I'm sorry. 20 percent of
19 that.

20 Q. Okay. And you considered that 20 percent to
21 represent what?

22 A. Compensation.

23 Q. Do you have any figures or does Staff have any
24 figures on the number of water line breaks there are
25 annually that require repair?

1 A. I'm sure the Staff may have that information.
2 I don't specifically.
3 Q. Okay. You're right. I'll limit my questions
4 to you. You're the one on the stand.
5 So you don't have that information?
6 A. No, I don't.
7 Q. Did you seek it out?
8 A. No, I did not.
9 Q. Do you have information on the average cost of
10 making these repairs?
11 A. I don't know personally.
12 Q. And did you seek it out?
13 A. I did not.
14 Q. Okay. And you -- you indicated you called
15 two vendors of customer lists to see if you could
16 obtain similar lists; isn't that right?
17 A. Yes.
18 Q. And you were told that they couldn't provide
19 them?
20 A. Correct.
21 Q. Okay. And you believe -- I just want to make
22 sure I understand. You believe revenue requirements
23 should be reduced because Missouri-American should have
24 a stream of income from AWR?
25 A. That is correct.

1 Q. And since you propose an ongoing reduction, I
2 assume you believe Missouri-American should be
3 receiving an ongoing stream of income?

4 A. That is correct.

5 Q. As though Missouri-American were a co-venturer
6 with AWR in this water line protection program; is that
7 correct?

8 A. Could you define co-venturer?

9 Q. Well, in other words, do you feel -- is it
10 your view that Missouri-American is a partner with
11 AWR in providing this water line protection program?

12 A. I -- I don't -- I -- I guess you could
13 characterize it in that way if they were to receive
14 compensation. It -- it -- you could --

15 Q. Well, ongoing compen-- not just
16 compensation --

17 A. Correct.

18 Q. -- but ongoing compensation --

19 A. Correct.

20 Q. -- right?

21 A. Yes.

22 Q. I mean --

23 A. Because --

24 Q. -- \$100,000 a year is a fair amount of
25 compensation, wouldn't you agree?

1 A. Yes.

2 Q. Okay. So they would have to have significant
3 participation in order to receive that share of
4 whatever the net profit was, right?

5 A. Correct.

6 Q. And -- and we have no idea what the net profit
7 was?

8 A. I -- I don't know.

9 Q. Do you consider that important information?

10 A. Yes.

11 Q. Did you ask your attorney to depose a
12 representative of AWR?

13 A. I didn't specifically. I -- I'm not sure if
14 it was discussed among other people --

15 Q. I mean --

16 A. -- with the Staff.

17 Q. I understand that you send out DRs yourself,
18 don't you?

19 A. Correct.

20 Q. You don't go through your attorney to send out
21 DRs?

22 A. No.

23 Q. And -- and as far as you know, the Commission
24 practice rules allow that?

25 A. As far as I know.

1 Q. Excuse me?

2 A. As far as I know.

3 Q. Okay. Now, are you aware of whether there are

4 any other ways to discover information from a utility?

5 A. At deposition.

6 Q. You know about depositions?

7 A. Yes.

8 Q. Okay. Did you -- do you -- did you meet

9 with --

10 A. I -- I think --

11 Q. -- counsel to discuss discovery strategies and

12 techniques?

13 A. I left that to counsel. I -- I think I also

14 recall subpoena by -- counsel mentioned a subpoena.

15 I -- I don't -- the legal aspects I -- I'm not --

16 Q. I understand. I'm just trying to get an idea,

17 because it appears to me that the number 100,000, as an

18 ongoing number, just came out of the air.

19 A. The -- the Staff had nothing to examine to

20 determine that.

21 Q. It'd be like if the IRS sent me a bill for

22 \$1 million.

23 Okay. So you had nothing to examine, so the

24 100,000, in lieu of anything else, appeared reasonable

25 to you?

1 A. Yes, it seemed -- to me that seemed adequate
2 compensation.

3 Q. Okay. On an ongoing basis?

4 A. Correct.

5 Q. Okay. And did you discuss that with other
6 auditors?

7 A. Yes.

8 Q. With senior auditors?

9 A. Yes. Other senior auditors reviewed that.

10 JUDGE THOMPSON: Okay. That's all I have for
11 you. Thank you very much.

12 Other questions from the Bench?

13 (No response.)

14 JUDGE THOMPSON: I hear none.

15 Ms. O'Neill?

16 MS. O'NEILL: Your Honor, I don't have any
17 further cross-examination. I would note in response to
18 some questions from the Bench, however, Kimberly Bolin,
19 who's not actually scheduled to testify on this
20 subject, did provide direct testimony on an issue that
21 actually settled in this case, which was main incident
22 expense.

23 And in -- attached to her direct testimony,
24 which I expect will probably be entered into evidence
25 next week, it -- which will be Exhibit 12.

1 JUDGE THOMPSON: Okay.

2 MS. O'NEILL: There is a Schedule KKB-7, which
3 does discuss costs of main incidents, which are main
4 breaks. And while that is only related to St. Louis
5 operations, then her testimony may be of some guidance
6 regarding --

7 JUDGE THOMPSON: Are you suggesting that it
8 might provide some sort of a proxy for understanding?

9 MS. O'NEILL: Might -- might -- may provide
10 some guidance to -- to the Commission in -- in
11 understanding the possible expenses regarding main
12 breaks that -- I don't think this was an issue that
13 Mr. Cassidy researched, but I believe there was another
14 witness who provided testimony from the Staff. And I'm
15 not sure who that was.

16 But there -- I expect that that information
17 will be in the record in the next couple of days.

18 JUDGE THOMPSON: Thank you. I appreciate your
19 pointing that out.

20 Mr. Ciottone?

21 MR. CIOTTONE: Just a couple of questions.

22 RECROSS-EXAMINATION BY MR. CIOTTONE:

23 Q. Mr. Cassidy, if you recall back light years
24 ago when we started this discussion between ourselves,
25 we went through DRs 7 through 13.

1 And not to go through them in detail again,
2 but each one of them was -- can you quantify the value
3 attributed to a particular advantage. And the
4 advantages were the ability of the call center to do
5 things, track call rate, track average speed of answer,
6 and we asked you to quantify the value of those.

7 And do you remember your answer universally to
8 all of them was that Staff cannot attribute a
9 quantified value to its advantage?

10 A. That -- that's correct.

11 Q. How is it that struggled to quantify that --
12 that and you can so easily quantify this?

13 A. Because by looking at other -- by looking at
14 the St. Louis County program, I was able to learn that
15 that program created profit, given its rate that it
16 charged its customers and the fact that it's -- it
17 covered additional water line events in capital
18 improvement projects that I've mentioned.

19 And that it was able to set aside monies --
20 that it seemed reasonable. That AWR, who charged \$4 a
21 month, would also be able to do such.

22 Q. There is a significant difference, is there
23 not, between the St. Louis program and the AWR program,
24 that being the St. Louis program is mandatory? Every
25 single -- all 300-and-some-thousand customers have to

1 pay every month or every quarter?

2 A. Correct, that -- it is mandatory.

3 Q. While the St. -- while the MAWC one is
4 voluntary, and we could assume that those feeling most
5 vulnerable or susceptible to service line problems
6 would be the ones likely to join?

7 A. That -- that's correct.

8 Q. That would be a significant difference, would
9 it not -- it'd be a significant difference, would it
10 not, in the likelihood of the Company either being
11 profitable or having more repair costs than revenue
12 could support?

13 A. That's correct.

14 Q. All right. One last thing. When you and I
15 spoke a few moments ago, we were addressing the letters
16 and -- and -- and the mailing list. And -- and in your
17 discussions with Commission Murray, you seemed to place
18 a considerable amount of emphasis on goodwill of the
19 Company's name?

20 A. I would call it -- I would -- I would
21 characterize it as credibility.

22 Q. All right.

23 A. It's credibility.

24 Q. The business term for it is goodwill, is it
25 not --

1 A. Okay.

2 Q. -- the value in a company name?

3 A. If that's your characterization of it.

4 Q. Does -- what -- what in -- in -- in -- in

5 traditional regulatory practice and in the practice of

6 this Commission, what value does the Staff ascribe in

7 rate base to the Company's goodwill?

8 A. In the rate base?

9 Q. Yeah.

10 A. I -- I don't believe the -- the Staff ascribes

11 any value to goodwill in rate base.

12 Q. It's zero, isn't it?

13 A. Correct.

14 MR. CIOTTONE: Thank you very much.

15 JUDGE THOMPSON: Thank you, Mr. Ciottone.

16 Mr. Bates, redirect?

17 MR. BATES: Thank you, Your Honor.

18 JUDGE THOMPSON: I'll just remind you it's

19 5:27, Mr. Bates.

20 MR. BATES: Thank you, Judge.

21 REDIRECT EXAMINATION BY MR. BATES:

22 Q. Mr. Cassidy, I believe that counsel for

23 Company has questioned you rather extensively about the

24 Company's involvement in the exposure regarding past

25 concerns dealing with customer service lines, would you

1 agree?

2 A. Yes.

3 Q. In your opinion, if this were indeed true,
4 would -- do you think it would have been a better
5 company decision to keep the service line program as a
6 regulated service?

7 A. I believe it would.

8 Q. Why is that?

9 A. Because then Missouri-American Water Company
10 could capture all of the profits and help to offset
11 other areas of expense in its operations.

12 Q. Would you agree with me that the issue here
13 today regarding AWR is that Missouri-American Water
14 Company continues to provide services, I would say both
15 tangible and intangibles services and benefits, and yet
16 there's no compensation being given to
17 Missouri-American Water Company for these services?

18 A. Yes, that's correct.

19 Q. By not recovering compensation for the
20 services that Missouri-American Water Company has
21 provided to AWR, isn't it true that Mr. Thornburg has
22 really not resolved the service line program for free?

23 A. That's true.

24 Q. Can a customer call the call center and get
25 information about the St. Louis County program?

1 A. Yes. I believe the call center employees
2 there will do -- describe -- that will tell the
3 customer that there is a program in place for those
4 customers, and that they need to contact them.

5 Q. So isn't it true that with the call center you
6 can call and get information about the AWR program?

7 A. Yes, you can -- you can call the call center
8 and receive a customer service representative who can
9 access that information. Because the Staff learned on
10 going on the tour of the call center that those
11 customer service representatives have copies of all of
12 the AWR mailings sent out to customers.

13 Q. And isn't it correct that Missouri-American
14 Water Company's is the most accurate mailing list?

15 A. Correct.

16 Q. And isn't that list updated on a daily basis?

17 A. I'm -- I don't know about daily, but I'm sure
18 it's updated very frequently.

19 Q. Let me ask you, have you audited -- have you
20 audited Laclede Gas Company?

21 A. Yes, I have.

22 Q. Are you aware of their repair services to
23 their customers?

24 A. Somewhat familiar.

25 Q. Okay. And within your knowledge, is it not

1 true that the expenses and revenues from those service
2 repairs are included in Laclede's cost of service?

3 A. I believe that's correct.

4 Q. Going back to -- for -- to Missouri-American
5 Water Company, can a customer service representative
6 enlist a customer into the St. Louis County program?

7 A. Could you restate your question?

8 Q. Sure.

9 Can a customer service representative enlist a
10 customer into the St. Louis County program?

11 A. When you say -- what do you mean by enlist?

12 Q. Ask them to sign up, for instance.

13 A. A customer service representative at the call
14 center?

15 Q. Yes.

16 A. No, they cannot.

17 Q. Okay. Mr. Cassidy, I think there's been
18 considerable discussion about customer lists and their
19 transferability here today. Do you have any example
20 about a customer list and its value between two
21 enterprises?

22 A. I can recall an example -- reading the example
23 in the paper. In fact, I'm a -- I'm a Rams season
24 ticket holder, and I've received this offer. But the
25 St. Louis Rams were contacted by the Arizona Cardinals.

1 MR. CIOTTONE: Your Honor, we're creeping into
2 hearsay here pretty far. I'd have to object.

3 JUDGE THOMPSON: I kind of wonder about the
4 relevance, too.

5 Mr. Bates?

6 MR. BATES: I think I'll withdraw the
7 question, Your Honor.

8 JUDGE THOMPSON: Thank you.

9 Please move on.

10 MR. BATES: And I think that's all.

11 Thank you very much.

12 JUDGE THOMPSON: Thank you.

13 Mr. Cassidy, thank you very much for your --
14 your prolonged testimony. You did a fine job. I
15 appreciate your stamina in holding up to all that very
16 searching questioning. Thank you, sir.

17 THE WITNESS: Thank you.

18 JUDGE THOMPSON: You may step down. I believe
19 you may be excused, unless you're about to say he can't
20 be.

21 MR. SNODGRASS: No, Judge. We just have a
22 couple of housekeeping matters we'd like to discuss
23 with you and the court reporter after we go off the
24 record.

25 (Witness excused from the stand.)

1 JUDGE THOMPSON: Sure. Let's take them up
2 on -- on the record.

3 MR. SNODGRASS: And then we have some
4 scheduling matters, also, we'd like to discuss.

5 JUDGE THOMPSON: Absolutely. Fire away.
6 Let's have as many lawyers as possible crowd up here.

7 MR. SNODGRASS: Okay.

8 JUDGE THOMPSON: We're gonna come back Monday
9 with Ms. Bernsen, am I right?

10 MR. SNODGRASS: That -- that would be what we
11 would suggest, Judge, and Mr. Grubb.

12 JUDGE THOMPSON: Okay. Monday would be
13 Bernsen on this issue, and Grubb on what issue?

14 MR. SNODGRASS: I think the Company has some
15 issues they wish him to address.

16 JUDGE THOMPSON: I mean, I'm always happy to
17 see him and hear from him, but I'm just wondering what
18 about.

19 Mr. England?

20 MR. ENGLAND: I -- I'm confused.

21 MS. O'NEILL: I am, too.

22 MR. ENGLAND: But I -- but I expect to be here
23 shortly.

24 JUDGE THOMPSON: Join -- join the group.

25 MS. O'NEILL: I thought Mr. Grubb was done.

1 Oh, he's not done on these issues.

2 JUDGE THOMPSON: I don't know. Sometimes we
3 put people on because we -- we discover we need
4 foundation for an exhibit where none was -- existed
5 before, that kind of thing.

6 MR. ENGLAND: We -- we believe Mr. Grubb is
7 supposed to be made available for questions from the
8 Bench on call center and AWR.

9 JUDGE THOMPSON: Oh, okay. Do you guys have
10 questions for him? Can you remember if you have
11 questions for him, because I sure can't?

12 MR. SCHWARZ: Can you remember by Monday?

13 JUDGE THOMPSON: The Bench --

14 COMMISSIONER FORBIS: But it means that --

15 COMMISSIONER MURRAY: Judge, I --

16 JUDGE THOMPSON: Yes, ma'am.

17 COMMISSIONER MURRAY: I might.

18 JUDGE THOMPSON: Okay.

19 COMMISSIONER MURRAY: I mean, if Mr. Grubb is
20 going to have to be here anyway for all of the issues,
21 right?

22 MS. O'NEILL: Pretty much.

23 MR. ENGLAND: He's the Car Jose Akinda
24 (phonetic sp.).

25 JUDGE THOMPSON: Well, that's -- that's the

1 next point. The -- the -- the parties were telling me
2 that they have an agreement. They would just like to
3 do old St. Joseph plant retirement, new St. Joseph
4 plant capacity and depreciation next week, and set
5 aside Issues 9 through 14A until another date; is that
6 right?

7 MR. SNODGRASS: Well, I think we had a
8 conference with the Company. OPC wasn't participating
9 because counsel was down here in the hearing, but what
10 we were going to suggest to the Commission
11 respectfully, if I understand our -- our discussion
12 were that we take Ms. Bernsen on Monday first --

13 JUDGE THOMPSON: Uh-huh.

14 MR. SNODGRASS: -- Mr. Grubb, and then we'd go
15 to the old St. Joe plant, the new St. Joe plant and
16 depreciation in that order.

17 JUDGE THOMPSON: The old St. Joe plant is
18 Grubb and Gibbs, am I right.

19 MR. SNODGRASS: No.

20 MR. SCHWARZ: Rackers.

21 JUDGE THOMPSON: Oh, okay.

22 MS. O'NEILL: And Jenkins was --

23 MR. SCHWARZ: And Ms. Bolin.

24 JUDGE THOMPSON: Well, you're quite right.
25 Okay. So then we would have Grubb, Rackers, Bolin, and

1 then we would have Kartmann, Merciel --

2 MS. O'NEILL: And Bolin --

3 JUDGE THOMPSON: -- and Bolin again.

4 MS. O'NEILL: -- also should be added there.

5 JUDGE THOMPSON: Okay. And then when we get

6 to depreciation, we have dozens of players, do we not,

7 Spanos, Jenkins, Roesch, if I'm saying that right,

8 Macias, Began and Rackers --

9 MR. SCHWARZ: Yes.

10 JUDGE THOMPSON: -- right?

11 MR. SCHWARZ: Correct.

12 JUDGE THOMPSON: Okay. Well, that's certainly

13 plenty of witnesses for the two days, but --

14 MR. ENGLAND: We may be overly inclusive on

15 witnesses. If we're gonna have to rush, I'm not

16 sure that there's gonna be -- he's our witness, but I'm

17 not sure there's gonna be any cross on him. And I'm

18 trying, in my mind, to remember what Steve said about

19 depreciation, so I'm not sure --

20 MS. RACKERS: We're not gonna have anything

21 further.

22 MR. ENGLAND: Okay. So it -- it -- that -- I

23 think we were -- we tended to be overly inclusive.

24 JUDGE THOMPSON: So we may not need to hear

25 from Mr. Roesch?

1 MR. ENGLAND: Correct. And may not need to
2 hear from Mr. Rackers on depreciation. I need to start
3 off with Began and Macias.

4 JUDGE THOMPSON: Spanos is traveling from out
5 of town?

6 MR. SCHWARZ: Yes.

7 MR. ENGLAND: That's correct.

8 JUDGE THOMPSON: Okay. So will he be here
9 Monday?

10 MR. ENGLAND: Yeah. And -- and frankly -- or
11 quite honestly we're thinking about starting with him,
12 but his plane isn't getting in 'til like midnight or
13 one o'clock so that's why I've requested we put those
14 other issues in front of depreciation, so he can have a
15 little time before he gets on the witness stand --

16 JUDGE THOMPSON: Okay.

17 MR. ENGLAND: -- Monday morning.

18 JUDGE THOMPSON: Okay. So you don't want to
19 start with depreciation?

20 MR. SCHWARZ: Correct.

21 MR. ENGLAND: Right.

22 JUDGE THOMPSON: Works for me. As long as
23 we're using our hearing time to work through some of
24 these issue, I don't care which order we do them in.

25 MR. SNODGRASS: And Ms. Bernsen is tied

1 directly to performance matrix that the Commissioners
2 have questions about --

3 JUDGE THOMPSON: Okay.

4 MR. SNODGRASS: -- with the call center.

5 JUDGE THOMPSON: Right. Great. Now, I know
6 what to take home and read.

7 MR. SNODGRASS: The housekeeping matters,
8 Judge, Exhibit 95 was in relation to a financing
9 application contained within WF-2002-1096. I have a
10 bad habit of giving the actual marked exhibit to my
11 witness. The witness doesn't always return it to the
12 court reporter. I will since modify my habits in that
13 area.

14 JUDGE THOMPSON: Okay.

15 MR. SNODGRASS: And I'd like to have that
16 duplicate original stamped and admitted as Exhibit 95.

17 JUDGE THOMPSON: Give it to the witness.

18 MR. SNODGRASS: And --

19 MR. SCHWARZ: The court reporter.

20 JUDGE THOMPSON: The court reporter. Whoever.
21 Yeah, don't --

22 MS. O'NEILL: Don't give it to the witness.

23 JUDGE THOMPSON: That's where we got into this
24 mess.

25 MR. SNODGRASS: Exhibit 96 was a DR 3817. It

1 was admitted into the record. I'd like that

2 re-stamped --

3 JUDGE THOMPSON: Right.

4 MR. SNODGRASS: -- the original. 97 was 3802.

5 I'd like to have that stamped and put in the record as

6 97 -- Staff Exhibit 97.

7 JUDGE THOMPSON: I -- I have no problems with

8 that.

9 Any objection from anyone?

10 (No response.)

11 JUDGE THOMPSON: Go for it.

12 MR. SNODGRASS: All right. I think that's all

13 we have, unless the Company's got something else or

14 anyone else has something that they'd like to add at

15 this point in time.

16 JUDGE THOMPSON: 8:30 Monday morning, okay?

17 MR. SNODGRASS: Thank you, Judge.

18 JUDGE THOMPSON: We are in recess.

19 (EXHIBIT NOS. 95 THROUGH 97 WERE MARKED FOR

20 IDENTIFICATION BY THE COURT REPORTER.)

21 WHEREUPON, the hearing of this case was

22 adjourned until 8:30 a.m., Monday, December 22, 2003.

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I N D E X

STAFF'S EVIDENCE:

JOHN CASSIDY:

(Call Center O&M Costs)

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Questions by Commissioner Clayton	1243
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Further Questions by Judge Thompson	1300

(Transition Costs)

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(AWR)

Cross-Examination by Mr. Ciottone	1426
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JAMES JENKINS:

Direct Examination by Mr. Ciottone	1301
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Cross-Examination by Ms. O'Neill	1315
Cross-Examination by Mr. Bates	1320
Redirect Examination by Mr. Ciottone	1324

1	E X H I B I T S I N D E X		
2		MARKED	RECEIVED
3	Exhibit No. 95	1498	*
	MAWC Financing Application		
4	Exhibit No. 96	1498	*
5	DR 3817		
6	Exhibit No. 97	1498	*
	DR 3802		
7	Exhibit No. 115	1152	
8	Schedule AJV-3		
9	Exhibit No. 116	1180	1306
	American Waterworks		
10	Service Co., Inc. billed		
	data August through November		
11	Exhibit No. 117	1267	1313
12	DR 50479 HC		
13	Exhibit No. 118	1307	1409
	Comparative return on		
14	equity		
15	Exhibit No. 119	1307	1409
	Modified surveillance		
16	numbers		
17	* Exhibits received previously.		
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