

BEFORE THE PUBLIC SERVICE COMMISSION
STATE OF MISSOURI

TRANSCRIPT OF PROCEEDINGS

Evidentiary Hearing

March 22, 2016

Jefferson City, Missouri

Volume 16

In The Matter Of Missouri -American)
Water Company's Request For)
Authority To Implement A General) File No.
Rate Increase For Water And Sewer) WR-2015-0301
Service Provided In Missouri)
Service Areas.)

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DANIEL Y. HALL, Chairman,
STEPHEN M. STOLL,
WILLIAM P. KENNEY,
SCOTT T. RUPP,
MAIDA J. COLEMAN,
COMMISSIONERS

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1 (MAWC Exhibit 47 was marked for
2 identification.)

3 (Riverside Exhibits 1, 2 and 3 were
4 marked for identification.)

5 (MIEC Exhibit 5 was marked for
6 identification.)

7 JUDGE JONES: We are on the record with
8 Case Number WR-2015-0301, Missouri American's request
9 for a rate increase. The first issue -- well, I
10 should say, as I said on the record, there was an
11 agreement filed by the Office of the Public Counsel to
12 which Staff objected. We will have that discussion
13 after we hear testimony and -- on the issue of
14 regulatory policy. So let's go ahead and start with
15 our first witness.

16 CHAIRMAN HALL: Actually, Judge --

17 JUDGE JONES: Yes, Mr. Chairman.

18 CHAIRMAN HALL: Yeah. So this -- or I
19 guess yesterday Staff filed as a highly confidential
20 document its calculation on the ROE, and I appreciate
21 Staff doing that. In that same order to which Staff
22 responded, there was an invitation to the other
23 parties to file a -- may file documents, information
24 relevant to their respective positions on ROE. I'm
25 curious first, the Company, whether -- whether the

1 Company intends to take us up on our invitation.

2 MR. COOPER: Our first reaction is -- is
3 probably not to file anything else, Commissioner. We
4 recognize that that is Staff's -- Staff's explanation
5 of Staff's position. It's different than ours, but --
6 but I don't know that anything is served by -- by
7 filing anything at this point.

8 CHAIRMAN HALL: Let me put it this way:
9 I think it would give at least myself -- and I can't
10 speak for any other Commissioner, but it would give me
11 some more comfort in terms of evaluating the
12 stipulation. So I think that's the value.

13 MR. COOPER: We will take that into
14 account and likely take you up on your -- on the
15 offer.

16 CHAIRMAN HALL: Any other party? I mean
17 we'd be curious with -- to see any other party's
18 calculation as well.

19 MR. POSTON: Judge, we did not intend to
20 file -- I'm sorry, Judge. Chairman, we did not intend
21 to file anything, but we don't have any reason to
22 disagree with what Staff filed.

23 CHAIRMAN HALL: You don't have any reason
24 to disagree. I don't know what that means. You don't
25 disagree with their calculation or your -- your

1 position is consistent with that calculation?

2 MR. POSTON: I think our position is
3 consistent with Staff's position.

4 CHAIRMAN HALL: All right. Well, we
5 would extend that -- that offer to -- that invitation
6 to any other party wishing to -- wishing to do so.
7 Thank you.

8 MR. COOPER: Commissioner, one other
9 thing. I think the Company was asked yesterday if it
10 could provide a -- an equivalent number from the last
11 rate case to the 10.35 total return -- pre-tax total
12 return number that's in the stip that we talked about
13 yesterday.

14 CHAIRMAN HALL: Concerning the ISRS.

15 MR. COOPER: Concerning the ISRS. And
16 that equivalent number from the last case would have
17 been 11.33 percent.

18 CHAIRMAN HALL: Okay.

19 JUDGE JONES: Thank you.

20 CHAIRMAN HALL: Commissioner Rupp, that
21 was you that asked that?

22 COMMISSIONER RUPP: Yes. Thank you.

23 JUDGE JONES: Okay. Let's go ahead and
24 start with our first witness.

25 MR. THOMPSON: Are we going to have an

1 opportunity for mini openings on this topic, Judge?

2 JUDGE JONES: On regulatory policy?

3 MR. THOMPSON: Yes, sir.

4 JUDGE JONES: Sure. You have an
5 opportunity. Do you want to make opening statements
6 on that?

7 MR. THOMPSON: I would.

8 JUDGE JONES: Let's start with Missouri
9 American.

10 MR. COOPER: Good morning. As you are
11 all familiar, Missouri American's operations extend
12 throughout the state of Missouri. I think it's --
13 it's somewhat helpful as a part of this -- this
14 proceeding to provide some background in terms of the
15 statistics surrounding their service.

16 The Company provides service to more than
17 460,000 water customers and more than 12,000
18 wastewater customers. And that's done through
19 approximately 25 public water systems and 56 public
20 wastewater systems that extend themselves into
21 24 counties in Missouri, over 150 communities in
22 Missouri.

23 Those water facilities consist of
24 approximately 11 water treatment plants, 29 well
25 sites, 119 water storage tanks and over 6,700 miles of

1 water main. On the wastewater side, there are
2 approximately 46 mechanical wastewater treatment
3 plants, 10 wastewater lagoons and 76 miles of
4 wastewater collection system piping.

5 Missouri American has not been before
6 this -- this Commission for a general rate case since
7 2012. Since that time, it's taken several steps
8 that -- that are to the benefit of the state of
9 Missouri and its customers. First, it's brought
10 efficiency to its systems. Missouri American's
11 O and M expenses have decreased as compared to the
12 amounts recognized in the last general rate case.

13 We've provided statistics on that in the
14 testimony, but at a high level, the total O and M
15 expenses in the test year ending December 31, 2014
16 were about 7.1 million dollars less than they were in
17 the last general rate case test year. The savings in
18 these O and M costs off-sets some of the revenue
19 requirement associated with the capital improvements
20 that have been made since that time. And while I --
21 in actual dollars, it's 7.1 million. If you CPI
22 adjust those dollars, it's probably the equivalent of
23 around 12 million dollars of savings that have been
24 brought by the Company to its operations.

25 Since that last general rate case,

1 Missouri American has added six water systems and
2 another six wastewater systems. Most of these are
3 small and some of them are immediate -- were
4 immediately troubled systems. For example, the
5 Tri-State's Utility Inc. system, which came to the
6 company from a federal bankruptcy court; and more
7 recently the Hickory Hills Water and Sewer System,
8 which came to the company after a long pending
9 Commission receivership.

10 Finally, since the last rate case,
11 Missouri American has made substantial investment in
12 the state of Missouri. As of January 31st, 2016, the
13 company had invested nearly 500 million dollars in
14 capital improvements. These -- these investments
15 improved systems, dependability and provided jobs in
16 the state.

17 Having said that, challenges exist for
18 the company. First, water and wastewater systems are
19 extremely capital intensive. Compared with other
20 utilities, water and wastewater utilities are the most
21 capital intensive utilities. Studies show the water
22 industry is three times more capital intensive than
23 the gas industry and two times more capital intensive
24 than the electric industry.

25 The company is also faced with declining

1 use. Today, with little customer growth, static or
2 declining per customer consumption and revenue, driven
3 largely by conservation efforts, nationwide efficiency
4 standards, the landscape is driving the need for
5 adjustments to the traditional regulation that was
6 developed in a growth environment. People still buy
7 new appliances and fixtures, but due to federal
8 mandates, those new appliances now use less energy and
9 water than those that they replace.

10 The Company is further challenged by the
11 difference between its fixed costs and its variable
12 rates. Most of the water utility's costs are fixed,
13 recovering investments in pipes, treatment plants and
14 other equipment, while most water revenue is variable
15 collected through volumetric rates on a per gallon
16 basis.

17 The Company's testimony in this case
18 indicates that 91 percent of Missouri American's costs
19 are fixed, while only 23 percent of its revenues come
20 from fixed charges. Thus, year in and year out, MAWC
21 is relying on its variable or its volumetric revenues
22 for collecting over two-thirds of its fixed costs.

23 Lastly, as most of are you familiar with,
24 the recent ISRS decision of the Court of Appeals will
25 have an impact for the Company. If this decision

1 stands, it will certainly change the investment that
2 MAWC is able to make in St. Louis County. One need
3 only look to the discussions and circumstances
4 surrounding the old St. Louis County Water Company
5 prior to the enactment of ISRS to get an idea of how
6 things may change.

7 It was estimated by this Commission in
8 2001 that the replacement of the St. Louis County
9 aging infrastructure would cost billions, with a B, of
10 dollars. Since the last general rate case, MAWC has
11 invested an additional 221 million dollars in this
12 infrastructure replacement through its ISRS
13 investments; however, the great majority of this
14 investment remains to be made.

15 In its Rebuttal Testimony, MAWC provided
16 its earned ROE over the last ten years. In looking at
17 those -- those percentages, you'll see that the only
18 year the Company earned a return on equity that was
19 greater than 90 perc-- 9 percent was 2012, which was
20 one of the hottest, driest summers on record. Many of
21 the other earned returns during that time period were
22 much lower, as low as 2.95 percent, 4.76 percent. And
23 keep in mind this was with -- with ISRS in place at
24 that -- during that entire time period.

25 While historic test year relying on

1 volumetric sales has been -- has been suggested by
2 some of the parties might have been appropriate when
3 the growth and usage and customers counterbalance the
4 growth and investment, this situation no longer
5 exists. Today we see increasing investment
6 requirements alongside falling customer revenues.

7 The best way to ensure that appropriate
8 levels of capital investment are consistently and
9 appropriately funded is through predictable and timely
10 recovery of investments, meaningful recognition of
11 revenue trends and return on the capital devoted to
12 serving customers' needs.

13 As we move forward into the future, there
14 will need to be a willingness to think beyond what has
15 been described as the traditional rate-making
16 techniques if Missouri American is going to continue
17 to provide safe and adequate service at just and
18 reasonable rates.

19 Now, this morning when we do turn to
20 testimony of witnesses, Missouri American will present
21 three witnesses for -- for questions. The first will
22 be Ms. Cheryl Norton, who is the president of Missouri
23 American Water Company. The second will be Mr. John
24 Watkins, who is the director of rates and regulatory
25 support for the American Water Works Service Company.

1 And the third will be Mr. Edward Haye who is vice
2 president, chief regulatory counsel of American Water
3 Works Service Company. Thank you.

4 JUDGE JONES: Thank you, Mr. Cooper.

5 And for the Staff of the Commission.

6 MR. THOMPSON: Thank you, Judge. Good
7 morning. May it please the Commission. As we go to
8 hearing on this case, we are taking up primarily the
9 second half of a rate case. As you well know, there
10 are two halves. The first half is always determining
11 what revenue does the Company need on a going-forward
12 basis. And in this case, the parties have reached an
13 agreement and have submitted to you a Stipulation and
14 Agreement covering the revenue requirement half.

15 The second half of the rate case is the
16 rate design; how do we collect the money that the
17 Company needs on a going-forward basis? How do we
18 collect it from the customers? And that has to do
19 with such things as the responsibility of each
20 customer class for a percentage of the costs of
21 service, the way the rates are designed, how much of
22 it is going to be this fixed customer charge, how much
23 of it will be collected through the volumetric rates.
24 You heard Mr. Cooper talking about that.

25 The parties have tried hard, but have not

1 been able to reach an agreement on the rate design
2 part of this case. And so here we are in the hearing
3 room.

4 Regulatory policy, that is the heart and
5 soul of what you do. The statutes authorize you to
6 make rates and the statutes give some guidance on how
7 that has to be done and the statutes define what the
8 end point must be. The end point must be rates that
9 are just and reasonable.

10 And we know that just and reasonable
11 rates are rates that reimburse the Company for the
12 cost of the service it provides and allows the Company
13 a reasonable opportunity to earn a fair return on its
14 investment that's not any more than necessary from the
15 point of view of the customer to pay for the service
16 that the customer receives, that's fair in the sense
17 that each customer is bearing the cost of the service
18 that he or she receives.

19 So that's the end point. But the statute
20 doesn't tell you how to get to the end point and
21 that's where regulatory policy comes into play.

22 The Supreme Court has said that as long
23 as the result is just and reasonable, then the courts
24 shouldn't inquire into how you got there. So the
25 processes, the various adjustments and the weighing

1 and the balancing that you do to get to that end
2 result of just and reasonable rates, you have a lot of
3 discretion, a lot of discretion in doing that.

4 So what Staff would like to say with
5 respect to regulatory policy today is this: How do
6 people afford water and sewer service? I mean think
7 about it. The water service that's provided by
8 Missouri American, that's the only utility product
9 that you actually consume; you take into your body.
10 It has to be safe enough for you to drink it, to cook
11 with it, to bathe in it.

12 And we've seen from the recent news about
13 what's going on in Flint, Michigan, we can see what
14 happens when the water that's provided is not safe.
15 We can see how that can quickly become a crisis of
16 national dimension. So this is a very important
17 thing.

18 And how do people afford that? The way
19 people afford that is by acting together as a
20 community. Together as a community. I don't have a
21 well in my backyard. I get water from the city
22 treatment plant that's owned by Missouri American.
23 And I trust Missouri American to treat that water to
24 make it safe for me to drink and to bathe in and cook
25 with and they haven't let me down. That water has

1 been safe and I've enjoyed it.

2 Unlike an electric company, which has a
3 huge service area, Missouri American, as Mr. Cooper
4 told you, consists of lots of little service areas.
5 Some are big like St. Louis County, some are middling
6 size like Jefferson City or St. Charles, St. Joseph,
7 Joplin. Others are quite small. Others are quite
8 small.

9 And they're not all interconnected the
10 way an electric service area is. Right? Each of
11 these service areas has its own water sources, its own
12 water treatment, its own sewage collection, its own
13 sewage treatment. That's a lot of capital to provide
14 all that.

15 So what happens when a small district
16 needs a new water plant or a new sewer plant? What
17 happens if you have, say, 150 people in a service area
18 and they need a new water plant or a new sewer plant?
19 How do you -- how do they afford it? The answer has
20 to be district consolidation. And that's what Staff
21 has been championing in this case.

22 Now, we're not going for total
23 consolidation. We're not talking single-tariff
24 pricing. We're not saying push everybody together in
25 one district. But we are very much in favor of

1 consolidating the small districts into units so that
2 costs can be shared so that improvements can be
3 affordable.

4 Finally, you also have to think about
5 supporting this company in its -- in its acquisition
6 of troubled systems. That's something that Missouri
7 American has been doing as an ongoing project.
8 Mr. Cooper alluded to that as well. They will not do
9 that if they do not get the rate treatment necessary
10 to make it affordable. I mean this is a private
11 business. They've got shareholders, they have to be
12 responsible for the financials.

13 It is in the public interest for Missouri
14 American to continue to acquire troubled systems and
15 provide them with professional competent management.
16 I ask you to bear that in mind as you make rates
17 today. Thank you.

18 JUDGE JONES: Thank you, Mr. Thompson.

19 COMMISSIONER KENNEY: Judge?

20 JUDGE JONES: Commissioner.

21 COMMISSIONER KENNEY: Thank you.

22 Mr. Thompson, excuse me. Excuse me. Several of the
23 witnesses talked about consolidated tariff pricing and
24 Mr. McDermott spent some time on that.

25 My question to you, you said Staff is

1 leaning towards moving towards championing a -- this
2 new tariff pricing consolidated, but does not -- does
3 Staff believe that we're leaning -- going towards a
4 single tariff in the future? Is this a step towards
5 that or --

6 MR. THOMPSON: It is a step towards that,
7 I think. How far it will go, I don't know. That's up
8 to the Commission.

9 COMMISSIONER KENNEY: Is that a common
10 trend nationally?

11 MR. THOMPSON: I believe that it is.

12 COMMISSIONER KENNEY: Okay. Thank you.

13 MR. THOMPSON: Thank you.

14 JUDGE JONES: Okay. Office of the Public
15 Counsel?

16 MR. POSTON: I have a PowerPoint.

17 May it please the Commission. My name's
18 Marc Poston. I'm here on behalf of the Office of the
19 Public Counsel and the public. On this issue of
20 regulatory policy, Public Counsel urges you to look
21 closely at the policies established by Missouri law,
22 which I'll address in a few minutes, and apply those
23 policies to the remaining issues in this case.

24 We believe the facts of this case will
25 show that Missouri American's proposed customer charge

1 and district consolidation violate established
2 regulatory policy because they're unreasonable,
3 discriminatory and unduly preferential to the Company
4 at the expense of ratepayers.

5 American Water's the largest water
6 company in the country, serving 15 million customers.
7 Here in Missouri, as you heard Mr. Cooper state, the
8 Company has 460,000 water customers served by
9 25 separate and distinct water systems and another
10 13,700 wastewater customers in 56 separate and
11 distinct wastewater systems.

12 This issue of regulatory policy is really
13 an issue of public policy because ultimately the role
14 of the Commission is to apply the public policy
15 written into the Missouri statutes. Here I've quoted
16 from a Supreme Court case that says, The public policy
17 is the principle which declares that no one can be --
18 can lawfully do that which has a tendency to be
19 injurious to the public welfare.

20 The public policy established in Missouri
21 by statute states that rates must be just and
22 reasonable. It also states that no water corporation
23 shall provide any undue or unreasonable preference or
24 advantage to any person or company and they shall
25 provide no undue or unreasonable prejudice or

1 disadvantage to any person or company. That's in
2 393.130.

3 And then when we look at 393.140, another
4 policy established by statute, it's for the Commission
5 to determine after a hearing whether the rates or
6 charges or acts or regulations of any such person or
7 corporation are unjust, unreasonable, unjustly
8 discriminatory or unduly preferential.

9 So if a rate regulation or act violates
10 this policy, the statutes provide the authority for
11 the Commission to fix the problem and set just and
12 reasonable rates in regulations.

13 When Public Counsel takes positions in
14 cases before the Commission, we do so representing the
15 interests of all customers of a particular company.
16 But there are many issues where what's in the best
17 interest of certain customers is not the same as
18 what's in the best interest of other customers, even
19 customers within the same class.

20 In those cases and on those issues, it's
21 often difficult to take a position. The Commission
22 also struggles with that same problem when it decides
23 those same issues. In this case, district
24 consolidation is one such issue. Shifting cost
25 responsibility from one part of the state to another

1 creates differences of opinion on whether socialized
2 rating is good public policy.

3 Fortunately, in this case many of the
4 separate water system customers are independently
5 represented and they're here to tell you what they
6 believe is in their best interest. While we believe
7 our rate-making positions are in the interest of
8 Missouri American customers overall, we defer to those
9 parties being separately represented to tell you
10 what's in their best interest. Joplin and St. Joseph
11 can best tell you why consolidation is not good public
12 policy for their residents and businesses and,
13 likewise, Platte County and Brunswick can tell you why
14 consolidation is good public policy for their
15 residents and businesses.

16 And you've already heard from the public
17 directly at each local public hearing and the comments
18 filed on EFIS. And I'd like to highlight a few issues
19 and common themes heard at those public hearings as
20 they relate to public policy, because many of these
21 common themes are concerning.

22 And the most common sentiment shared by
23 customers across all districts is that rates are
24 already too high. They asked the Commission to do
25 what it can to help minimize the rates they're already

1 paying. And another common theme you heard over and
2 over again across the entire state were complaints of
3 poor customer service.

4 Most of my public hearing experience has
5 been with rate cases involving gas companies and, to a
6 lesser extent, electric companies. And I don't ever
7 recall hearing the same consistent complaints of poor
8 customer service across a company's territory as we've
9 heard from American Water's customers. That's
10 something we ask you to take into consideration as you
11 deliberate on the remaining issues. Ask yourselves if
12 the Company's poor customer service record justifies
13 regulatory policies that shift risk away from the
14 Company through something like high fixed charges and
15 on to customers that have already endured multiple
16 recent rate increases or does such poor performance
17 support a reduced customer charge.

18 And I'm not going to spend a lot of time
19 on these, but I would like to go through each -- the
20 public hearings and just kind of highlight some of the
21 things you heard as you were at those public hearings.
22 I'll start over on the St. Louis side at UMSL. We
23 hear poor customer service, leaks going unrepaired for
24 long periods, poor service when people call in. We
25 heard opposition to consolidation. We heard people

1 saying the company's too big, it should be broken up.
2 And then we heard the fixed incomes -- people on fixed
3 incomes struggle to cover the increases. And we did
4 hear one -- a positive comment was that the water
5 quality is good.

6 Now, in Ferguson we also heard poor
7 customer service, the response time to leaks is poor,
8 five- to ten-minute hold time when they call in. They
9 also raised the faulty meter issues. One gentleman
10 testifying that the Company didn't offer him the
11 required repayment period for an under-charge.
12 They're required to offer them twice the period of the
13 under-charge to repay it. It wasn't until he told him
14 that he had looked at their tariff before they got
15 serious about giving him what he -- what the law
16 requires.

17 We also heard the fixed income struggles
18 and this is a common theme we hear. People really do
19 have to forego medicine and meals to pay utility rates
20 when they go up. And we also heard opposition to
21 consolidation.

22 Arnold, more poor customer service
23 issues, also opposition to consolidation. And we jump
24 over to the other side of the state, Riverside. More
25 poor customer service complaints, slow response time

1 to leaks. That was the Platte Woods mayor. Poor
2 water quality in Riverside damaging appliances, that's
3 a separate complaint in front of the Commission. We
4 heard testimony for a lower customer charge and there
5 was support for consolidation in Riverside.

6 St. Joseph, oppose consolidation. We
7 heard from the St. Joseph city manager. He made good
8 points about how it masks the true cost-of-service to
9 consolidate.

10 Mexico, again, oppose consolidation.
11 They raised the faulty meter issues. And, again, good
12 water quality in Mexico.

13 Jefferson City, the focus was on sewer.
14 The 65 dollar rate, too high. Customers owning a
15 septic shouldn't pay as much; we heard that.
16 Opposition to the flat sewer rates. We heard
17 opposition to the consolidation. And we also heard
18 complaints about the Company doesn't know who it
19 serves. There's customers that they don't even bill,
20 they don't know that they're serving.

21 The concern in Warrensburg was more about
22 the poverty level in the community and what rates --
23 rate increases would do to them.

24 Warsaw, more poor customer service, poor
25 water quality.

1 Jopl in, oppose consolidation.

2 Branson again, opposition to
3 consolidation. We also heard support for
4 consolidation in Branson and we also heard about
5 faulty meters and poor customer service.

6 I would encourage you to read through the
7 EFIS public comments. There's 205 filed comments in
8 EFIS. Some of the same themes; poor customer service,
9 poor water quality, safety concerns, and
10 affordability. That's probably the most theme.

11 And you look through and you hear some of
12 the stories that people are telling you about their
13 lives through their comments. Lillian A., an
14 84-year-old woman living on 600 dollars a month.
15 That's 7,200 dollars a year. I cannot imagine trying
16 to pay an increase to your water bill when you have a
17 fixed income like that.

18 There's other public policy
19 considerations we would like you to consider in this
20 case. I consider this to be a very poorly presented
21 and managed case on behalf of the Company. Started
22 out with inconsistent usage data being provided to the
23 different parties. Company ignored the Commission's
24 directive to respond to the Staff's rate design
25 report. Very high-level key witnesses have been

1 replaced in this case. I think at least four
2 witnesses have been replaced.

3 The Company failed to disclose the
4 thousands of faulty meters until late in the case.
5 And it's my understanding the employee that disclosed
6 that has been terminated. It's not good public policy
7 to reward companies when you can't trust the data that
8 they provide to support their case.

9 The last public policy consideration I'd
10 ask you to consider is American Water is doing very
11 well. It's a very good investment. They've added
12 S&P -- they've been added to the S&P 500 this month.
13 Record stock price, highest since they went public.

14 The Company is successfully growing
15 through its nationwide strategy of acquisitions and
16 organic growth. So when they tell you that they're
17 helping Missouri out by acquiring systems in Missouri,
18 they're doing it because it helps their bottom line.
19 So any additional shift in risk to customers is
20 unwarranted.

21 Even though there's been many concerns
22 that the Company is not performing for its customers,
23 the evidence will show a Company that performs very
24 well financially for its shareholders. We ask that
25 you find the 30.6 million rate increase is sufficient

1 to give the Company all it needs and any additional
2 shift in risk to customers through higher fixed
3 customer charges or district consolidation is not in
4 the public interest. Thank you.

5 JUDGE JONES: Thank you, Mr. Poston.

6 And next we'll hear from Missouri
7 Division of Energy.

8 MR. ANTAL: The Division of Energy will
9 waive opening on this issue. Thank you.

10 JUDGE JONES: Okay. Missouri Industrial
11 Energy Consumers?

12 MR. DOWNEY: Judge, we have no witness
13 and no opening on this issue. We're -- we're
14 restricted to the next issue.

15 JUDGE JONES: Okay. Before I go all the
16 way through the list, is there anyone else who would
17 like to make an opening on this issue. Mr. Bednar?

18 MR. BEDNAR: Yes, Your Honor, for the
19 City of Riverside. May it please the Court -- may it
20 please the Commission. Good morning, Commissioners.
21 It's a pleasure to be able to be in front of you and
22 talk about this very important issue.

23 And I think Mr. Thompson on behalf of
24 Staff, as well as Mr. Poston, really has isolated the
25 issues that are of utmost importance to this

1 policy-making body and that's why we're here. We want
2 to reinforce the role of the Commission that -- to set
3 the regulatory policy. And rate design is essential
4 to all of the inequities that have been brought out by
5 both the Office of Public Counsel and Staff.

6 And what did you hear time and time
7 again? Low fixed-income people have issues, rate case
8 are issues. The amount of rates by each district
9 vary. So when you look at Platte County itself, we
10 are paying -- and you look at Mayor Rose's testimony,
11 the ratepayers in Platte County pay 50 percent higher
12 than St. Louis, 60 percent higher than Jefferson City,
13 70 percent higher than Mexico and Joplin, over
14 100 percent higher than St. Joseph and 140 percent
15 higher than Warrensburg.

16 And our position is there's got to be a
17 band somewhere in the middle and a policy set of when
18 the inequity from district to district for residential
19 usage and even industrial and commercial usage begins
20 to be -- put one resident, one business at a
21 disadvantage over another unfairly.

22 As Mr. Thompson pointed out, the mission
23 is just and reasonable rates. You have a lot of
24 bandwidth to be able to address this concern in a way
25 that is fair to everybody. We don't have Public

1 Service Commissions for each district. We have one
2 Public Service Commission to set a consistent policy.
3 And that's what we're talking about here is what is
4 going to be in the best interest of the residential
5 ratepayer who needs water for their survival, who
6 needs water to bathe.

7 Those are all issues that should be
8 simple. And there should be a consistency there no
9 matter where you live and work in Missouri that there
10 should be a minimum to maximum that you pay for your
11 rate.

12 Now, we are in a weird position -- and I
13 say that not to be unprofessional, but we are -- we
14 are in more agreement with the Company and with Staff
15 on this issue than the Office of Public Counsel. And
16 in spite of what you heard the Office of Public
17 Counsel discuss in regards to the low-income users,
18 the overall residential users that are talking about
19 the rates, fact is their relief that they're asking
20 for is best presented in consolidation.

21 And so you can do a blend. And we leave
22 it open to the Commission. We believe the three-zone
23 system is fair. We understand the concerns of Joplin
24 and -- and the concerns of St. Joseph. If they want
25 to remain district specific, that's fine. Do

1 consolidation with the rest of the districts because
2 we will get significant relief in Platte County. And
3 we are not alone. There will be several districts
4 that would get a significant decrease as a result.

5 And as I pointed out earlier in my
6 opening, this issue of our rates versus the other
7 district rates, we will still be higher than other
8 districts who will get an increase. St. Louis would
9 get somewhat of an increase as would Warrensburg, but
10 their rates are so much lower than ours now and if we
11 talk about socialization and consistency and just and
12 reasonableness, we believe that is justifiable by the
13 record.

14 In fact, Office of Public Counsel in
15 Mr. Smith's testimony gives you a summary of the
16 arguments for and against single tariff pricing. It's
17 on page 3 of 5, Schedule 16. It's a nice little
18 checklist that gives arguments.

19 And then to Commissioner Kenney's
20 question about what the other states are doing, of the
21 25 states that have addressed -- that is -- actually
22 applies to a single tariff consolidated, 14 -- or 22
23 have -- 22 out of 25 states have adopted single-tariff
24 pricing. The three that have not are California,
25 Maryland and Mississippi. And Maryland and

1 Mississippi say it wasn't an issue for their states.
2 It is an issue in this state.

3 And so we believe in Office of Public
4 Counsel's own testimony and exhibits, there's support
5 for some type of a consolidated tariff or
6 single-tariff pricing. Because I think the myth is
7 that we don't have -- that we have district-specific
8 pricing now, and we don't. Every rate case since 2000
9 has included a district being consolidated into
10 St. Louis for one reason or another in order to lower
11 rates or the creation in the last rate case of zone
12 eight.

13 We have 32 districts. We have eight
14 zones right now under the current tariff. The
15 proposal to go to three makes sense, it's just and
16 reasonable and we believe allows you to fill --
17 fulfill the public policy of reducing volatility among
18 ratepayers and having the rates more consistent and
19 most importantly, affordable.

20 The -- the residential ratepayer is the
21 only ratepayer that does not get to recover their
22 costs in water. Everybody else, commercial or
23 industrial, can re-- can charge their customers their
24 cost of doing business.

25 The retired citizen on a fixed income,

1 the low-income working class, they don't get to come
2 here and ask for a raise. They're forced to make it
3 on their own, give up food, give up other medical
4 issues. But when a retiree who uses 600 gallons of
5 water a month has to pay close to 100 dollars for
6 their services, they're begging this Commission to
7 provide relief. And we believe it can be done and can
8 be a significant result for the residential ratepayers
9 that would be very thankful to this Commission for
10 taking the volatility out and returning to an
11 affordable rate case for the residential water user.
12 Thank you very much.

13 JUDGE JONES: Thank you, Mr. Bednar.

14 Is there any other party who would like
15 to make an opening statement on this issue of
16 regulatory policy?

17 MR. CURTIS: Yes, I would. If it would
18 please the Commission, my name is Leland Curtis. I
19 represent the City of Warrensburg.

20 I would like to echo comments made
21 primarily on the regulatory policy made by Mr. Poston
22 and Mr. Bednar, specifically with regard to
23 residential rates. In the class of customers we've
24 got residential, industrial, commercial, sales for
25 resale public and private fire.

1 As Mr. Bednar said, the only ones who
2 have the inability to pass on any costs are the
3 residential customers. The residential customers
4 constitute the single, by far, largest class of
5 customers among the various customer classes. And I
6 would urge the Commission to be sensitive to the
7 plight of many residential customers, those who are on
8 low-income, fixed income, students.

9 You saw the slide that in Warrensburg,
10 25 percent of the population in Warrensburg are below
11 the poverty level. So, you know, while there are
12 customer classes -- we think of them as classes, think
13 again that the residential are the only ones who are
14 unable to pass on and must absorb the full weight of
15 any rate increase. And so urge the Commissioners to
16 be very sensitive with regard to that. Thank you.

17 JUDGE JONES: Thank you, Mr. Curtis.

18 Any other opening statements on
19 regulatory policy? Okay. Let's go ahead and start
20 with our first witness. Missouri American?

21 MR. COOPER: Missouri American would call
22 Ms. Cheryl Norton.

23 JUDGE JONES: Good morning, Ms. Norton.
24 Will you raise your right hand, please.

25 (Witness affirmed.)

1 JUDGE JONES: Thank you.

2 You may proceed, Mr. Cooper.

3 CHERYL NORTON, testified as follows:

4 DIRECT EXAMINATION BY MR. COOPER:

5 Q. Please state your name.

6 A. Cheryl Norton.

7 Q. And by whom are you employed and in what
8 capacity?

9 A. Missouri American Water and I'm the
10 president.

11 Q. Have you caused to be prepared for the
12 purposes of this proceeding certain witness
13 qualification testimony in question and answer form?

14 A. I have.

15 Q. And is it your understanding that that
16 testimony has been marked as Exhibit MAWC 46?

17 A. Yes.

18 Q. Are you also adopting portions of other
19 testimony that has been filed in question and answer
20 form in this case?

21 A. Yes, I am.

22 Q. Does that testimony include what has been
23 marked as Exhibit MAWC 11, which is the Corrected
24 Direct Testimony of Frank Kartmann?

25 A. Yes.

1 **Q. Does it also include portions of what has**
2 **been marked as MAWC 40, the Direct Testimony of Phil**
3 **Wood?**

4 A. Yes.

5 **Q. And would the portions of Mr. Wood's**
6 **testimony that you're adopting include pages 4,**
7 **line 13 through page 9, line 14, description of MAWC**
8 **and its operating facilities and MAWC's staffing**
9 **levels?**

10 A. Yes.

11 **Q. Would it also include page 14, line 2 to**
12 **page 17, line 9, water efficiency?**

13 A. Yes.

14 **Q. And would it also include page 22,**
15 **line 11 to page 25, line 22, data collection and**
16 **organizational streamlining?**

17 A. Yes.

18 **Q. And lastly, in regard to Exhibit MAWC 40,**
19 **would it also include page 30, line 15 to the end of**
20 **that testimony, which would be performance measures**
21 **and water efficiency?**

22 A. Yes.

23 **Q. Okay. Are you also adopting a portion of**
24 **Exhibit MAWC 41, Rebuttal Testimony of Phil Wood?**

25 A. Yes.

1 **Q. And would that be page 10, line 4 to**
2 **page 11, line 9, the Local 335 unfilled jobs**
3 **testimony?**

4 A. Yes.

5 **Q. If I were to ask you the same questions**
6 **which are contained in Exhibits 46, 11 and the**
7 **portions of Exhibits MAWC 40 and 41 that have been**
8 **identified today, would your answers be the same?**

9 A. Yes.

10 **Q. And would those answers be true and**
11 **correct to the best of your information, knowledge and**
12 **belief?**

13 A. Yes.

14 MR. COOPER: At this time, Your Honor, we
15 would offer into evidence Exhibits MAWC 46 and MAWC 11
16 only. There will be other witnesses that provide the
17 remaining support for the other two exhibits that I
18 have mentioned.

19 JUDGE JONES: Is there any objection to
20 Exhibits MAWC 11 and 46? I don't see any.

21 MAWC 11 and MAWC 46 are admitted into the
22 record.

23 (MAWC Exhibits 11 and 46 were received
24 into evidence.)

25 MR. COOPER: Thank you, Your Honor. We

1 would tender Ms. Norton for cross-examination.

2 JUDGE JONES: Okay. Looks like Missouri
3 Department of Energy goes first on cross-examination.

4 MR. ANTAL: No questions, Judge. Thank
5 you.

6 JUDGE JONES: MIEC?

7 MR. DOWNEY: No questions.

8 JUDGE JONES: City of Brunswick?

9 MR. DRAG: No questions, Your Honor.

10 JUDGE JONES: City of Joplin?

11 MS. BELL: No questions.

12 JUDGE JONES: City of Riverside?

13 MR. BEDNAR: Yes, Your Honor.

14 CROSSEXAMINATION BY MR. BEDNAR:

15 Q. Morning.

16 A. Morning.

17 Q. We originally met at the town hall
18 meeting that Missouri American --

19 A. We did, yes.

20 Q. You were present. How long have you been
21 president of the company?

22 A. Just about four and a half months.

23 Q. Well, congratulations --

24 A. Thank you.

25 Q. -- on that promotion. Any idea what

1 **caused the replacement? Was it just -- did**
2 **Mr. Kartmann just retire?**

3 A. No. I don't believe he retired, but it
4 was just a management change.

5 Q. Okay. Now, at the -- you've heard a lot
6 of discussion on our opening statements about rate
7 design. That's important in -- consolidated pricing
8 of some sort is important to the company, is it not?

9 A. It is.

10 Q. And do you believe that if we went to a
11 more consolidated tariff or even single tariff, that
12 overall there -- the smaller districts and other
13 districts would have a resulting rate decrease?

14 A. Yes, I do.

15 Q. And can that be done still incorporating
16 reasonable fixed customer charges amongst all the
17 districts?

18 A. Yes, it can.

19 Q. What do you see as the advantages to the
20 Company and to districts like Platte County for single
21 tariff or consolidated tariff?

22 A. I think it allows the appropriate
23 investments to be made in each of those communities
24 and still make water and wastewater service affordable
25 for all customers.

1 **Q. And is it not true that the Company plans**
2 **to install a new water treatment plant in Platte**
3 **County?**

4 A. Yes, we do.

5 **Q. And given our current average rate is**
6 **approximately 66 dollars per resident per month, what**
7 **might happen if we maintain district-specific pricing**
8 **for the ratepayers in Platte County?**

9 A. They will see another relatively large
10 rate increase to cover the cost of that treatment
11 plant.

12 **Q. Could it as much as double?**

13 A. It's possible. I'm not sure exactly what
14 those numbers are, but it would be significant.

15 **Q. Closer to 100 dollars a month then.**
16 **Correct?**

17 A. Yes. Uh-huh.

18 **Q. Now, in addition, you were faced with a**
19 **new challenge that I think you were unaware of that**
20 **came out at the town hall meeting --**

21 A. Uh-huh.

22 **Q. -- about water quality. And I want to**
23 **compliment the Company for addressing that --**

24 A. Uh-huh.

25 **Q. -- in a straightforward fashion at that**

1 **town hall meeting.**

2 A. Uh-huh.

3 **Q. But could you explain to the Commission a**
4 **little bit about the challenges that the Company's**
5 **facing that the customers have experienced within**
6 **Thousand Oaks, Riss Lake and Montebello?**

7 A. Yes. Yes. We've had a very intermittent
8 issue with water quality, the aesthetic side of water
9 quality. So there are no health issues, no health
10 concerns related to this issue. We soften water in
11 Platte County at that treatment facility that needs to
12 be replaced so badly. And through that softening
13 process, the calcium is -- is allowed to settle out on
14 the surface of pipes to inhibit corrosion so -- and to
15 inhibit things like lead leaking into the water
16 system. And so it's a good process to follow.

17 However, for some reason, very
18 intermittently there are certain homes that as the
19 water travels into the homes, that calcium starts to
20 settle out in large amounts. Neighbors can have no
21 issue and -- and the person right next to them can
22 have -- have a pretty significant issue.

23 I was unaware of how serious the issues
24 were until we had the public hearing and then we had a
25 follow-up town hall meeting where we had a lot of

1 discussions with customers. We've been in touch with
2 customers, we've done a lot of home visits for these
3 customers. We've done some -- some flushing for these
4 customers. And we are looking at treatment changes
5 right now to try to eliminate it as much as possible.

6 The real issue is that we have not been
7 able to identify what is causing the problem;
8 therefore, we can't make an exact change that we know
9 will solve that issue. We are in the process of
10 installing a carbon dioxide kind of recarbonation
11 system for -- for Platte County and we're hoping that
12 will help, but we're doing lots of testing actually
13 this week even to try to pinpoint exactly what's
14 causing the issue and why only certain homes are
15 impacted.

16 **Q. Now, the -- and the damage to the homes**
17 **varies from household to household, does it not?**

18 A. That's correct.

19 **Q. Some it's limited to faucets, others --**

20 A. Uh-huh.

21 **Q. -- you've had refrigerators, dishwashers,**
22 **washing machines and water softeners?**

23 A. Uh-huh.

24 **Q. In addition, the Company has provided to**
25 **certain customers whole-house filters?**

1 A. Yes.

2 Q. And in that case, those last -- supposed
3 to last 90 days or so?

4 A. Uh-huh.

5 Q. They're only lasting about 30 in some
6 cases. Correct?

7 A. Uh-huh.

8 Q. And so is it -- to your knowledge, again,
9 I know you're new --

10 A. Uh-huh.

11 Q. -- so it hasn't been under your watch,
12 but it's your understanding, is it not, that the first
13 notice of this occurred in 2008 or 2009?

14 A. That sounds correct, based on the
15 timeline that I've seen.

16 Q. Now, are you aware that these customers
17 that have received whole-house filters have had to
18 sign agreements that limit the ability for them to
19 discuss the fact that the Company provided a
20 whole-house filter?

21 A. I am aware that there was an agreement
22 that they signed when we put those filters in place.

23 Q. And do you understand that some of those
24 ratepayers feel that is a confidentiality agreement
25 and some have characterized it as a gag order?

1 A. I have not heard that from customers.

2 Q. Yeah. Have you seen the agreement
3 yourself?

4 A. I have not seen the exact agreement. It
5 was described to me, but I haven't actually seen the
6 agreement.

7 Q. All right. Let me grab it for you. It's
8 marked as an exhibit. I've got copies for everybody
9 else, but it's marked as Exhibit 3. If I could -- if
10 I could show the witness. If you'd take a look at
11 that.

12 A. Thank you.

13 MR. BEDNAR: If I could distribute this
14 to the Commission. Yes?

15 BY MR. BEDNAR:

16 Q. Does that --

17 A. Yes.

18 Q. Is that consistent with what you've been
19 described?

20 A. Yes. Uh-huh.

21 Q. But it's my understanding is the Company
22 is taking a proactive approach now to contacting
23 customers and asking them to come forward?

24 A. Absolutely. We're doing -- we've done a
25 survey, both telephone and e-mail.

1 **Q. Okay. And are you still working on --**
2 **have you come up with a solution to the problem yet?**

3 A. We're still trying to identify exactly
4 what's causing the problem. We believe the
5 recarbonation system will help to solve the issue, but
6 we're also checking phosphate levels and various other
7 parameters.

8 **Q. And have you considered compensating**
9 **folks for the damages to their internal systems at**
10 **their homes, their appliances and stuff?**

11 A. We are looking at the damage claims that
12 are coming in and developing a protocol for assessing
13 each of those damages. There's certain -- certain
14 things that happen when you have hard water, you know,
15 some faucet replacements and things like that that are
16 normal. So we're trying to balance out what's driven
17 by this issue.

18 **Q. Right. But it is your understanding that**
19 **this is more than -- for many of the customers who**
20 **have complained, it is definitely more than just a**
21 **hard water problem. Correct?**

22 A. Yes. Yes.

23 **Q. Thank you very much. No further**
24 **questions.**

25 JUDGE JONES: Thank you, Mr. Bednar.

1 MR. BEDNAR: Thank you.

2 JUDGE JONES: Any cross-examination from
3 St. Joseph?

4 MR. LAWYER: One question, Your Honor.

5 CROSS-EXAMINATION BY MR. LAWYER:

6 Q. Good morning.

7 A. Good morning.

8 Q. **During the cross-examination by**
9 **Mr. Bednar, it's been brought up that Platte County is**
10 **anticipating a new water treatment plant being put in;**
11 **is that correct?**

12 A. That's correct.

13 Q. **And I realize this was before your time**
14 **in your current position, but are you aware of in the**
15 **last roughly 20 years that St. Joseph had received a**
16 **water treatment plant?**

17 A. I am very aware of that.

18 Q. **And other significant improvements for**
19 **the Joplin district; is that correct?**

20 A. Yes. Uh-huh.

21 Q. **Does it seem just and reasonable to you**
22 **that those districts should bear costs for**
23 **improvements to which they receive no benefit?**

24 A. I believe that by -- by including them in
25 the single tariff or in a tariff group, that they will

1 receive benefits from that. For example, those
2 treatment plants and those upgrades that have been
3 made to those communities have not been fully
4 depreciated or fully paid for. And so by including
5 them into a tariff group, everyone is paying for a
6 portion of those -- those plants as well. So I think
7 that it's spread out through the entire tariff group.

8 **Q. But if we look back, those districts have**
9 **already borne the cost of improvements for themselves;**
10 **is that correct?**

11 A. A portion of those costs, yes. Uh-huh.

12 **Q. I have nothing further. Thank you.**

13 A. Thank you.

14 JUDGE JONES: Thank you.

15 City of Warrensburg?

16 CROSS-EXAMINATION BY MR. CURTIS:

17 **Q. Good morning, Ms. Norton.**

18 A. Morning.

19 **Q. My name is Lee Curtis. I represent the**
20 **City of Warrensburg.**

21 **I believe you heard your counsel,**
22 **Mr. Cooper, indicate that Missouri American has**
23 **460,000 water customers?**

24 A. Uh-huh.

25 **Q. About how many of that 460,000 are**

1 **residential customers?**

2 A. I -- I don't know the exact number, but
3 it typically runs about 90 percent of the customers
4 will be residential customers.

5 **Q. Thank you.**

6 A. Uh-huh.

7 JUDGE JONES: Public Water Supply
8 Districts?

9 CROSS-EXAMINATION BY MR. DORITY:

10 **Q. Good morning, Ms. Norton.**

11 A. Good morning.

12 **Q. My name is Larry DORITY and our firm**
13 **represents the Public Water Supply Districts in Andrew**
14 **County, which are sale for resale customers of**
15 **Missouri American in the St. Joseph district.**

16 **It's my understanding if I look at your**
17 **testimony that I believe has been marked as**
18 **Exhibit 46, that describes what your duties are as**
19 **president of Missouri American. And among those you**
20 **list that, I'm responsible for the development,**
21 **management and operations of Missouri American systems**
22 **in the state of Missouri and among those**
23 **responsibilities is directing the preparation of the**
24 **investment budget.**

25 **Would that be an accurate reading?**

1 A. That's correct, uh-huh.

2 Q. Okay. And you also adopted the corrected
3 testimony of Frank Kartmann and I believe that has
4 been marked as Exhibit 11 and received into the
5 evidence.

6 A. Yes.

7 Q. And that testimony reflects that Missouri
8 American operates 11 water treatment plants. I
9 believe Mr. Cooper mentioned that figure in his
10 opening statement.

11 A. Uh-huh.

12 Q. And that the Platte County water
13 treatment facility will be retired prior to the end of
14 the book life; is that correct?

15 A. That's correct.

16 Q. Okay. So is the replacement of this
17 Platte County water plant one of those major
18 infrastructure investments that is on the Company's
19 planning horizon at this point?

20 A. Yes, it is.

21 Q. Thank you. And are you projecting
22 significant capital expenditures on this new water
23 treatment plant over the next several years?

24 A. Yes.

25 Q. Can you advise the Commission what the

1 **estimated amount of those expenditures might be? And**
2 **if it needs to be confidential, I guess we can go**
3 **in-camera.**

4 A. Yeah. We're right in the middle of
5 design phase right now and so we don't have the -- the
6 real numbers as to what that's going to be and I
7 can't -- I can't recall off the top of my head and I
8 don't have it here what -- what that anticipated level
9 of spend is.

10 MR. DORITY: Okay. May I approach the
11 witness?

12 JUDGE JONES: Yes, you may.

13 BY MR. DORITY:

14 **Q. Excuse me just a moment. I want to show**
15 **your counsel.**

16 A. Sure.

17 MR. DORITY: Your Honor, I have a Data
18 Request response that has been provided by the Company
19 and it was designated highly confidential. I would
20 just like to refresh the witness's recollection of the
21 amounts that was provided to our client. And I think
22 the Company would request that we go in-camera to
23 allow me to do that.

24 JUDGE JONES: Okay. Let me figure out
25 how to do that. I can't see without my glasses.

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(REPORTER'S NOTE: At this point, an
in-camera session was held, Volume 16, pages 132
through 133.

1 JUDGE JONES: StoneBridge? Any cross
2 from StoneBridge? Triumph? I'm assuming the unions
3 are not here since they moved to be excused totally
4 from the hearing, which I grant that motion on the
5 record.

6 Office of Public Counsel .

7 CROSS-EXAMINATION BY MR. POSTON:

8 Q. Morning, Ms. Norton.

9 A. Good morning.

10 Q. What's the relationship between Missouri
11 American and American Water Works?

12 A. Missouri American, their parent company
13 is American Water Works. So we're a subsidi --
14 subsidiary.

15 Q. So if an investor wants to buy stock in
16 the Company, they would buy American Water Works
17 stock?

18 A. Correct.

19 Q. American Water Works was included in the
20 S&P 500 this month; is that correct?

21 A. That is correct.

22 Q. Would you agree that the Company's stock
23 was at an all-time record high this month?

24 A. Yes. I believe it was.

25 Q. And would you also agree with me that

1 **acquiring water and sewer systems is a growth strategy**
2 **of American Water Works?**

3 A. Yes, that's one reason for growth.

4 **Q. Thank you. That's all I have.**

5 JUDGE JONES: Thank you.

6 Staff of the Commission?

7 MR. THOMPSON: Thank you, Judge. I have
8 an exhibit. This is Staff Exhibit 32.

9 (Staff Exhibit 32 was marked for
10 identification.)

11 CROSS-EXAMINATION BY MR. THOMPSON:

12 **Q. Good morning, Ms. Norton.**

13 A. Good morning.

14 **Q. Take a look at what I've designated as**
15 **Staff Exhibit 32. Do you recognize that?**

16 A. Yes, I do.

17 **Q. In fact, I gave you a copy earlier this**
18 **morning, didn't I?**

19 A. Yes, you did.

20 **Q. Had you seen it before then?**

21 A. I had not. It had been described to me,
22 but I had not actually seen the document.

23 **Q. Okay. So do you acknowledge that this**
24 **is, in fact, what it purports to be; a letter written**
25 **by former president, Frank Kartmann, to the City of**

1 **Arnold, Missouri?**

2 A. Yes, I do.

3 **Q. And looking down at paragraph 3 on the**
4 **front page, do you agree with me that it states,**
5 **Agreed that absent any extraordinary circumstances,**
6 **the Arnold sewer bill for a 5,000 gallon monthly**
7 **residential customer currently at \$24.33 dollars per**
8 **month based on 73 dollars per quarter will not**
9 **increase beyond \$33.58 per month during the first four**
10 **years of Missouri American's ownership.**

11 **Do you see that sentence?**

12 A. I do.

13 **Q. Okay. And as far as you know, does that**
14 **undertaking -- is that still being honored by Missouri**
15 **American?**

16 A. Yes.

17 **Q. Okay. And if you know, will that level**
18 **of rates produce enough revenue to cover the cost of**
19 **service to Arnold?**

20 A. I -- I can't say for sure over that
21 four-year period whether that level of rates would be
22 enough to cover the cost for -- for Arnold or not. It
23 depends on the level of capital investment and the
24 amount of O and M expense that are related to that.

25 **Q. Okay. Would you be surprised to know**

1 **that Staff considers that it would, in fact, result in**
2 **about a half million dollar shortfall?**

3 A. Not completely surprised, no.

4 **Q. Okay. Thank you. And if you know, is**
5 **Mr. Kartmann still employed by Missouri American?**

6 A. He is not.

7 **Q. Thank you very much. No further**
8 **questions.**

9 MR. THOMPSON: And I move for the
10 admission of Staff Exhibit 32.

11 JUDGE JONES: Any objection to Staff's
12 Exhibit 32?

13 Okay. I don't see any. Staff's Exhibit
14 32 is admitted into the record.

15 MR. THOMPSON: Thank you.

16 (Staff Exhibit 32 was received into
17 evidence.)

18 JUDGE JONES: Okay. That's all the
19 cross-examination. I'm not overlooking any party, am
20 I?

21 Okay. We'll go to questions from the
22 Commission. Mr. Chairman?

23 QUESTIONS BY CHAIRMAN HALL:

24 **Q. Good morning, Ms. Norton.**

25 A. Good morning.

1 **Q. Turning to page 29 of Mr. Kartmann's**
2 **testimony on lines 14 and 15, he states that, Over the**
3 **same period, we have been growing our operations to**
4 **the acquisition of five water and five wastewater**
5 **systems.**

6 A. Yes.

7 **Q. What is that time period, do you know?**

8 A. Since the last rate case.

9 **Q. Since the last rate case?**

10 A. Uh-huh.

11 **Q. Okay. Would you view that as a -- as an**
12 **aggressive acquisition strategy or not?**

13 A. I would -- I would not say that it is
14 completely aggressive. A lot of these systems were
15 small, troubled systems that, frankly, we got calls
16 from either DNR in some cases or from the Commission
17 saying these systems are really struggling, would you
18 take a look at them.

19 We typically will go in and -- and look
20 at a system such as that and determine whether or not
21 it's a good fit for our business. And sometimes we do
22 the acquisition and sometimes we don't. We have been,
23 you know, looking for systems that are willing to
24 sell, but I wouldn't say this was extremely aggressive
25 during that time period.

1 **Q. Do you anticipate being more aggressive**
2 **in the future?**

3 A. I anticipate having more people working
4 on this at any given time than what we've had in the
5 past potentially. So having a larger number of staff
6 members that -- that are building relationships and
7 working towards doing more acquisitions, yes. We
8 definitely would like to do more acquisitions in the
9 future.

10 **Q. And why is the country -- excuse me, why**
11 **is the Company interested in being more aggressive in**
12 **its acquisition strategy?**

13 A. Because we believe that -- that growing
14 our business is important to keep the economies of
15 scale growing so that we can serve all of our
16 customers at a higher level and do a better job of
17 serving all of our customers.

18 **Q. So I -- and by economies of scale you**
19 **mean at a lower cost per customer?**

20 A. Yes.

21 **Q. So it's your -- it's your view that at**
22 **least one reason to be aggressive is to lower costs to**
23 **customers overall?**

24 A. On a per customer basis, yes.

25 **Q. Okay. Do you have a specific target in**

1 mind going forward as to the number of companies that
2 you would like -- you would like to acquire -- I'm
3 sorry, the number of systems you'd like to acquire per
4 year or --

5 A. The number of systems, no. We would like
6 to add on a customer basis, probably, you know,
7 1 percent or in that -- that range of customers, 1 to
8 2 percent maybe, both organic and through
9 acquisitions.

10 Q. Over what time period?

11 A. On an annual basis.

12 Q. On an annual basis?

13 A. Uh-huh.

14 Q. Okay. And that's both water and sewer?

15 A. Yes.

16 Q. Okay. To what extent would that strategy
17 be affected by a movement towards single-tariff
18 pricing or a continuation of the status quo?

19 A. I think that as we -- as we talk to -- to
20 systems that are considering selling, having some more
21 assuery around rates and being able to keep rates as
22 stable as possible helps them to make a decision
23 that's appropriate for their community.

24 Some communities are -- are in situations
25 where they don't have the capital to spend, they don't

1 have the expertise they need to be able to run their
2 systems, they -- they need money, frankly, for a lot
3 of other things that are going on to -- in their
4 communities. And so there are a lot of reasons why a
5 community may feel that selling is important, but one
6 of the things that they are most concerned about would
7 be the stabilization of rates.

8 **Q. So to the extent that we move towards**
9 **consolidation and single --**

10 A. Uh-huh.

11 **Q. -- tariff pricing, it becomes easier for**
12 **Missouri American to acquire more small systems?**

13 A. I think that it -- that in some ways,
14 yes, it would be easier. But more importantly, it
15 would be easier for those customers to afford to have
16 the kind of investments made in their systems that
17 those systems need. A lot of the smaller systems
18 right now are on the verge of not being able to
19 provide safe, reliable water to their customers
20 because they just can't make the kind of capital
21 improvements that are needed in order to keep the
22 rates reasonable.

23 **Q. To what extent is -- is an acquisition**
24 **premium a substitute for single-tariff pricing?**

25 A. I don't believe that an acquisition

1 premium is a substitute for single-tariff pricing.

2 Q. At all. Is there --

3 A. No.

4 Q. So there's no relationship at all? I
5 mean an acquisition premium, which we don't do
6 frequently in this state, but it has been done to at
7 least some extent, would -- would -- would provide an
8 incentive to a purchasing entity to purchase a small
9 troubled system and -- whereas, if -- if we -- if it
10 was just the rate-base, if we didn't give -- give some
11 premium to the rate-base, there would be a
12 disincentive to the Company to purchase a small,
13 troubled system.

14 So -- so if the issue is how do we
15 incentivize you or other companies interested in
16 purchasing small, troubled systems, it seems to me --

17 A. Uh-huh.

18 Q. -- that one option is single-tariff
19 pricing. Another option is an acquisition premium.

20 A. Agreed. My concern is that the
21 acquisition premium doesn't necessarily help keep
22 those rates just and reasonable for -- for the people
23 in that community. Because if it's a stand-alone
24 small community, then -- and you don't have
25 single-tariff pricing, then their rates could be

1 negatively impacted by that premium.

2 **Q. My understanding is that there were**
3 **12 local public hearings in this case. And I know**
4 **that you were at many of them. Were you at all of**
5 **them?**

6 A. I was at 10 of 12.

7 **Q. Ten of 12?**

8 A. Uh-huh.

9 **Q. I appreciate your -- your presence --**

10 A. Thank you.

11 **Q. -- at the local public hearings.**

12 **I'd like to ask you a couple of questions**
13 **about Exhibit 3.**

14 MR. BEDNAR: Was that put into evidence?

15 JUDGE JONES: No, it was not.

16 MR. BEDNAR: If I can have a late offer
17 to submit it into evidence, I would, Chair, as a
18 Riverside exhibit.

19 JUDGE JONES: This agreement? Was it the
20 agreement?

21 CHAIRMAN HALL: Yeah.

22 JUDGE JONES: Are there any objections to
23 Exhibit 3 offered by -- was it Riverside?

24 MR. BEDNAR: Yes, Your Honor.

25 JUDGE JONES: I don't see any objection.

1 With that, Riverside Exhibit 3 is admitted into the
2 record.

3 (Riverside Exhibit 3 was received into
4 evidence.)

5 BY CHAIRMAN HALL:

6 **Q. I don't understand why the company has**
7 **that third provision in this agreement. I was**
8 **wondering if you could --**

9 A. I'm sorry. Can you share that with me?
10 I don't have the actual copy of that. Thank you.

11 Okay. I'm sorry. What was the question?

12 **Q. Why, if you know, is that third paragraph**
13 **in this agreement?**

14 A. I don't know for sure. I'm sure that our
15 attorneys had something to do with that. But my -- my
16 thought is based on what I know and what I have found
17 out since I've been in my role, is that -- that at the
18 point where they started handing out these whole-house
19 filters, we didn't understand at all what was causing
20 the issue and we really didn't think that -- that we
21 were -- that we were the issue at that point based on
22 all the conversations that I've had.

23 And so -- so you don't want -- I guess
24 the reason for confidentiality would be that we
25 wouldn't want to be installing those in every single

1 home in that community, but I can't -- I can't say for
2 sure.

3 **Q. Okay. Well, I personally find that**
4 **provision to be repugnant. But we can move on.**

5 A. Okay.

6 **Q. I also -- I want to ask you a couple of**
7 **questions about some -- some issues raised by Public**
8 **Counsel in their -- in their opening.**

9 A. Yes.

10 **Q. I understand that faulty meters were --**
11 **is an issue that was -- was an important issue in this**
12 **case. My understanding is also that that issue has**
13 **largely been -- if not entirely been -- been resolved**
14 **by the -- the non-unanimous stip.**

15 **But I am concerned by -- by the statement**
16 **that -- that Staff discovered a problem late in the**
17 **case when a Company employee told Staff of the problem**
18 **and the employee was terminated the following week.**
19 **Is that true?**

20 A. On the face, that is the timing of what
21 happened. And the reason that we make personnel
22 changes is, of course, confidential. I have offered
23 to provide Staff with confidential documents that
24 explains the change in personnel in that case. And I
25 can assure you that it had nothing to do with the

1 meter issue or the disclosure of the meter issue.

2 **Q. Good. I hoped that was the case. And**
3 **has Staff taken you up on that offer to --**

4 MR. THOMPSON: Staff will, but has not
5 yet.

6 CHAIRMAN HALL: Okay.

7 BY CHAIRMAN HALL:

8 **Q. Concerning your parent company --**

9 A. Yes.

10 **Q. -- American Water, American Water has --**
11 **has regulated and unregulated business; is that**
12 **correct?**

13 A. That's correct.

14 **Q. Do you know percentage-wise how that**
15 **breaks down generally between regulated and**
16 **unregulated business?**

17 A. I think it's 90 regulated -- 90 percent
18 regulated, 10 percent. But Ed Haye, who will testify
19 later, could probably answer that question in more
20 detail.

21 **Q. Okay. Then I'll save the rest of my**
22 **questions for him. Thank you. I have nothing**
23 **further.**

24 A. Thank you.

25 JUDGE JONES: Commissioner Stoll?

1 QUESTIONS BY COMMISSIONER STOLL:

2 Q. Good morning.

3 A. Good morning.

4 Q. How are you, Ms. Norton?

5 A. Good.

6 Q. Just have a couple questions to follow
7 up. First of all, I was curious as to do you know
8 when you acquired the Platte County facility?

9 A. I do not.

10 Q. And is --

11 A. It was --

12 Q. Mr. Bednar was -- is Riverside the only
13 community --

14 A. No.

15 Q. -- in Platte County that you --

16 A. No. Parkville is also included in
17 that -- that district.

18 Q. Parkville. Okay. Do you happen to know
19 the age of the facility that you're going to replace
20 in Platte County?

21 A. I don't know the exact age. It's very
22 old. I believe it was built in the early 1900's. But
23 I can tell you that it structurally is not completely
24 sound at this point. We've had a structural engineer
25 come in and it's -- it's so old that structurally it's

1 not sound in certain areas.

2 Q. Yeah. I won't dwell on this, but having
3 been a city administrator, I understand that water is
4 not easy to produce and some people think it should
5 be --

6 A. Uh-huh.

7 Q. -- just take it right out of river.

8 So I guess one of the main purposes of
9 your testimony regarding the capital expenditures that
10 are needed in the future for that Platte County
11 facility and I'm sure for others is the -- what you
12 described as achieving economies of scale. Is that --
13 is that right? So what you're trying to do, what
14 you're suggesting is that in order to replace these
15 facilities, that is best done through consolidation
16 and --

17 A. In many cases, that is the best way to do
18 it. We try to look at the whole picture and see if
19 consolidating systems that sit close together makes
20 sense. So a lot of times there will be an acquisition
21 of what we refer to as a tuck-in or a community that
22 sits right next to an existing community. And we use
23 a lot of the same staff to -- to treat the water and
24 to also maintain the distribution system in those
25 cases.

1 **Q. Okay. And I think I'll stop with that**
2 **question.**

3 A. Okay.

4 **Q. Thank you very much.**

5 A. Uh-huh.

6 JUDGE JONES: Commi ssi oner Kenney.

7 COMMI SSI ONER KENNEY: Thank you, Judge.

8 Perhaps Mr. Bednar may be able to -- may
9 know the answer to your questi on regarding when
10 Mi ssouri American started supply ing water to
11 Ri versi de.

12 MR. BEDNAR: Your Honor, I believe that
13 was 2005, 2006. Seemed like early 2000s. They
14 acquired the Mi ssouri Ci ty' s tari ff.

15 THE WITNESS: Yes.

16 COMMI SSI ONER KENNEY: Perhaps Mr. Busch
17 might know.

18 MR. THOMPSON: Early to mid '90s I'm
19 told.

20 THE WITNESS: Okay. Thank you.

21 COMMI SSI ONER KENNEY: Thank you very
22 much.

23 MR. BEDNAR: I apol ogi ze.

24 QUESTIONS BY COMMI SSI ONER KENNEY:

25 **Q. Good morning, Ms. Norton.**

1 A. Good morning.

2 Q. How are you today?

3 A. Good.

4 Q. Good. You know, the Chairman and I --
5 was it last May, I think? The Chairman and I and some
6 advisors and some Staff members met the president of
7 American Water and your predecessor, Mr. Kartmann.

8 A. Uh-huh.

9 Q. We met in St. Joe. Was that last year?
10 And we took a tour of that facility. That's a
11 beautiful facility.

12 A. It is.

13 Q. And then we -- we paid our 10 dollars and
14 we were going to have lunch together. And I went out
15 to my car and I made the mistake of bringing in two
16 bottles of my Kirkland water and I got chastised for
17 that.

18 A. That's inappropriate at a water utility.

19 Q. I found that out. But one of the things
20 we got to do is we -- have you had a chance -- we
21 toured the St. Joe facility. That's a great facility.
22 Have you had a chance to tour your Parkville facility?

23 A. I have.

24 Q. That's a terrible facility.

25 A. It's -- it's a scary facility.

1 **Q. Leaking water and --**

2 A. Uh-huh.

3 **Q. One of the things I -- I was at that**
4 **public hearing and I think the mayor of Riverside was**
5 **talking about how it needed to be replaced.**

6 A. Uh-huh.

7 **Q. I mean I think everybody agrees to that.**

8 A. Uh-huh.

9 **Q. So you -- do you agree?**

10 A. Yes.

11 **Q. Okay. So anyway, I do have a question --**
12 **just a couple short questions. How many states is**
13 **American Water in?**

14 A. American Water as a regulated business is
15 in 16 states.

16 **Q. 16 states. Your low-income riders, how**
17 **many states have a low-income rider that you might**
18 **know, or do you know that some of them have it?**

19 A. I would say that there are at least three
20 to five states --

21 **Q. Three to five.**

22 A. -- that have a low-income -- some type of
23 a low-income tariff.

24 **Q. How many states have single tariff?**

25 A. I think Ed Hays could answer that better

1 than I can, but a significant number of them. I've
2 worked in Illinois and in Kentucky and they both had
3 single-tariff pricing.

4 **Q. So Illinois and Kentucky both do have**
5 **single tariff?**

6 A. Yes. Plus other states as well.

7 **Q. Okay. And you've found that that's a --**
8 **that balances out these expenses like we've been**
9 **talking about?**

10 A. Yes.

11 **Q. Going to Parkville, you have to replace**
12 **it, it's going to double their rates. But if you**
13 **can -- a single tariff is going to smooth --**

14 A. Spread that out over a much larger number
15 of customers.

16 **Q. And I understand OPC's complaint that,**
17 **you know, you're picking and choosing the winners,**
18 **but --**

19 A. Uh-huh.

20 **Q. -- I know American Water stepped in and**
21 **bought some distressed facilities that with the**
22 **requirements of DNR and meeting regulations, it's**
23 **going to be impossible to build the facilities that**
24 **are needed without extremely -- extreme rate shock.**
25 **Would you agree?**

1 A. That's correct. Yes.

2 Q. Okay. Thank you.

3 JUDGE JONES: Commissioner Rupp?

4 COMMISSIONER RUPP: Thank you.

5 QUESTIONS BY COMMISSIONER RUPP:

6 Q. Morning.

7 A. Morning.

8 Q. In your conversation with Chairman Hall,
9 you said that part of your acquisition strategy is to
10 attain a lower cost per customer target for everyone?

11 A. Yes. We -- we're always looking for
12 efficiencies to try to keep those costs as low as
13 possible.

14 Q. Okay. So when I look at the letter from
15 the City of Arnold from your predecessor and knowing
16 that you guys are taking a bath of X amount of dollars
17 on that for the -- for the guaranteed period, how is
18 that consistent with your strategy of a lower cost per
19 customer? Are your shareholders absorbing that
20 unrecouped cost or are you trying to pull it from
21 other areas to make yourself whole?

22 A. At this point, that's part of the rate
23 design kind of conversations that have been going on.
24 And I'm not sure exactly where those dollars will come
25 from. But -- but I think that we have to -- you know,

1 the Arnold acquisition was a large wastewater
2 acquisition for us. And trying to establish a base
3 for us of wastewater service and -- and grow from that
4 base I think will help in the long run. This is a
5 short-term issue, but I think in the long run it's
6 going to be a great benefit to -- to all of our
7 wastewater customers throughout the state.

8 **Q. So when this agreement was written, did**
9 **the Company have a projection that they knew they were**
10 **going to be taking a loss on this guaranteed rate at**
11 **the time that that letter was signed?**

12 A. I can't answer that question. I don't
13 have that information because I wasn't here.

14 **Q. On the third paragraph that the Chairman**
15 **commented on on the Exhibit Number 3, is a reason for**
16 **that statement being there that if a community's**
17 **having problems with their water, they find out that**
18 **someone gets a free in-home water filtration system,**
19 **that there would be a -- a repeated request from**
20 **neighbors all the way down the street, everybody**
21 **wanting to have one of those?**

22 A. It's very possible that that was a
23 consideration.

24 **Q. And what is the cost to the Company of**
25 **providing that in-home --**

1 A. I don't know the cost to that.

2 Q. The comments from OPC on the individual
3 who gave Staff the information on the faulty meters,
4 when -- when -- when was that information given to
5 OPC -- or to Staff?

6 A. I would say in the last month or six
7 weeks.

8 Q. Okay.

9 A. I don't know the exact date.

10 Q. And that individual's no longer with the
11 organization?

12 A. That's correct.

13 Q. Okay. Has that individual filed any type
14 of whistleblower suit against the Company?

15 A. Absolutely not.

16 Q. Okay.

17 A. And again, I can provide documentation
18 that shows the lead-up to that decision.

19 Q. And why did it take a random -- or an
20 in -- a person in your organization that long to
21 inform Staff of the faulty meter situation? Why was
22 that not offered up to Staff and other parties?

23 A. That's a very good question. So -- so
24 when I came to Missouri American in -- in November of
25 2015, I evaluated the -- the data that was being

1 generated from some meter change-outs that were
2 related to a meter issue. And -- and we kind of
3 changed course at that time in November and -- and
4 stopped changing out the volume of meters that we had
5 been before.

6 So there are some very specific issues
7 related to certain serial numbers of those meters,
8 which we'll get a lot more into it during the
9 investigation of this issue. And -- and those meters
10 are the meters that we should focus on to change out.
11 And there's -- there's not -- you know, it's not a
12 huge number. It's -- it's an issue with the meters
13 specifically.

14 **Q. And when did you -- when did you review**
15 **that data and make the decision to stop changing out**
16 **the large amount of --**

17 A. In November. I came on November 11th and
18 I would say within a week I made that change.

19 **Q. And when -- I'm sorry, when was this**
20 **individual let go?**

21 A. In February, I believe.

22 **Q. And so --**

23 A. No. I'm sorry, it was early March.

24 **Q. Early March.**

25 A. It was early March. Probably March 8th,

1 I'm thinking.

2 **Q. So you knew the issue of faulty meters in**
3 **November, yet Staff was not given that information**
4 **after you filed this until five months later?**

5 A. Yeah, at -- at that point I guess there
6 wasn't a lot of clarity around what the Staff knew and
7 what the Staff didn't know. And that was my miss by
8 not asking enough questions and -- and clarifying
9 that. I think the team was very caught up in trying
10 to solve the operational issues that they felt they
11 had and -- and missed making that call, frankly.

12 **Q. If this individual would not have**
13 **provided information to the Staff on the faulty**
14 **meters, how would Staff have gotten that information?**

15 A. I -- I -- I don't know the answer to
16 that. I can assure you that -- that I'm -- I lead
17 from a very transparent perspective and that any kind
18 of issues in the future would be brought up right
19 away. But these issues were identified and dealt
20 with, you know, prior to that -- prior to me being
21 here.

22 **Q. So let me rephrase that question. Would**
23 **have Staff been given that information if it did not**
24 **come from that individual?**

25 A. I don't -- I don't know the answer to

1 that because I was unclear about what the Staff knew,
2 what the Staff didn't know.

3 **Q. Okay. OPC had several comments about**
4 **poor customer service.**

5 A. Uh-huh.

6 **Q. And one of them you touched on was in an**
7 **area you're having problems with the water softening**
8 **and the calcium --**

9 A. Yes.

10 **Q. -- in the water.**

11 A. Uh-huh.

12 **Q. And that goes back to complaints that you**
13 **said complaints -- it started in 2008, 2009?**

14 A. Yes.

15 **Q. And when -- when did you start providing**
16 **the in-home systems and -- into that area?**

17 A. I'm not sure about the timing of that.
18 Again, the situation was very isolated. And based --
19 based on the information that I've been given --

20 **Q. Can you give me a ball park?**

21 A. -- to the process --

22 **Q. Are we talking 2010? Are we talking**
23 **2015?**

24 A. I don't know without pulling up a
25 timeline to look at the details. I would say probably

1 in the last three years, but I can't swear to that.

2 **Q. Okay. So then OPC also made other claims**
3 **of poor customer service --**

4 A. Uh-huh.

5 **Q. -- long wait times on the phone call --**

6 A. Uh-huh.

7 **Q. -- you know, the leaks not being fixed.**

8 A. Uh-huh.

9 **Q. And you said there was complaints on this**
10 **in 2008, 2009, but nothing was really done to address**
11 **it up until --**

12 A. That --

13 **Q. -- several years later?**

14 A. No. That -- that's not true. The team
15 had done a lot of things trying to identify what the
16 issue was, what was causing it and tried to help these
17 customers in the best way that they knew. And -- and
18 I didn't realize what kind of an issue it was until
19 February when they had the public hearing.

20 And so -- so yes, we have definitely
21 stepped up the things that we're trying to do, but the
22 team I think did -- did a good job of trying to
23 identify what the issues were.

24 And -- and literally based on everything
25 that we've been able to pull together and -- unless

1 that's changed in the last couple of weeks with
2 information, it's -- it's 2 percent or less of the
3 customers that are really experiencing this severe
4 problem. So they were trying to work with those
5 individual customers.

6 **Q. So you said you held a local public -- or**
7 **a town hall meeting --**

8 A. We did.

9 **Q. -- about the issue?**

10 A. Uh-huh.

11 **Q. When was that?**

12 A. That was in early March.

13 **Q. Of this year?**

14 A. Uh-huh.

15 **Q. So my, you know, question is if we had**
16 **complaints on this issue from 2-- going back to 2008,**
17 **2009, and then it's March of 2016 --**

18 A. Uh-huh.

19 **Q. -- what is your process for getting a**
20 **complaint? If it's unresolved, do you guys just**
21 **forget about it? Do you just let them pile up?**
22 **Because it seems like this has been an issue your**
23 **Company has known about for eight years --**

24 A. Uh-huh.

25 **Q. -- but nothing seemed to be really**

1 **happening until there was a rate case filed eight**
2 **years later. So what is your process for following up**
3 **on all these complaints?**

4 A. The process would be if a complaint comes
5 in and it's a water quality complaint, typically we
6 would send someone out to their house. They would
7 talk to the customer and they would -- they would try
8 to resolve that complaint as best they could. And --
9 and if they felt like the customer was -- was
10 satisfied or that they had been able to address the
11 question, they would close out that complaint.

12 In this case I know that there's one
13 customer that -- that I'm very familiar with that --
14 that we've actually gone into his home repeatedly
15 and -- and our team has continued to follow up with
16 this customer. Still haven't been able to completely
17 fix the problem, not even fix it at all to this point.

18 But they put in some -- some test loops
19 of different -- different plumbing materials, they've
20 collected samples, they've done flushing, they've done
21 all kinds of things. So even though the complaint has
22 been going on, it's -- my -- my team did not stop
23 going out or addressing it with this customer.
24 They've continued to go and follow up. They just
25 haven't been able to fix the issue.

1 **Q. So you're saying that if a complaint is**
2 **not -- if -- you're continually working on this**
3 **particular set of complaints in this area --**

4 A. Uh-huh.

5 **Q. -- consistently for the past eight years?**

6 A. I'm saying that based on the timeline
7 I've seen, that yes, I believe that we've been
8 consistently working on this for the past more -- I
9 think more so in the past five to six years.

10 **Q. The Office of OPC in their opening**
11 **statement, you know, used some information from local**
12 **public hearings on poor customer service, long wait**
13 **times when you call in. Do you track, you know, in**
14 **your call centers the amount of wait time, what is the**
15 **average amount of wait time --**

16 A. Uh-huh.

17 **Q. -- is it at industry standards, below**
18 **industry standards, above? Can you give some**
19 **information on your call center and its customer**
20 **service?**

21 A. Yes. We've made some changes recently in
22 the call center trying to address any concerns that --
23 that might be out there. At times when customers call
24 in, there are longer wait times than what we would
25 like, but for the most part, our -- our wait times are

1 well within the industry standards. And typically we
2 will answer more than 80 percent of the calls or
3 80 percent of the calls in a minute or less. And
4 so -- so customers, in general, are not having long
5 wait times, but there will be periods when they call
6 in that they may -- they may have longer wait times
7 than --

8 **Q. And what do you --**

9 A. -- 30 to 60 seconds.

10 **Q. And can you attribute that to anything?**

11 A. You can -- we can contribute that to a
12 lot of different things. If there's a situation going
13 on within the business that would generate a lot of
14 extra calls, that could -- that could cause longer --
15 longer wait times. Absenteeism at the call center can
16 cause longer wait times, so --

17 **Q. Do you outsource your call center or is**
18 **this in-house?**

19 A. It's in-house, uh-huh.

20 **Q. And have you provided any filings in this**
21 **about the information on the call centers in the --**
22 **and the response times and information in any Data**
23 **Requests?**

24 A. I don't know the answer to that. I'm
25 sorry.

1 **Q. Can your Company provide any of that**
2 **information --**

3 A. Absol utely.

4 **Q. -- to back it up?**

5 A. Absol utely. And we've worked closely
6 with the Staff here on some things -- some of the
7 changes that were made at the call center were done in
8 conjuncti on wi th -- wi th conversati ons wi th Staff
9 here. The geographical routing, so Missouri calls go
10 to the same customer service reps all the time.
11 Recording 100 percent of the calls so that if we do
12 have a customer complaint, we can go back and listen
13 to that call and see if the customer service rep acted
14 inappropriately; and if they did, we can deal with
15 that all at one time.

16 We have -- we have high customer
17 satisfaction ratings. So I think that customer
18 complaints at the public hearings, frankly, that's not
19 uncommon. You go to any public hearing -- you guys
20 know as well as I do, that you're going to have
21 customers that are going to show up because they have
22 a complaint. And so we try to deal with those at
23 those hearings right away.

24 But last year our customer satisfaction
25 percentage based on phone surveys throughout Missouri

1 were -- was that 92 percent of our customers were
2 received. So I think that overall we're doing a very
3 good job of serving the customers. And I think that
4 there are some one-off issues that, yes, we can
5 certainly do better with and we're doing -- we have a
6 whole customer strategy program going on right now
7 where we're looking at many different ways to try to
8 serve our customers the very best that we can.

9 **Q. And I -- and I noticed at some of the**
10 **local public hearings that the complaints tended to**
11 **resolve around one area.**

12 A. Yes.

13 **Q. Some multiple complaints were coming from**
14 **the same issue.**

15 A. Uh-huh.

16 **Q. You just took over a system, billing**
17 **issues and things of that nature.**

18 A. Uh-huh.

19 **Q. Have you tracked every person that had a**
20 **complaint at the local public hearings and have your**
21 **people been in contact with them and attempted to**
22 **resolve them?**

23 A. Yes.

24 COMMISSIONER RUPP: I think that's all, I
25 have, Judge. Thank you.

1 JUDGE JONES: Commi ssi oner Col eman?

2 COMMI SSI ONER COLEMAN: Thank you, Judge.

3 QUESTIONS BY COMMI SSI ONER COLEMAN:

4 Q. Good morni ng.

5 A. Good morni ng.

6 Q. So my fellow Commi ssi oners brought up
7 several issues that I'm particularly interested in,
8 the customer service issues --

9 A. Uh-huh.

10 Q. -- the employee that was terminated. So
11 since some of those have been addressed, I'm going to
12 concentrate on some other issues.

13 Let's go back most immediately to the
14 questions by Commi ssi oner Rupp. Relative to the call
15 centers and the issues there --

16 A. Uh-huh.

17 Q. -- I am not as concerned or impressed, I
18 think, about the ratings that your company or to that
19 extent --

20 A. Uh-huh.

21 Q. -- most any company receives --

22 A. Uh-huh.

23 Q. -- as far as customer satisfaction.

24 Because the people who have no problems are usually
25 the ones who respond to those types of surveys.

1 A. Uh-huh.

2 Q. **Folks who do have complaints and are not**
3 **getting their issues addressed --**

4 A. Uh-huh.

5 Q. **-- are less likely to have the time to be**
6 **taking a survey about how great their service is.**

7 A. Uh-huh.

8 Q. **So my question would be more about**
9 **response time to the problems that people call about.**

10 A. Uh-huh.

11 Q. **How have you addressed those issues that**
12 **we've heard throughout state --**

13 A. Uh-huh.

14 Q. **-- relative to the poor response time to**
15 **leaks, to other issues, replacement of filters,**
16 **appliance issues --**

17 A. Uh-huh.

18 Q. **-- more so than the surveys --**

19 A. Uh-huh.

20 Q. **-- for good customers service on the**
21 **telephone?**

22 A. Uh-huh. Right. And just to clarify, we
23 also do another survey that looks at just when a
24 service order is generated. So we do try to get that
25 information and so -- so if you called in and had a

1 service person come out to your home, we do a separate
2 survey related to that as well.

3 **Q. What is that showing you?**

4 A. 85 percent of the customers were
5 satisfied or very satisfied with that -- with that
6 interaction.

7 **Q. Uh-huh.**

8 A. So -- so that's pretty high for the
9 industry standard. But I think -- I think more to
10 your question, trying to give customers more
11 opportunities to give feedback in a very timely manner
12 is something that we're looking at.

13 We've -- we've added some surveys at the
14 call center. So when customers call in, if they're
15 not happy with how that interaction went, they can do
16 a survey right then -- it's a two-question survey --
17 and tell us that they're not satisfied. Again, that
18 gives us time to get right with that customer service
19 rep and deal with that situation.

20 And -- and we are trying to balance the
21 customer's concerns and issues with what our tariffs
22 say and what the right thing to do is from a business
23 perspective. So when you talk about replacing
24 appliances and things like that, we have to be careful
25 in that approach, but we also want to be fair. And so

1 we have had several meetings related to the -- the
2 Platte County situation, trying to figure out what the
3 fair way is to deal with that and those meetings
4 continue.

5 **Q. Okay. Thank you. Consolidation is a big**
6 **issue.**

7 A. Uh-huh.

8 **Q. I remember at the St. Joseph hearing, it**
9 **was number one on the -- of concern by many of those**
10 **that testified --**

11 A. Uh-huh.

12 **Q. -- that day. How do you give people a**
13 **good feeling about consolidation when they feel that**
14 **the rates that they pay shouldn't be covering such**
15 **large zones or districts? How do you address that?**

16 A. I think helping people understand how it
17 actually works can sometimes help to alleviate those
18 concerns. And actually putting numbers behind that to
19 say that if we make an investment and it's spread
20 over, you know, 1,500 customers, this is going to be
21 the impact to the rates. If it's spread out over
22 150,000 customers, this is the impact to rates and so
23 it's a much smaller impact. And I think helping
24 people to see that and understand that.

25 And the interesting thing about

1 consolidating the tariffs is that it depends on which
2 point in time you're talking about that. So -- so we
3 talked about that, I believe, based on what I've been
4 told, when the St. Joe plant was being built. And --
5 and at that point St. Joe was supportive of that. And
6 I understand that because it made sense for them to be
7 able to spread those costs out. It would have been
8 less of an impact for them.

9 And so -- so it's hard that -- that as
10 the -- that point in time changes -- and right now I
11 believe that the -- the increase that we're looking at
12 is less than 2 percent across the state. So it's a
13 good time to consolidate because there's going to be
14 less impact negatively on customers and -- and going
15 forward, it can just minimize that overall impact.

16 **Q. Of course you understand that when a**
17 **family is a family of one or maybe a family of two**
18 **opposed to --**

19 A. Uh-huh.

20 **Q. -- parents and two or three kids, they're**
21 **really not feeling like this is equal.**

22 A. Uh-huh.

23 **Q. So consolidation really kind of is -- is**
24 **hard to comprehend by those customers, I would think.**

25 A. Yeah, I guess I'm not understanding how

1 the family size would --

2 **Q. Well --**

3 A. -- make a difference.

4 **Q. -- people feel that -- from the testimony**
5 **that I heard, if I'm not using X number of gallons,**
6 **why should I be charged the same as other people? Why**
7 **am I covering the cost of possibly larger families**
8 **than I? I don't think they understand or really hear**
9 **that --**

10 A. Uh-huh.

11 **Q. -- explanation about why consolidation**
12 **makes sense.**

13 A. Right. And it -- and it really doesn't
14 have a lot to do with family size.

15 **Q. I know, but that's the --**

16 A. That's how --

17 **Q. -- impression of people.**

18 A. And, again, it goes back to being ed--
19 able to educate people and help them try to understand
20 the basic concepts of how that works.

21 **Q. Well, speaking of education, down in Cape**
22 **Girardeau at the Hillcrest hearing, there were a lot**
23 **of people who threw around the phrase that their water**
24 **rates were increasing and their sewer rates**
25 **800 percent. How do you offset that impression?**

1 A. I'm sorry. Where was that at?

2 Q. **That was in Hillcrest.**

3 MR. COOPER: Judge, I believe -- or
4 Commissioner, I believe Hillcrest is not part of the
5 Missouri --

6 COMMISSIONER COLEMAN: Hillcrest is which
7 one?

8 MR. COOPER: It's a utility onto itself.

9 BY COMMISSIONER COLEMAN:

10 Q. **Okay. Never mind.**

11 A. Yeah. I'm not familiar with that one.

12 Q. **Okay. Never mind. I'm going to too many**
13 **hearings obviously.**

14 A. I understand.

15 Q. **I better separate my papers then so we --**
16 **okay.**

17 **So then the last question would be about**
18 **the claim from Staff that several Missouri American**
19 **Water witnesses were replaced. Did I hear that**
20 **correctly?**

21 A. That's correct.

22 Q. **And what is that about?**

23 A. That is about management changes and
24 structural changes within the organization that --
25 that caused that. There were various different things

1 that caused that. Me being new in my position,
2 testimony had already been filed by my predecessor
3 so -- so I replaced him.

4 We also had a director of rates for a
5 division and that division was changed and so Missouri
6 American Water is no longer part of what was referred
7 to as the central division. So we're kind of a
8 stand-alone state at this point. And so that director
9 of -- of rates moved to a different position and so
10 his testimony was replaced as well.

11 And then -- then the other employee that
12 we've talked about quite a bit today and the reason
13 for him no longer being here, that happened recently
14 and so his testimony was adopted as well.

15 **Q. So nothing should be read into those --**

16 A. No.

17 **Q. -- replacements as far as this case?**

18 A. No. The fourth employee was actually
19 very ill. He had pneumonia and so was unable to make
20 it to -- to testify.

21 **Q. Thank you.**

22 COMMISSIONER COLEMAN: Thank you, Judge.

23 JUDGE JONES: Any recross based on
24 questions from the Commissioners? St. Joseph; is that
25 correct?

1 MR. DOWNEY: I'm with the MIEC, Judge.

2 JUDGE JONES: MIEC. Okay.

3 RECROSS-EXAMINATION BY MR. DOWNEY:

4 Q. **Good morning.**

5 A. Morning.

6 Q. **My name's Ed Downey.**

7 A. Uh-huh.

8 Q. **I represent industrial customers in the**
9 **St. Louis Metro area.**

10 A. Yes.

11 Q. **And you've had a lot of discussion with**
12 **the Commissioners about socializing costs. And I got**
13 **the distinct impression that you believe by buying**
14 **these troubled water and sewer companies, you're going**
15 **to lower the cost per unit for your existing**
16 **customers. Is that really what you were saying?**

17 A. I -- no, I would-- I wouldn't say that
18 necessarily. But -- but we would try to -- by
19 increasing the customer base -- we don't want all of
20 our growth to be these small, troubled systems. Okay?
21 But we also want to be good stewards and -- and help
22 out wherever we can when it makes sense. And so -- so
23 we do sometimes acquire these small, troubled systems/

24 And you're right, they don't -- they
25 don't necessarily pay for themselves, especially right

1 up front.

2 Q. Okay. And I did hear the term "economies
3 of scale."

4 A. Uh-huh.

5 Q. And maybe that's why I was a little
6 confused here.

7 A. Uh-huh.

8 Q. You understand that there are a large
9 number of parties in this case that oppose
10 consolidation?

11 A. I do.

12 Q. Do you know why they're opposing it?

13 A. I've heard the arguments, yes.

14 Q. And cost?

15 A. Uh-huh.

16 Q. Okay. And we -- I'm not sure if it's
17 highly confidential or not, but the Parkville water
18 plant figures --

19 A. Uh-huh.

20 Q. -- we discussed those. It's going to be
21 very, very expensive to replace that plant --

22 A. Uh-huh.

23 Q. -- correct? You're going to have to --

24 A. Yes.

25 Q. -- answer audibly.

1 A. Yes.

2 Q. Okay. And if we socialize those costs,
3 as -- as the Company is proposing, a large portion of
4 those costs will be borne by the St. Louis Metro area.
5 Do you agree?

6 A. I think that the -- the impact on an
7 individual basis will be -- will be relatively small.

8 Q. So what you're saying is when we
9 socialize costs over a lot of people --

10 A. Uh-huh.

11 Q. -- then the impact per person is less?

12 A. Yes.

13 Q. But on a district-wide base, St. Louis
14 Metro district is going to absorb an awful lot of
15 these costs of the Parkville plant. Right?

16 A. There are more customers in St. Louis so
17 if each individual customer accepts a portion of that,
18 yes, that -- that cost will be more for that district
19 than it would be for a smaller district because they
20 have fewer customers that would be absorbing that
21 cost.

22 Q. And what service will the customers in
23 St. Louis Metro area receive from this plant in
24 Parkville?

25 A. They won't receive any service. But

1 similar investments in St. Louis, the costs of those
2 investments would be spread out amongst all the
3 customers as well. So the customers in Parkville
4 would -- would also have a portion of investments made
5 in St. Louis. It just spreads it out through the
6 entire state.

7 **Q. Now, you understand I represent**
8 **industrial customers in St. Louis?**

9 A. I do, yes.

10 **Q. Do you have any reason to doubt that**
11 **their rate increase will be four times what it**
12 **otherwise would be if we consolidate?**

13 A. I -- I -- I don't have the exact numbers
14 in front of me and I believe that it would depend
15 greatly on how that consolidation was done. But I --
16 I did not believe that it was four times.

17 **Q. Okay. And if I were to tell you without**
18 **consolidation, keeping the current districts as we**
19 **have them, their increase would be 4.15 percent, with**
20 **consolidation would be close to 18 percent, would you**
21 **dispute that?**

22 A. Again, it depends on how you look at the
23 consolidation. The numbers that I've seen based on
24 different -- different runs for consolidation, that
25 increase was much less than that.

1 **Q. Okay. And -- and you mentioned to**
2 **Commissioner Coleman that now is a good time to**
3 **consolidate --**

4 A. Yes.

5 **Q. -- did you not?**

6 A. I did.

7 **Q. And that's because right now the impact**
8 **will not be as great as later?**

9 A. At this point in time today, I think that
10 the impact is not -- not that great.

11 **Q. Okay. And that's because today we're not**
12 **yet paying for the Parkville plant. Correct?**

13 A. Yes. And -- and even though we talked
14 about the numbers for the Parkville plant, in the
15 grand scheme of the amount of capital that's spent
16 across the state to make sure that we are investing in
17 our infrastructure and that we do have sustainable
18 systems, that's a very small amount of the amount of
19 capital that we spend between rate cases.

20 **Q. When you were presenting consolidation to**
21 **the public at these various public hearings --**

22 A. Uh-huh.

23 **Q. -- were you telling the public that they**
24 **can expect to see socialization of these large**
25 **expenditures that are coming down the pipe?**

1 A. We talked openly about what consolidation
2 meant. And -- and that -- that plant was brought up
3 in at least two or three of the -- of the public
4 hearings.

5 **Q. Did the residents of St. Louis know about**
6 **it, do you recall?**

7 A. I don't recall.

8 MR. DOWNEY: That's all I have, Judge.

9 JUDGE JONES: Any other recross?

10 MR. BEDNAR: Yes, Your Honor. I'll defer
11 to Staff.

12 JUDGE JONES: Let's go over here, OPC
13 last or near the end. Let's let the cities go first
14 on recross.

15 RE-CROSS-EXAMINATION BY MR. BEDNAR:

16 **Q. Mr. Downey's request for consolidation, I**
17 **think you brought up early in your response to one of**
18 **the Commissioner's questions when we talk about the**
19 **number of customers, it's evident on Public Counsel's**
20 **front page of their PowerPoint that we're talking**
21 **about Platte County has 5,484 accounts by their --**

22 A. That sounds correct.

23 **Q. St. Louis has 343,810 accounts?**

24 A. Yes.

25 **Q. Warrensburg, 6,000; Jefferson City,**

1 9,000; Mexico, 4,000. So leaving St. Joe and Joplin
2 aside if they want to maintain district specific, that
3 shows real reduced impact --

4 A. Yes, sir.

5 Q. -- and rate shock on everyone. And to
6 your point, when St. Louis has increases in their
7 infrastructure, Platte County will be sharing those
8 costs as well. Correct?

9 A. That's correct.

10 Q. And everybody will be sharing in a
11 relatively even manner. Correct?

12 A. That's correct.

13 Q. Because -- I don't know if you had a
14 chance to see Mayor Rose's testimony --

15 A. Yes.

16 Q. -- but it contained a summary of the
17 various rates on -- it would be the first Exhibit 1-R,
18 the different rates for each district since 2006 and
19 those increases from 2006 to 2005 -- or 2015, I'm
20 sorry. In fact, this is the second time -- second
21 rate case in which the Company has recommended a rate
22 decrease in the consolidation. Correct?

23 A. That's what I've been told, yes.

24 Q. And that's been fought by Public Counsel
25 and the industrials of St. Louis. Correct?

1 A. Correct.

2 Q. Now, Mr. Downey did not bring up the
3 price differential for water between St. Louis
4 industrials and Platte County industrials. Correct?

5 A. Correct.

6 Q. Are you aware that the Platte County
7 industrial cost of water may reach 2- to 300 percent
8 compared to the St. Louis industrials?

9 A. No. I was unaware of that.

10 Q. No further questions.

11 A. Thank you.

12 JUDGE JONES: Thank you.

13 RECROSS-EXAMINATION BY MS. BELL:

14 Q. Good morning.

15 A. Good morning.

16 Q. Are you aware that Joplin's rates have
17 increased by 132 percent over the last three rate
18 cases?

19 A. No. I didn't have that exact number.

20 Q. But you are aware that all of those costs
21 that increased were solely borne by Joplin?

22 A. Yes.

23 Q. By their residents?

24 A. Yes.

25 Q. And they weren't shared with any other

1 **district?**

2 A. That's correct.

3 **Q. And we've talked a little bit today about**
4 **Platte County and the Parkville water plant. Under**
5 **your proposed plan of consolidation or Staff's**
6 **proposed plan of consolidation, those costs would be**
7 **borne by other ratepayers; is that correct?**

8 A. That's -- a portion of them would be,
9 yes.

10 **Q. And specifically under your plan, some of**
11 **those costs would be borne by the residents of Joplin?**

12 A. I believe that's correct.

13 **Q. You also said that Illinois is under a**
14 **single-tariff plan?**

15 A. Yes.

16 **Q. Can you -- I've looked at Missouri**
17 **American's website and they're showing different**
18 **districts in Illinois. Are there different districts**
19 **in Illinois?**

20 A. There -- there -- there are a few
21 different districts, I believe. And as they make
22 acquisitions, that -- that impacts that as well. But
23 when I -- when I worked in Illinois, at that point
24 we -- we rolled several districts into a more
25 single-tariff pricing.

1 **Q. Do you know how many current districts**
2 **there are in Illinois?**

3 A. I do not.

4 **Q. Would it surprise you to know that**
5 **there's more than ten?**

6 A. Yes, it would surprise me.

7 **Q. And in each of those districts there are**
8 **different rates currently. Correct?**

9 A. I don't know the answer to that. I
10 haven't been there for five years so --

11 **Q. Okay.**

12 A. -- again, acquisitions can change that.

13 **Q. No further questions.**

14 JUDGE JONES: Other than Staff or OPC,
15 are there any other parties that need to do recross?
16 Okay. Let's go to OPC.

17 RE CROSS-EXAMINATION BY MR. POSTON:

18 **Q. You got a lot of questions from the**
19 **Bench, so I'm going to start with questions you**
20 **received from the Chairman. And if I understand your**
21 **testimony, the single tariff pricing enables the**
22 **Company to purchase systems that might not otherwise**
23 **want to sell?**

24 A. No. That's -- that's not the case. I
25 mean it would -- it would allow us to have additional

1 conversations, but -- but if a community doesn't want
2 to sell, then we're not going to be talking to them.

3 **Q. Didn't you testify to the effect that**
4 **explaining single-tariff pricing convinces them to**
5 **sell when they might not otherwise want to sell?**

6 A. It can be a factor to address some of the
7 concerns they may have.

8 **Q. And not all systems that you purchase are**
9 **struggling systems; is that correct?**

10 A. That's correct.

11 **Q. And single-tariff pricing is a way to**
12 **enable the growth strategy of American Water; is that**
13 **correct?**

14 A. It -- it can be a factor that can help
15 with that growth strategy, yes.

16 **Q. You also received questions about Arnold**
17 **and the -- the shortfall --**

18 A. Yes.

19 **Q. -- from -- I guess between the commitment**
20 **that the Company made and -- and I guess there's a**
21 **revenue shortfall there. And you were asked about**
22 **what to do with that and I wasn't sure about your**
23 **answers. What is your proposal -- what's the**
24 **Company's proposal to the Commission to do with that**
25 **shortfall?**

1 A. I think that there would be better
2 witnesses to answer that question about that
3 shortfall.

4 **Q. So you don't have any proposal for the**
5 **Commission?**

6 A. I don't personally at this time, no.

7 **Q. Do you think the -- it would be fair for**
8 **the shareholders to cover that or customers in other**
9 **systems?**

10 A. I think that there are many ways that you
11 can get there and that's more about rate design. And
12 I don't have the answers to that right now.

13 **Q. And which witness would be better to**
14 **answer that?**

15 A. That's a good question. Paul Herbert I
16 believe would be the right person to answer that.

17 **Q. And there was discussions about the**
18 **Platte County treatment plant. You discussed that**
19 **with Commissioner Kenney. And you stated that -- I**
20 **believe you testified that state -- plant will be**
21 **replaced in the near future --**

22 A. Yes.

23 **Q. -- is that correct?**

24 A. Uh-huh.

25 **Q. And then earlier you had testified about**

1 the cost to that system with Mr. Dority. And those
2 numbers that you had provided to Mr. Dority that are
3 now in the record, those are just estimates. Correct?

4 A. Yes. But they're usually relatively
5 close.

6 Q. But it won't be until after those plants
7 are really built that we'll really know how close
8 those estimates were to the true cost of those
9 plants --

10 A. That's true.

11 Q. -- is that correct?

12 So by the next rate case we should have a
13 better understanding of what those costs will be; is
14 that correct?

15 A. Absolutely, yes.

16 Q. And then in response to questions from
17 Commissioner Coleman, talking about helping people
18 understand the impacts of consolidation and -- did the
19 Company provide customers with any information on
20 impacts with consolidation?

21 A. Yes. At the public hearings that was
22 given out.

23 Q. Was there any information provided to
24 customers that did not attend the public hearings?

25 A. I'm unsure. I would have to verify that.

1 **Q. Okay. So you don't know if any**
2 **customers -- you don't know if it wasn't until they**
3 **showed up at the public hearing that they were first**
4 **told that here's a proposal to consolidate your rates?**

5 A. I don't believe that to be the case, but
6 I'm not sure of the mailings that -- that went out or
7 the timing of those mailings.

8 **Q. Well, one -- I guess one response you**
9 **gave to Commissioner Coleman was that it helps people**
10 **understand -- it's helpful to have them understand the**
11 **impacts, like the dollar impacts.**

12 A. Yes.

13 **Q. And would you agree with that?**

14 A. Yes.

15 **Q. And do you know if there was any dollar**
16 **impact information provided on the consolidation for**
17 **each district, what that dollar impact would be to a**
18 **particular customer to be consolidated with another**
19 **district?**

20 A. The -- the consolidation proposal with
21 the rates that were attached to that were included in
22 the papers that we handed out I know at the public
23 hearings.

24 **Q. Just the handouts. Okay. Thank you.**
25 **That's all.**

1 A. Uh-huh.

2 JUDGE JONES: Recross from Staff.

3 MR. THOMPSON: Thank you, Judge.

4 RECCROSS-EXAMINATION BY MR. THOMPSON:

5 Q. Ms. Norton, following up on the questions
6 from Chairman Hall --

7 A. Uh-huh.

8 Q. -- I'd like to have you provide those
9 confidential documents you indicated you would about
10 the termination of the employee who told staff about
11 the faulty meter issue.

12 A. Yes.

13 Q. Do you have any idea how long that would
14 take to provide those?

15 A. I should be able to have them very soon,
16 because the documents are -- I will share with you
17 what we prepared prior to our conversation.

18 Q. Thank you. And could you have them
19 provided to my attention?

20 A. Yes.

21 Q. Thank you.

22 MR. THOMPSON: And I would inquire of the
23 Commission how the Commission would like Staff to
24 report its findings after reviewing those documents?

25 THE WITNESS: Yes, please.

1 JUDGE JONES: It can be filed as a highly
2 confidential Commission exhibit.

3 MR. THOMPSON: The report or the
4 documents themselves?

5 JUDGE JONES: The documents. The report
6 is however you want to submit it. It's your report.
7 Right? It would be Staff's report?

8 MR. THOMPSON: That's correct.

9 JUDGE JONES: Tell us however you want to
10 tell us.

11 MR. THOMPSON: Very good, Judge. Thank
12 you. No further questions. Thank you.

13 THE WITNESS: Thank you.

14 JUDGE JONES: Okay. Redirect?

15 MR. COOPER: Yes, Your Honor.

16 REDIRECT EXAMINATION BY MR. COOPER:

17 **Q. You received some questions from**
18 **Mr. Bednar about water quality issues in the Platte**
19 **County district and there were several references to a**
20 **town hall meeting. Was that something that Missouri**
21 **American arranged?**

22 A. Yes. We worked with elected officials to
23 arrange that -- that meeting.

24 **Q. And that was separate and apart from this**
25 **rate case?**

1 A. Yes, it was.

2 Q. **Riverside Exhibit 3 is a document that**
3 **says Field Test Agreement. Do you remember that**
4 **document?**

5 A. Yes.

6 Q. **If you know, how many of those types of**
7 **agreements were executed?**

8 A. I'm sorry. I don't know the answer to
9 that. I -- I don't know.

10 Q. **While we were in-camera, you provided**
11 **some -- some numbers related to the Platte County**
12 **treatment plant project. And you may have done this a**
13 **little bit with Mr. Poston, but -- but again, are**
14 **those numbers -- how developed would you say those**
15 **numbers are?**

16 A. I would say that they're reasonably
17 developed. They're in our business plan, our capital
18 expenditure plan and so we typically have a good idea.
19 We have the expertise of building plants throughout
20 the United States and so our engineers know
21 approximately what it's going to cost to build a plant
22 the size of it.

23 Q. **But I think at one point you started to**
24 **answer perhaps that -- that maybe the design phase is**
25 **not quite complete; is that correct?**

1 A. That's right. We're currently working on
2 the design phase of the treatment facility.

3 **Q. And then in answer to one of the**
4 **cross-examination questions, you alluded to the fact**
5 **that even as significant as those dollars are, that in**
6 **relation to the overall spend or investment that the**
7 **Company has made in the past in capital investment,**
8 **that it's not that large.**

9 I guess going back to my opening
10 statement, I made a comment that since the last rate
11 case, the Company had invested nearly 500 million
12 dollars. Would you agree with that figure?

13 A. That's correct. Our annual spend is
14 typically between 100 and 150 million dollars a year.

15 **Q. You received some questions from Chairman**
16 **Hall in regard to acquisition premium. Do you**
17 **remember those?**

18 A. Yes.

19 **Q. And I think you were -- you were trying**
20 **to explain why recovery of acquisition premium might**
21 **not serve the same goal as single-tariff pricing; is**
22 **that right?**

23 A. That's correct.

24 **Q. Without single-tariff pricing, if there**
25 **were recovery of an acquisition premium, from who**

1 would you assume that that acquisition premium would
2 be recovered?

3 A. The ratepayers.

4 Q. Okay. And that would be potentially in
5 addition to any new necessary investment that might be
6 needed in --

7 A. That's correct.

8 Q. There were questions for you concerning
9 what's been called the faulty meter issue. As a part
10 of the revenue requirement stipulation that we
11 discussed yesterday, has the Company agreed to a
12 process to further investigate and detail and report
13 on that -- that situation?

14 A. Yes, we have.

15 Q. And that's an ongoing investigative
16 docket here before this Commission?

17 A. That's correct.

18 Q. And I guess there was discussion of the
19 timing. I think you explained that you had taken over
20 as president in November of 2015. Correct?

21 A. Yes.

22 Q. To your understanding, is that faulty
23 meter issue or what's referred to as the faulty meter
24 issue, is that largely a late 19-- or a late 2015
25 event?

1 A. Yes.

2 Q. Counsel for the City of Joplin was asking
3 you about recent increases in Joplin's rates. Do you
4 recall that?

5 A. I do.

6 Q. And I think the implication was that
7 Joplin had experienced a substantial increase over the
8 last few rate cases. To your knowledge, has there
9 been a -- is there a relatively new treatment plant
10 that has been put in place in Joplin?

11 A. There has been a lot of work done in
12 Joplin recently, a lot of capital investment.

13 Q. Okay. And would it be accurate to say
14 that that investment has already been paid for by the
15 Joplin customers?

16 A. That -- a portion of that investment has
17 been paid for. The depreciation of that plant -- that
18 plant's life is much longer than a few years. So only
19 a portion has been paid for so far.

20 Q. So if you know, what would be a normal
21 life to be used for depreciation on a treatment plant
22 like that?

23 A. I believe it's around 60 years.

24 MR. COOPER: Okay. That's all the
25 questions I have, Your Honor.

1 JUDGE JONES: Okay. You may step down.

2 THE WITNESS: Thank you.

3 JUDGE JONES: Well, we've been going for
4 about two hours now, but I want to go ahead and push
5 through to the next witness. So let's go with your
6 next witness.

7 MR. COOPER: Your Honor, I -- if you
8 could give us five minutes.

9 JUDGE JONES: Sure.

10 MR. COOPER: A walk down the hall would
11 be wonderful.

12 JUDGE JONES: Okay. We'll take a
13 five-minute break.

14 (A recess was taken.)

15 MR. COOPER: Missouri American would call
16 Mr. John Watkins. He needs to be sworn, I believe.

17 JUDGE JONES: Mr. Watkins, can you raise
18 your right hand.

19 (Witness affirmed.)

20 JUDGE JONES: Thank you.

21 JOHN WATKINS, testified as follows:

22 DIRECT EXAMINATION BY MR. COOPER:

23 **Q. Would you state your name, please?**

24 A. John Watkins.

25 **Q. By whom are you employed and in what**

1 **capaci ty?**

2 A. I'm employed by American Water Works
3 Service Company as director of rates and regulatory
4 support.

5 **Q. Have you prepared for purposes of this**
6 **proceeding certain Surrebuttal Testimony in question**
7 **and answer form?**

8 A. Yes.

9 **Q. And is it your understanding that that**
10 **testimony has been marked as Exhibit MAWC 39 for**
11 **identi fication?**

12 A. Yes.

13 **Q. Are you also adopting testimony today?**

14 A. Yes, I am.

15 **Q. And is that a portion of Exhibit MAWC 41,**
16 **the Rebuttal Testimony of Phil Wood?**

17 A. Correct.

18 **Q. And is the portion of that testimony you**
19 **are adopting page 3, line 8 through page 7, line 22,**
20 **demand side water efficiency?**

21 A. Yes, it is.

22 **Q. If I were to ask you the questions which**
23 **are contained in Exhibit 39 and then the portion of**
24 **MAWC 41 that you're adopting today, would your answers**
25 **be the same?**

1 A. Yes, they would.

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

4 A. Yes, they are.

5 MR. COOPER: Your Honor, at this time I
6 would offer into evidence Exhibit MAWC 39.

7 JUDGE JONES: Any objection to Exhibit 39
8 from Missouri American?

9 I don't see any. MAWC 39 is admitted
10 into the record.

11 (MAWC Exhibit 39 was received into
12 evidence.)

13 MR. COOPER: Thank you, Your Honor. I
14 would tender Mr. Watkins for cross-examination.

15 JUDGE JONES: Cross-examination from
16 Missouri Department of Energy?

17 MR. ANTAL: No questions. Thank you.

18 JUDGE JONES: MIEC?

19 MR. DOWNEY: No questions.

20 JUDGE JONES: City of Brunswick?

21 MR. DRAG: No questions, Your Honor.

22 JUDGE JONES: City of Joplin?

23 MS. BELL: No questions.

24 JUDGE JONES: City of Riverside?

25 MR. BEDNAR: No questions, Your Honor.

1 JUDGE JONES: Ci ty of St. Joseph?

2 MR. LAWYER: No questi ons.

3 JUDGE JONES: Ci ty of Warrensburg

4 MR. CURTIS: No questi ons.

5 JUDGE JONES: Publ ic Water Supply

6 Di strict?

7 MR. DORITY: No questi ons. Thank you.

8 StoneBri dge? Tri umph?

9 MR. HARDEN: No questi ons.

10 JUDGE JONES: The uni ons aren' t here.

11 Offi ce of Publ ic Counsel ?

12 MR. POSTON: No questi ons.

13 JUDGE JONES: And the Staff of the

14 Commi ssi on?

15 MR. THOMPSON: No questi ons. Thank you,

16 Judge.

17 JUDGE JONES: Any questi ons from the

18 Commi ssi on?

19 CHAI RMAN HALL: Yes. Thank you.

20 QUESTIONS BY CHAI RMAN HALL:

21 Q. **Good morni ng.**

22 A. Good morni ng.

23 Q. **What is your ti tle again, sir?**

24 A. I' m di rector of rates and regulat ory
25 support.

1 **Q. And your employer?**

2 A. American Water, the service company.

3 **Q. So are -- we -- we heard earlier this**
4 **morning that the service company has three employees;**
5 **is that correct?**

6 A. No, that's the parent company, American
7 Water Works.

8 **Q. The parent. I'm sorry. Okay. Are you**
9 **familiar with Staff's water utility rate design**
10 **analysis?**

11 A. I've reviewed it, yes.

12 **Q. I was reading through your Surrebuttal**
13 **Testimony and you -- on page 8, you provided four**
14 **options to -- to -- to address consumption and capital**
15 **investment issues?**

16 A. Yes, I do.

17 **Q. You did not address Staff's water utility**
18 **rate design analysis as one of those options and I was**
19 **wondering why?**

20 A. I think some of those are covered there.
21 I -- I -- these are the leading ones that are usually
22 offered in -- in -- against the revenue stabilization,
23 I guess. These are the leading four, I would say.

24 **Q. Well, look -- do you -- do you by chance**
25 **have a copy of that water utility rate design**

1 analysis?

2 A. Yes, I do.

3 Q. And there's essentially seven components
4 to it. I don't think we need to address the seventh
5 in that that is a -- that's a non-rate design issue.
6 It may be a -- may be related to rate design, but it's
7 not rate design in and of itself and that's the
8 corresponding downward adjustment in return on equity.
9 So issues one through six.

10 I was wondering if -- if you could spend
11 just a moment with me looking at the extent to which
12 that six-factor rate design approach would address the
13 dual concerns of capital infrastructure -- of capital
14 investment needs and declining consumption. Other
15 witnesses for the Company have looked at specific --
16 have looked at each of those specific factors, but
17 nobody looked at it from a holistic perspective and
18 that's what I was -- and that's what I'm hoping you
19 may be able to do.

20 A. Okay. I'm not positive I have the same
21 one because I don't have anything numbered one to six.

22 Q. Well, I'm looking at -- at the order
23 directing filing of Supplemental Testimony issued by
24 the Commission on February 3rd, 2016 and that lists --

25 A. Okay. I do have that one. I'm sorry.

1 Q. Okay. So give you a second to find your
2 place.

3 A. Okay.

4 Q. Let me just start with this: To what
5 extent does this six-factor rate design approach not
6 address the dual concerns of infrastructure needs and
7 declining consumption?

8 A. I think it depends on which variable you
9 want to look at. I mean we could walk through each
10 one individually.

11 Q. Well, that -- but that's exactly my
12 point. I'm -- I want to look at all six together as a
13 comprehensive rate design approach.

14 A. Okay.

15 Q. So what my -- I'll rephrase my question.
16 I'm trying to understand to what extent does this
17 six-factor approach to rate design address or not
18 address the dual concern set forth by the company of
19 significant infrastructure needs with declining
20 consumption?

21 And I'll -- I'll also -- to be fair to
22 you, sir, if it's -- if that is a question that you
23 believe is appropriate to defer to someone else or if
24 you believe that it would be appropriate to spend a
25 little time looking at that yourself and then coming

1 **back up to answer that question, I'm fine with either**
2 **of those two.**

3 A. No. I can answer it -- at least I'll try
4 to in part for you.

5 **Q. Thank you.**

6 A. The declining usage I'm not sure is truly
7 addressed. I mean an increase in customer charge
8 helps us with our fixed cost. So we're 91 percent
9 fixed cost, 77 percent of our revenues are related to
10 that fixed co-- recovery of it is variable produced.
11 So if we have a loss in consumption, it does impact
12 the company because most of our fixed costs are
13 collected through the variable charge. So increase in
14 the customer charge helps the company, but it doesn't
15 help stop declining usage.

16 **Q. Right. But if you put that in**
17 **conjunction with some type of modified future test**
18 **year for consumption, doesn't that address it?**

19 A. Depends on what we consider in that
20 modified future test year. So declining usage is a
21 year -- every year phenomenon. So if we set rates
22 today, next year it could be lowered because of
23 declining usage and the year after that and the year
24 after that and it still doesn't address the issue of
25 weather variability.

1 **Q. So it would depend on how accurate the**
2 **parties and ultimately the Commission are in setting**
3 **some kind of future test year?**

4 A. Correct. And to my knowledge, I don't
5 think any utility's ever accurately forecasted the
6 revenues year to year to year on the usage levels.

7 **Q. So -- okay. Continue.**

8 A. And that's one of the reasons we were
9 proposing the RSM. It works really well for
10 California and New York. I've been involved in many
11 of the New York cases and have seen the benefits of
12 revenue stabilization. It really does take away the
13 issue of the usage level.

14 So if the company predicts the rate level
15 with their declining usage, it's on us. If we
16 predicted too great of a decline, we're going to
17 refund that money back to the customers if they use
18 more water. So less the cost to reduce that. If
19 declining usage is ignored in that, then typically on
20 a -- a typical year, our revenues will come in below
21 what the levels were set at and we'll surcharge the
22 customer to be made whole again.

23 **Q. So do you have a general understanding as**
24 **to what has happened to consumption over the last five**
25 **to ten years for Missouri American per customer?**

1 A. Generally, yes.

2 Q. **And is that -- is that trendline -- well,**
3 **what is the trendline?**

4 A. It is declining.

5 Q. **Do you know a percentage?**

6 A. I believe Mr. Root (phonetic) said it was
7 approximately 2 percent, somewhere in that range.

8 Q. **And so if we had some type of future test**
9 **year that took that into account, you think that would**
10 **be insufficient?**

11 A. It might cover us for the first year, but
12 as soon as you're out of rates, that decline will
13 continue to impact the company.

14 Q. **Well, what if the -- and is there -- is**
15 **there really much of a difference between a -- a**
16 **modified future test year and a two-way tracker and**
17 **the -- the mechanism that you actually proposed in**
18 **this case, I mean functionally?**

19 A. The mechanism that we propose that's used
20 in New York and California, they both use future
21 years. California actually uses a three-year
22 forecasted year with the RAM, the winter revenue
23 adjustment mechanism. New York typically, if they
24 settle a case, ends up settling for a three-year
25 period so it's also a future look with an RSM.

1 **Q. So is it -- is it safe to say that**
2 **essentially what you're saying is -- is some type of**
3 **modified future test year for consumption would be an**
4 **improvement over the historic test year that -- that**
5 **we currently employ in -- in Missouri and it -- and it**
6 **would address some of the concerns that the Company**
7 **has? It's not as accurate or as sophisticated a model**
8 **as what -- what the Company originally proposed, which**
9 **was the rate stabilization mechanism? A step in the**
10 **right direction --**

11 A. Yes, it would be a step in the right
12 direction.

13 **Q. -- but not all the way?**
14 **So what is your view of inclining block**
15 **rates for residential customers?**

16 A. Inclining block rates can put the company
17 at great financial stress, because once we institute
18 those rates, customers will conserve. That's one of
19 the main reasons why California went to the RAM is
20 they went to inclining blocks. They have usage issues
21 out in California obviously. But they want to make
22 sure they don't harm the company by moving these
23 blocks higher and higher to force customers to
24 conserve.

25 **Q. But if you -- if you combined that with**

1 **some type of future test year with trackers, it might**
2 **solve that issue?**

3 A. It could, yes.

4 Q. **To what extent is it a concern that**
5 **you're -- actually let me -- let me rephrase that.**

6 **What is your concern about the fact that**
7 **23 percent of your revenue is from fixed cost, but**
8 **91 percent of your costs are fixed?**

9 A. So without even factoring usage day in
10 and day out, we have to predict that -- in the rate
11 case we'd have to predict the usage perfectly to make
12 sure we're recovering our fixed cost. If that usage
13 falls below the level of the usage allowed in the
14 case, we won't recover our fixed costs. So it is a
15 great concern, because 91 percent of our costs are
16 fixed. So the majority of our costs are fixed, but
17 yet our fixed revenue is very low compared to that.

18 Q. **But the issue is dollars coming in the**
19 **door. And it's -- I mean the dollars don't come in**
20 **with a -- with a -- some symbol that this is a fixed**
21 **cost, this is a variable cost. I mean it's -- the**
22 **dollars are coming in the door.**

23 **So the concern is that if you've -- if**
24 **too much of your money is -- is coming in based on**
25 **variable costs, that you're going to have less coming**

1 **in over time.**

2 A. Again, it depends on the amount of
3 revenues that are actually being used compared to what
4 was forecasted, yes.

5 **Q. And does a rate stabilization mechanism**
6 **100 percent, from your perspective, address that**
7 **concern?**

8 A. It does. Because it sets the level of
9 the rates in -- in the rate case, the Commission
10 authorized that level of rates and then the Company
11 will refund anything it collects over that level or
12 surcharge anything that's collected below that level.
13 So no matter what the rate level is allowed in the
14 rate case itself, it will collect.

15 **Q. Is it safe to say that the modified**
16 **future test year for consumption with -- with the**
17 **one-way tracker just described in the -- in the**
18 **Staff's report would be preferable to the status quo?**

19 A. I'd have to review the one-way tracker to
20 be able to answer that again in detail.

21 **Q. Well, essentially the one-way tracker**
22 **says that if -- if consumption goes above the future**
23 **test year forecast, then -- then the Company would**
24 **refund -- or would credit those amounts to customers;**
25 **whereas, if it went below, it would not.**

1 A. I guess the issue with the one-way
2 tracker, again, is the fixed cost recovery. So if
3 we're coming in below, we're not recovering our full
4 fixed cost if we don't hit that usage level that was
5 determined in the rate case.

6 **Q. I have nothing further. Thank you.**

7 JUDGE JONES: Commissioner Stoll?

8 COMMISSIONER STOLL: Yes.

9 QUESTIONS BY COMMISSIONER STOLL:

10 **Q. Very quickly, did you say California uses**
11 **an inclining --**

12 A. Yes, they do.

13 **Q. -- block rate?**

14 **How about in New York?**

15 A. In New York we have four systems. And
16 one -- one of the systems has a summer block rate. So
17 they're flat block in the winter and in the summer
18 they go to inclining blocks for the residential
19 customers. One of the districts is a flat rate year
20 round. The other two are -- they include residential,
21 commercial and industrial customers in the same so
22 their block technically goes up, but it starts to
23 trail off for the higher-use customers.

24 **Q. Okay. You know, it kinds of makes us**
25 **nervous here in the midwest when we see something**

1 **happening in New York and California, but have you**
2 **proposed this rate stabilization mechanism in other**
3 **states?**

4 A. Yes. We have it currently in Illinois
5 that it's been proposed.

6 **Q. It's been proposed there?**

7 A. It's been proposed in Illinois in their
8 current rate case, yes.

9 **Q. Okay. I think that's all for right now.**
10 **Thank you though.**

11 JUDGE JONES: Commissioner Kenney?

12 COMMISSIONER KENNEY: No.

13 JUDGE JONES: Commissioner Rupp?

14 COMMISSIONER RUPP: No.

15 JUDGE JONES: Commissioner Coleman?

16 COMMISSIONER COLEMAN: No questions.

17 JUDGE JONES: Any recross based on
18 Commissioner questions? I'm just going to go down the
19 list. Missouri Department of Energy? MIEC?
20 Brunswick? Joplin? Riverside? St. Joseph?
21 Warrensburg? Water Districts? StoneBridge? Triumph?
22 OPC?

23 MR. POSTON: Yes.

24 JUDGE JONES: Go ahead.

25 RECROSS-EXAMINATION BY MR. POSTON:

1 Q. Good morning.

2 A. Good morning.

3 Q. I think it's still morning.

4 You were testifying on the revenue
5 stabilization mechanism.

6 A. Yes.

7 Q. The Company's no longer requesting that
8 proposal; is that correct?

9 A. That is correct.

10 Q. And that's as a result of the revenue
11 stipulation; is that correct?

12 A. Correct.

13 Q. And if that -- is it your understanding
14 that if that agreement is not accepted in full, that
15 all of the issues in that agreement, those 40-plus
16 issues are also not resolved?

17 A. I believe that's correct.

18 Q. And you also testified on usage and the
19 claims that usage is declining; is that right?

20 A. Correct.

21 Q. Would you agree that other parties to
22 this case have challenged the Company's claims of
23 reduced usage?

24 A. I believe they have, yes.

25 Q. Thank you. That's all.

1 JUDGE JONES: Staff of the Commission?

2 MR. THOMPSON: No questions, Judge.

3 Mr. Poston asked all mine.

4 JUDGE JONES: Any redirect from the
5 Company?

6 MR. COOPER: Yes, Your Honor.

7 REDIRECT EXAMINATION BY MR. COOPER:

8 Q. To your knowledge, Mr. Watkins, would the
9 Staff's rate design report have been addressed in the
10 Company's Supplemental Direct Testimony?

11 A. I'm sorry. What was --

12 Q. Well, you were asked some questions about
13 the Staff's rate design report that was filed really
14 before this --

15 A. Yes. I believe there were a couple
16 witnesses that did address the six or seven topics
17 individually, yes.

18 Q. Okay. You were asked some questions
19 about what the significance is that the Company has a
20 high percentage of its costs that are fixed versus a
21 high percentage of its revenues that are associated
22 with variable revenues -- or variable pricing. Do you
23 remember that?

24 A. Yes.

25 Q. Would it be accurate to say that -- that

1 **that situation puts recovery of the fis-- fixed cost**
2 **at risk?**

3 A. Yes, it does.

4 **Q. Due to what types of factors?**

5 A. Due to weather and declining usage
6 mainly.

7 **Q. Things that the Company has no control**
8 **over?**

9 A. Correct. The Company has no control over
10 those.

11 **Q. Then there were some questions about a**
12 **one-way tracker that was referenced in the Staff**
13 **report. Do you remember that?**

14 A. Yes.

15 **Q. And I believe that in your testimony, you**
16 **indicated that that one-way tracker would work fine to**
17 **the benefit of the customer if -- if usage turned out**
18 **to be greater than what was expected in the rate case.**
19 **Correct?**

20 A. Correct.

21 **Q. But does it do anything in the situation**
22 **where usage is -- is less than what is expected at the**
23 **setting of rates?**

24 A. No, it does not.

25 **Q. So it would not address in any way this**

1 **sort of fixed variable conundrum?**

2 A. No, it wouldn't.

3 **Q. Okay. That's all the questions I have.**

4 JUDGE JONES: Okay. Mr. Watkins, you may
5 step down.

6 And Missouri American, you have one more
7 witness?

8 MR. COOPER: We do. We would call Mr. Ed
9 Haye -- Edward Haye.

10 JUDGE JONES: Good morning, sir. Can you
11 raise your right hand?

12 THE WITNESS: Good morning.

13 (Witness affirmed.)

14 JUDGE JONES: Thank you, sir.

15 You may proceed.

16 EDWARD HAYE, testified as follows:

17 DIRECT EXAMINATION BY MR. COOPER:

18 **Q. Please state your name.**

19 A. Edward Haye.

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

22 A. American Water Works Service Company,
23 vice president, chief regulatory counsel.

24 **Q. Have you caused to be prepared for the
25 purposes of this proceeding certain witness**

1 **qualification testimony in question and answer form?**

2 A. Yes, I have.

3 Q. **And is it your understanding that that's**
4 **been marked as Exhibit MAWC 47 for identification?**

5 A. Yes.

6 Q. **Are you also adopting testimony here**
7 **today?**

8 A. Yes, I am.

9 Q. **And would that testimony include Exhibit**
10 **MAWC 38, Direct Testimony of Gary VerDouw?**

11 A. Yes.

12 Q. **And would it include Exhibit MAWC 22,**
13 **Rebuttal Testimony of Don Petry?**

14 A. Yes.

15 Q. **And would it include Exhibit MAWC 23,**
16 **Surrebuttal Testimony of Don Petry?**

17 A. Yes.

18 Q. **And then are you also adopting in part a**
19 **portion of Exhibit MAWC 40, the Direct Testimony of**
20 **Phil Wood?**

21 A. Yes.

22 Q. **And would those portions that you're**
23 **adopting be pages 9, line 16 through page 13, line 23,**
24 **MAWC compensation and annual incentive program? Is**
25 **that one of the portions?**

1 A. Yes, it is.

2 Q. And then would the other portion be
3 page 17, line 11 through page 22, line 9, benefits of
4 business transformation project?

5 A. Yes.

6 Q. Okay. If I were to ask you the questions
7 which are contained in Exhibit 39 -- well, excuse me,
8 47, 38, 22, 23 and the portions of MAWC 40 that you're
9 adopting today, would your answers be the same?

10 A. Yes, they would.

11 Q. Would those answers be true and correct
12 to the best of your information, knowledge and belief?

13 A. Yes, they would.

14 MR. COOPER: Your Honor, at this time I
15 would offer Exhibits MAWC 47, MAWC 38, MAWC 22, and
16 MAWC 23.

17 JUDGE JONES: Any objection to Exhibit
18 47, 38, 22 or 23?

19 Seeing none, those exhibits are admitted
20 into the record.

21 (MAWC Exhibits 22, 23, 38 and 47 were
22 received into evidence.)

23 MR. COOPER: At this time we would tender
24 Mr. Hays for cross-examination.

25 JUDGE JONES: Cross-examination for

1 Missouri Department of Energy?

2 MR. ANTAL: No questions.

3 JUDGE JONES: MI EC?

4 MR. DOWNEY: No questions.

5 JUDGE JONES: Ci ty of Brunswi ck?

6 MR. DRAG: No questi ons.

7 JUDGE JONES: Ci ty of Jopl in?

8 MS. BELL: No questi ons.

9 JUDGE JONES: Ci ty of Ri versi de?

10 MR. BEDNAR: No questi ons, Your Honor.

11 JUDGE JONES: Ci ty of St. Joseph?

12 MR. LAWYER: No questi ons.

13 JUDGE JONES: Ci ty of Warrensburg?

14 MR. CURTIS: No questi ons, Your Honor.

15 JUDGE JONES: Water di stricts?

16 MR. DORITY: No questi ons.

17 JUDGE JONES: StoneBri dge? Tri umph?

18 MR. HARDEN: No questi ons.

19 JUDGE JONES: The Office of Publ ic

20 Counsel ?

21 MR. POSTON: No questi ons.

22 JUDGE JONES: Staff of the Commi ssi on?

23 MR. THOMPSON: No questi ons. Thank you,

24 Judge.

25 JUDGE JONES: Any questi ons from the

1 Chair?

2 CHAIRMAN HALL: Very briefly.

3 QUESTIONS BY CHAIRMAN HALL:

4 Q. Good morning.

5 A. Good morning.

6 Q. Ms. Norton indicated that you might be
7 able to answer a couple of questions that I have about
8 regulated business versus unregulated business with
9 the parent company.

10 A. Sure. Yes.

11 Q. And I think she said ball park about
12 10 percent of American Water's business is
13 unregulated, 90 percent of it is regulated. Is that
14 accurate?

15 A. That is accurate.

16 Q. Can you explain to me a little bit about
17 the 10 percent of unregulated business --

18 A. Sure.

19 Q. -- unregulated?

20 A. There are a few components of that
21 business. One is called our military services group.
22 They essentially provide water and wastewater services
23 to military bases throughout the United States much
24 like we do, but their customers are all military
25 bases.

1 Another segment is called contract
2 services. They provide water and wastewater services
3 to municipality and large industrial customers on a
4 contract basis. They don't own the assets. They
5 operate the assets for municipalities or large
6 industrials.

7 Another segment of that business is
8 called American Water Resources. We refer to it
9 internally as Homeowners Services. They provide
10 warranty services for service line protection programs
11 for warranties of customer-owned assets oftentimes
12 related to water and wastewater services.

13 **Q. Thank you.**

14 JUDGE JONES: Commissioner Stoll?

15 COMMISSIONER STOLL: No questions. Thank
16 you for your testimony.

17 JUDGE JONES: Commissioner Kenney?

18 COMMISSIONER KENNEY: No questions.
19 Thank you.

20 JUDGE JONES: Commissioner Rupp?

21 COMMISSIONER RUPP: No questions.

22 JUDGE JONES: Commissioner Coleman?

23 COMMISSIONER COLEMAN: No questions.

24 JUDGE JONES: Any recross based on
25 questions from the Chairman? Any redirect?

1 MR. COOPER: No, Your Honor.

2 JUDGE JONES: Okay. Mr. Hays, you may
3 step down.

4 THE WITNESS: Thank you.

5 JUDGE JONES: Okay. It looks like Office
6 of Public Counsel has a witness next. Mr. Marke; is
7 that correct?

8 MR. POSTON: Yeah. We'd call Dr. Geoff
9 Marke.

10 JUDGE JONES: Can you raise your right
11 hand, sir?

12 (Witness affirmed.)

13 JUDGE JONES: Thank you, sir. You may be
14 seated.

15 GEOFF MARKE, testified as follows:

16 DIRECT EXAMINATION BY MR. POSTON:

17 Q. Will you please state your name?

18 A. Dr. Geoff Marke.

19 Q. Can you please spell it for the court
20 reporter?

21 A. It's G-e-o-f-f and then Marke, M-a-r-k-e.

22 Q. Are you the same Dr. Marke that caused to
23 be prepared and filed Direct, Rebuttal on Revenue
24 Requirement, Rebuttal on Rate Design and Surrebuttal
25 Testimony that's been marked as OPC's Exhibit 9, 10,

1 **11 and 12?**

2 A. I am.

3 **Q. And do you have any changes or**
4 **corrections to that testimony?**

5 A. I don't.

6 **Q. If I were to ask you the questions that**
7 **appear in your testimony today, would your answers be**
8 **the same or substantially the same?**

9 A. They would.

10 MR. POSTON: Your Honor, I offer Exhibi ts
11 OPC 9, 10, 11 and 12 into the record and tender
12 Dr. Marke for cross-exami nation.

13 JUDGE JONES: Any objections to OPC's
14 Exhibi ts 9, 10, 11 and 12?

15 Hearing none, those exhibi ts are admitted
16 into the record.

17 (OPC Exhibi ts 9, 10, 11 and 12 were
18 received into evi dence.)

19 JUDGE JONES: And now we'll take cross
20 from Mi ssouri Department of Energy.

21 MR. ANTAL: No questions, Judge. Thank
22 you

23 JUDGE JONES: MI EC?

24 MR. DOWNEY: Yes, Judge.

25 CROSS-EXAMI NATION BY MR. DOWNEY:

1 Q. Good morning, Dr. Marke.

2 A. Good morning.

3 Q. At least for seven more minutes anyway.
4 Did you hear the opening statements of
5 counsel this morning?

6 A. I did.

7 Q. Did you hear Mr. Bednar on behalf of
8 Riverside?

9 A. I did.

10 Q. Did you hear him say that OPC had
11 sponsored testimony that 22 out of 25 states have
12 adopted single-issue pricing?

13 A. I did.

14 Q. Is that correct, that statement, that OPC
15 has that in its testimony?

16 A. I think it's -- it's a misleading
17 statement. OPC Witness Smith, Ralph Smith, included
18 testimony from an EP-- a 1990 EPA document that
19 included 22 -- it included a list of states that had
20 gone, to some degree, towards single-tariff
21 consolidated pricing.

22 I say it's misleading because the
23 document that Mr. Smith quotes or cites in that
24 document or in that testimony is from 1999. A
25 considerable amount of time has passed since 1999 and

1 the states there have -- have changed.

2 **Q. Okay. As you sit here today, how many of**
3 **those 25 states have single-issue pricing?**

4 A. It's a difficult question to answer. I
5 would say that -- I can say with confidence from an
6 investor-owned utility standpoint, that Pennsylvania
7 can be considered a single-tariff state under the
8 Missouri -- or the American Water -- Pennsylvania
9 American Water in that case.

10 Dr. McDermott included in his testimony a
11 2015 update where there was some shift. I think the
12 specific shift between the 1999 and the 2015 for his
13 document included Rhode Island and Missouri. So
14 whereas, Missouri was formally put down as a
15 single-tariff priced state, in Dr. McDermott's
16 testimony, it had moved to -- moving towards it would
17 be the way to characterize it.

18 We went ahead and looked at the states
19 that were listed in that EPA document to get a sense
20 of whether or not single-tariff pricing was a -- a
21 phenomenon that was taking place across the US. I
22 would I caution, first of all, that my testimony spoke
23 to the fact that -- I cited actually American Water on
24 this number, but 84 percent of all water systems right
25 now are municipal owned. Well over 90 percent of all

1 wastewater systems are municipal owned. So when we're
2 talking about single-tariff pricing, it can be very
3 misleading.

4 Iowa, for example, Iowa American Water
5 has -- operates in two cities. They have some form of
6 consolidated pricing in there, but overall it's a very
7 small segment of the overall Iowa citizen base. And
8 that's the only IOU in Iowa.

9 Illinois, Ms. Norton came up here and
10 spoke to, you know, her knowledge of the state about
11 five years ago. When I looked at Illinois -- the
12 Illinois American web page, you see well over
13 double-digit districts. There's many, many districts.

14 So when we refer to, you know -- the
15 devil's in the details. And I think I've heard that
16 echoed, you know, several times throughout this this
17 morning. I would concur with that. My cursory look
18 at the states did not suggest single-tariff pricing
19 was a prominent feature for many reasons that were
20 stated above.

21 **Q. Let me try this question a little**
22 **differently. For investor-owned utility operations,**
23 **water operations, do the majority of them have**
24 **single-issue pricing, single-tariff pricing?**

25 A. I limited my search to the states that

1 were listed in the EPA site as states that had
2 generally accepted single-tariff pricing. And my
3 review of it is no, the majority do not.

4 **Q. Okay. So certainly less than 22 out of**
5 **25?**

6 A. Yes.

7 **Q. And I'm trying not to -- to infringe on**
8 **your time under district consolidation, so I'll --**
9 **I'll stop my questions at that.**

10 JUDGE JONES: Any cross from the City of
11 Brunswi ck?

12 MR. DRAG: No, Your Honor.

13 JUDGE JONES: City of Jopl in?

14 MS. BELL: Yes, Your Honor.

15 CROSS-EXAMINATION BY MS. BELL:

16 **Q. I believe Mr. Downey just asked you some**
17 **questions about other states and you've looked at**
18 **those other states. American Water currently is**
19 **operating in 15 states, is that correct including,**
20 **Missouri?**

21 A. I think the exact number is 16.

22 **Q. 16?**

23 A. It's a little confusing. I would say 15,
24 16.

25 **Q. So in the 16 states that American Water**

1 **is operating, how many are under single-tariff**
2 **pricing?**

3 A. I mean I would say full single tariff --
4 and this is different than when we were talking about
5 moving towards consolidation. We might say moving
6 towards consolidation might be more in line with what
7 Staff is proposing in terms of zones, but actual
8 single-tariff pricing, I would limit that to just
9 Pennsylvania.

10 Q. One?

11 A. Right.

12 Q. Okay. And you had said you had reviewed
13 **Illinois's information?**

14 A. I had.

15 Q. I'm going to hand you what's been marked
16 **Joplin 2.**

17 Q. All right. So is this the information
18 **that you reviewed or have you seen this before?**

19 A. Yes, this is it.

20 Q. Okay. And this is the information of
21 **Illinois Notice of Proposed Change in Scheduled Rates**
22 **that's currently before the Illinois Commission?**

23 A. That's correct.

24 Q. And the second page, what do you see on
25 **the second page? Does that show separate districts,**

1 **14 to be exact?**

2 A. It does.

3 **Q. And so in your opinion, is this**
4 **single-tariff pricing?**

5 A. This would not appear to be single-tariff
6 pricing.

7 **Q. Okay. No further questions.**

8 MS. BELL: At this time I'd offer Joplin
9 2.

10 JUDGE JONES: Any objection to Joplin's
11 Exhibit 2?

12 I see none. Joplin's Exhibit 2 is
13 admitted into the record.

14 (Joplin Exhibit 2 was received into
15 evidence.)

16 JUDGE JONES: Any questions for
17 Riverside?

18 MR. BEDNAR: Yes, Your Honor.

19 CROSS-EXAMINATION BY MR. BEDNAR:

20 **Q. Dr. Marke, in reference to your**
21 **allegation that I was misleading, this is testimony**
22 **from Office of Public Counsel though? This was their**
23 **exhibit?**

24 A. That is correct.

25 **Q. Right. And it's actually highlighted**

1 State Commission policies and has the chart. Now, in
2 1999 -- so what you've highlighted is the fact that
3 it's somewhat misleading to talk about
4 district-specific policies at all because we really
5 don't have district-specific policy in the state of
6 Missouri, do we? Have we not consolidated districts
7 since 2000?

8 A. There has been consolidation, yes, sir.

9 Q. There has. From St. Charles into
10 St. Louis, Warrenton into St. Louis --

11 A. Uh-huh.

12 Q. -- correct?

13 So to say that Missouri is a
14 district-specific state would be somewhat misleading
15 too because we've taken it upon -- the parties have
16 taken it upon themselves to consolidate amongst
17 themselves as could be agreed upon over the last
18 16 years. Correct?

19 A. Correct.

20 Q. And also, the law of Missouri is that
21 rates or charges, as you pointed out -- or your
22 counsel pointed out in the PowerPoint, if rates or
23 charges or the acts or regulations of any such persons
24 or corporations are unjust, unreasonable, unjustly
25 discriminatory or unduly preferential or in any wise

1 **in violation of any provision of law, the Commission**
2 **shall determine and prescribe the just and reasonable**
3 **rates and charges thereafter be enforced for the**
4 **service to be furnished. Correct?**

5 A. I'm not an attorney, but I'll take your
6 word for it.

7 **Q. So you'll agree that there's a point when**
8 **rates become too unreasonable for a particular**
9 **district, that you've supported the consolidation of**
10 **districts in the -- the Office of Public Counsel has**
11 **supported consolidation of districts in the past.**
12 **Correct?**

13 A. Correct.

14 **Q. Do you have a number or index of what**
15 **your base number is for a reasonable rate and how high**
16 **that has to go before you support consolidation?**

17 A. I would be speaking for myself,
18 Mr. Bednar.

19 **Q. That's fine.**

20 A. You know, I think when we say an increase
21 in rates, I think we try to look at the totality of
22 it. And in that sense, what I mean is if we have a
23 district that is vastly under-paying their
24 cost-of-service, when we say like a 50 percent
25 increase, proportionately that might not have the same

1 sort of impact on, say, a city like Riverside that's
2 paying -- their total bill would be much greater. So
3 to give you a range, I would say that it's -- we look
4 at it on a case-by-case basis.

5 **Q. Is there any district in particular that**
6 **you focus on that you'd use as a basis for what the**
7 **base would be for average residential user per month**
8 **or average customer per month?**

9 A. I would say St. Louis Metro on average,
10 because they represent 81 percent of the overall
11 customer base.

12 **Q. And so what -- if that's the index, how**
13 **far do you have to go above that St. Louis rate before**
14 **you would support consolidation?**

15 A. When you say to support consolidation --

16 **Q. Does it have to be 20 percent greater**
17 **than the St. Louis residential rate, 30 percent,**
18 **50 percent, 100 percent? At what point do you believe**
19 **consolidation becomes just and reasonable?**

20 A. I mean, again, I think it depends on the
21 situation at hand. A 40 percent increase for a
22 district that's charging say 7 cents for a volumetric
23 charge at face value for us wouldn't be out of the
24 zone of reasonableness.

25 **Q. Have you -- has the Public Counsel**

1 **offered any regulatory scheme, rulemaking scheme that**
2 **would establish standards for consolidation?**

3 A. Have we proposed?

4 **Q. Yes.**

5 A. No, we have not.

6 **Q. No further questions.**

7 JUDGE JONES: City of St. Joseph?

8 MR. LAWYER: I have no questions.

9 JUDGE JONES: City of Warrensburg?

10 MR. CURTIS: No questions. Thank you.

11 JUDGE JONES: Public Water Supply
12 Districts? StoneBridge?

13 MR. DORITY: I'm going to save my
14 questions on district consolidation until we take up
15 that issue, Judge. Thank you.

16 JUDGE JONES: I appreciate that,
17 Mr. Dori ty.

18 Triumph? Staff of the Commission?

19 MR. THOMPSON: No questions. Thank you,
20 Judge.

21 JUDGE JONES: Missouri American Water
22 Company?

23 MR. COOPER: Yes, Your Honor.

24 CROSS-EXAMINATION BY MR. COOPER:

25 **Q. Dr. Marke -- and I think Mr. Bednar may**

1 have gotten to this a little bit, but the term
2 "single-tariff pricing and consolidated pricing" were
3 kind of being thrown around. Would you agree with me
4 that they're not necessarily the same thing?

5 A. I would agree with that.

6 Q. And so less than single-tariff pricing,
7 you could have some consolidation of different systems
8 into a single price. Correct?

9 A. Mr. Cooper, could you please repeat that
10 again? I'm sorry.

11 Q. Yeah. So short of -- well, tell me what
12 you would -- how you would define single-tariff
13 pricing.

14 A. A uniform rate across all the districts.

15 Q. Across all the districts in the state?

16 A. Correct.

17 Q. Okay. So -- but short of a uniform rate
18 across all districts within the state, you could
19 have --

20 A. Some form of consolidation.

21 Q. -- some form of consolidation. Correct?

22 A. Yes.

23 Q. Okay. And that consolidation might or
24 might not be apparent on the face of a company's
25 tariff. Correct?

1 A. I would agree with that.

2 **Q. So, for example, if you're familiar with**
3 **it, I think that the Company's current Jefferson City**
4 **wastewater district actually includes, what, maybe**
5 **50 individual wastewater systems within that. Right?**

6 A. Yes.

7 **Q. So that would be a form of consolidation**
8 **that already exists in the Company's tariffs?**

9 A. That's correct.

10 **Q. And it would be hard to just look at the**
11 **Company's tariffs and discern that. Correct?**

12 A. I mean I believe I would agree with you.
13 It would be tough to go ahead and -- and -- by reading
14 the tariffs knowing -- to know that Jefferson City has
15 50, say, separate systems within that, yes.

16 **Q. Yeah, that that rate is a form of**
17 **consolidated rate?**

18 A. Sure.

19 **Q. That's all the questions I have.**

20 JUDGE JONES: Any questions from the
21 commi ssi oners? Mr. Chair man?

22 CHAIRMAN HALL: No questions. Thank you.

23 COMMI SSI ONER STOLL: No questions. Thank
24 you.

25 JUDGE JONES: Redi rect?

1 REDIRECT EXAMINATION BY MR. POSTON:

2 **Q. Just one. You got the questions about**
3 **Public Counsel's positions on consolidation. And we**
4 **have entered into a stipulation that does move to some**
5 **consolidation; is that correct?**

6 A. That's correct.

7 **Q. And that's to be taken up I believe at**
8 **the next issue. Is that your understanding?**

9 A. That's my understanding.

10 **Q. All right. Thank you. That's all.**

11 JUDGE JONES: All right, Dr. Marke, you
12 may step down.

13 THE WITNESS: Thank you.

14 JUDGE JONES: Staff has a witness.

15 MR. THOMPSON: Staff calls Natelle
16 Dietrich.

17 (Witness affirmed.)

18 JUDGE JONES: Thank you. You may be
19 seated.

20 NATELLE DIETRICH, testified as follows:

21 DIRECT EXAMINATION BY MR. THOMPSON:

22 **Q. Please spell your name for the reporter.**

23 A. Natelle, N-a-t-e-l-l-e, Dietrich,
24 D-i-e-t-r-i-c-h.

25 **Q. How are you employed?**

1 A. I am the Staff director for the Public
2 Service Commission.

3 **Q. Now, you did not submit any testimony in**
4 **this case; isn't that correct?**

5 A. That's correct.

6 **Q. As Staff director, is it your function to**
7 **make the final decisions as to what Staff's positions**
8 **are in any case?**

9 A. That's correct.

10 MR. THOMPSON: May I approach, Your
11 Honor?

12 JUDGE JONES: Yes, you may.

13 BY MR. THOMPSON:

14 **Q. I show you what's been marked as Staff's**
15 **Exhibit 33. Do you recognize that?**

16 A. Yes. This is my credentials.

17 **Q. I'll give you a copy.**

18 MR. THOMPSON: I can provide copies to
19 the Commission later. I only had those two. And this
20 document was sent out to all of you a couple days ago.

21 BY MR. THOMPSON:

22 **Q. Does that accurately reflect your**
23 **training -- your experience and your training?**

24 A. Yes, it does.

25 MR. THOMPSON: At this time I would move

1 the to admission of Staff 33.

2 JUDGE JONES: Staff Exhibit 33. And
3 could you describe that for me again, Mr. Thompson?
4 I'm sorry.

5 MR. THOMPSON: That's Ms. Dietrich's
6 credentials that would normally be attached to her
7 testimony if she filed any.

8 JUDGE JONES: Any objections to Staff's
9 Exhibit 33?

10 Seeing none, Staff Exhibit 33 is admitted
11 into the record.

12 (Staff Exhibit 33 was received into
13 evidence.)

14 MR. THOMPSON: Thank you, Judge. I
15 tender the witness for cross-examination.

16 JUDGE JONES: Any cross-examination from
17 Department of Energy?

18 MR. ANTAL: No cross. Thank you.

19 JUDGE JONES: MIEC?

20 MR. DOWNEY: No cross.

21 JUDGE JONES: City of Brunswick?

22 MR. DRAG: No cross, Your Honor.

23 JUDGE JONES: City of Joplin?

24 MS. BELL: No questions.

25 JUDGE JONES: City of Riverside?

1 MR. BEDNAR: No questions, Your Honor.

2 JUDGE JONES: City of St. Joseph?

3 MR. LAWYER: No questions.

4 JUDGE JONES: City of Warrensburg?

5 MR. CURTIS: No questions, Your Honor.

6 JUDGE JONES: Public Water Supply

7 Di stricts?

8 MR. DORITY: No questions.

9 JUDGE JONES: StoneBridge? Triumph?

10 MR. HARDEN: No questions.

11 JUDGE JONES: OPC?

12 MR. POSTON: No questions.

13 JUDGE JONES: Missouri American Water

14 Company?

15 MR. COOPER: No questions.

16 JUDGE JONES: All right. Any questions

17 from the Commissioners?

18 CHAIRMAN HALL: Just a few.

19 QUESTIONS BY CHAIRMAN HALL:

20 Q. Good afternoon.

21 A. Good afternoon.

22 Q. **There is a significant amount of written**
23 **testimony in this case and then also some -- some**
24 **comments during openings of various parties that the**
25 **two most significant challenges facing Missouri**

1 **American are significant capital needs and declining**
2 **consumption. Would you -- would you agree that those**
3 **are significant challenges facing -- facing Missouri**
4 **American?**

5 A. I would agree that that has been
6 portrayed as that. I think Staff has a different
7 opinion as far as the declining consumption and
8 probably Mr. Busch could get into the details more.

9 **Q. So Staff does -- does not believe that**
10 **there is generally a trend going down to consumption?**

11 A. No. I would say that there's generally a
12 trend, but perhaps not --

13 **Q. Okay. Well --**

14 A. -- to the extent as Missouri American.

15 **Q. Okay. So assuming that there is a**
16 **general trend of declining consumption, is that a**
17 **significant challenge for Missouri American going**
18 **forward?**

19 A. Again, I would say it's a significant
20 challenge. I don't know specifically for Missouri
21 American. For -- for the water industry in general, I
22 would say it's a challenge.

23 **Q. And so would you -- do you think that**
24 **there are other challenges more significant for the**
25 **Company than declining consumption and the significant**

1 **capital needs?**

2 A. I think the aging infrastructure, which
3 would be the capital needs, is a significant --
4 probably the most significant issue for the Company.
5 And then along with that, declining consumption to the
6 extent that it's an issue also.

7 **Q. So would you -- are you aware of other**
8 **significant challenges facing the Company?**

9 A. Not that I can think of off the top of my
10 head.

11 **Q. So is it Staff's position that -- that**
12 **whatever resolution the Commission reaches in this**
13 **case, it should -- it should address these two --**
14 **these two challenges?**

15 A. That the Commission's resolution should
16 address those challenges?

17 **Q. Yes.**

18 A. Yes.

19 **Q. Obviously there's other concerns,**
20 **affordability -- for example, there are other**
21 **concerns, but -- but we need to take those two into**
22 **account for sure. Is that -- is that your testimony?**

23 A. That's correct. Along with ensuring just
24 and reasonable rates, safe and adequate service.

25 **Q. Okay. Thank you.**

1 COMMISSIONER STOLL: No questions, thank
2 you.

3 JUDGE JONES: Commissioner Coleman?

4 COMMISSIONER COLEMAN: No questions.

5 JUDGE JONES: Any recross based on the
6 Chairman's questions? Any redirect?

7 MR. POSTON: I will have recross. I'm
8 sorry.

9 JUDGE JONES: You have recross?

10 MR. POSTON: Yes.

11 RECCROSS-EXAMINATION BY MR. POSTON:

12 **Q. I can't read my own handwriting.**

13 **You were asked questions about the usage**
14 **and infrastructure challenges. Do you believe that**
15 **the revenue requirement stipulation we entered into**
16 **adequately addresses those challenges for this case?**

17 A. Yes.

18 **Q. Thank you. That's all.**

19 MR. JONES: I'm assuming there's no more
20 recross. Okay. Any redirect?

21 MR. THOMPSON: Mr. Poston addressed my
22 point. Thank you, Judge.

23 JUDGE JONES: All right. Ms. Dietrich,
24 you may step down.

25 Okay. Those are all the witnesses for

1 this first issue of regulatory policy. I realize it's
2 a quarter after noon, but we want -- there's a witness
3 we have to accommodate. So let's go ahead and move
4 right into the next issue of district consolidation,
5 we'll take opening statements, talk about the
6 stipulation, take one witness and then go to lunch.
7 How does that sound? Well, doesn't matter.

8 MR. COOPER: Judge, I need to get
9 Mr. England here for that issue before we move on.

10 JUDGE JONES: All right. Is he upstairs?
11 Down the street?

12 MR. COOPER: He's down the street. Do
13 you want to do it -- well, I can do that. It will
14 probably take a few minutes to get him here or we
15 could just plan to start at 1:00 p.m. I suppose too.

16 JUDGE JONES: Does he have to be here for
17 the opening and the discussion of the Stipulation and
18 Agreement?

19 MR. COOPER: Yes.

20 JUDGE JONES: Well, let's go ahead and
21 have him walk on down here. Or I'm sure he runs from
22 time to time.

23 MR. COOPER: I have run with him at the
24 Y. He's actually pretty good at it.

25 JUDGE JONES: Let's take a brief break

1 while we gather Mr. England.

2 (A recess was taken.)

3 JUDGE JONES: The issue we're on now is
4 district consolidation, consolidated pricing. Let's
5 take opening statements beginning with Missouri
6 American Water Company.

7 MR. ENGLAND: Your Honor, I'm going to
8 make a reference to a schedule that's contained in
9 Paul Herbert's Rebuttal Testimony and I thought I'd
10 just duplicate that schedule. It doesn't need to be
11 marked as an exhibit since it will be part of his
12 testimony offered later when he takes the witness
13 stand.

14 JUDGE JONES: You may proceed.

15 MR. ENGLAND: Thank you, Your Honor.
16 It's been a while since I've appeared before the
17 Commission, so I feel probably necessary to introduce
18 myself. My name is Trip England and I, along with my
19 younger and more energetic partner, represent Missouri
20 American Water Company.

21 I want to talk to you today about the
22 issue that's been identified as consolidated pricing.
23 I've handed out a schedule from one of our witness's
24 Rebuttal Testimony, Mr. Paul Herbert. And it shows
25 the proposed groupings that first the Company proposed

1 as part of its direct case and then the groupings of
2 various districts into larger water districts proposed
3 by the Staff. You'll see some handwritten numbers on
4 the schedule. Those are corrections that Mr. Herbert
5 will make when he gets on the witness stand later
6 today.

7 Consolidated pricing from the Company's
8 perspective is the establishment of the same rates for
9 the same service provided by the water company
10 regardless of the customer's location. As shown in
11 Staff's handout Monday, yesterday, Missouri American
12 Water Company provides water service to 19 different
13 water districts and 13 different sewer or wastewater
14 districts.

15 The Company's proposal in this case is to
16 consolidate those 19 water districts into three zones
17 and those 13 sewer districts into two zones. The
18 Staff, as I indicated earlier, is also proposing to
19 consolidate the water districts into three rate groups
20 or larger districts and the sewer districts into five
21 groups.

22 The different groupings or zones proposed
23 by the Company and Staff take different approaches.
24 First, the Company based its grouping on the existing
25 level of rates in the various districts and trying to

1 group those districts with the lowest rates in group
2 one or zone one, those with the highest existing rates
3 in zone three, and then, of course, zone two captures
4 the districts with rates in between those two
5 extremes.

6 The Staff, on the other hand, has
7 proposed, and not unreasonably, consolidation of the
8 various districts based on their geographic location
9 or proximity as well as the similar operating
10 characteristics of the various districts.

11 The Company has gone as far as to
12 indicate its acceptance of the Staff's grouping in its
13 Rebuttal Testimony so the Company is agnostic right
14 now whether you accept its proposed grouping of
15 districts or Staff's proposed grouping or
16 consolidation of districts.

17 What we do propose is a substantial or a
18 significant consolidation of the 19 water districts
19 and the 13 sewer districts. In that regard, and I've
20 only recently seen it, the Company is not in favor of
21 and cannot accept the limited consolidation that's
22 been proposed in the Non-unanimous Stipulation and
23 Agreement that was filed earlier today by a number of
24 parties. And of course, what it wants to avoid at all
25 costs is continuation of the status quo which is

1 primarily district-specific pricing for most of its
2 districts.

3 Consolidated pricing is a policy
4 decision. The question you need to ask yourself is
5 are we going to consolidate an average cost over a
6 larger geographic area and over a larger customer
7 base? Doing this will promote better rate stability,
8 it will mitigate rate increases or what's been termed
9 as rate shock when one district has to absorb a large
10 capital investment. It will promote universally
11 available water service at affordable rates and it
12 will promote the acquisition of small, troubled water
13 and wastewater systems.

14 District-specific pricing, as advocated
15 by some, will not achieve any of these goals. The
16 proponents of district-specific pricing trumpet the
17 virtue of cost-based pricing; that the cost causer
18 should be the cost payer. But setting rates on a
19 district-specific basis may be no more accurate than
20 setting rates on a consolidated basis as proposed by
21 the Company and Staff in this case.

22 First, consider that district-specific
23 costs already have achieved a level of consolidation.
24 For example, the customer who lives next to the water
25 treatment plant is going to be far less expensive to

1 serve than the customer who lives miles away from the
2 treatment plant who obviously incurs transmission
3 costs in getting the water there, as well as pumping
4 costs and perhaps storage costs depending on where
5 they're located in the district. District-specific
6 costs do not recognize these cost differentials
7 between customers within the district.

8 Second, consider that many of the
9 district's costs in this case represent an allocation
10 of common operation and maintenance expenses. As
11 Staff witness Busch explains, these cost allocations
12 are made based on informed judgment, but are more of
13 an art than a science. Thus, depending on how you
14 choose to allocate costs -- these common operating and
15 maintenance costs -- among districts, the resulting
16 district costs can vary widely.

17 When it comes right down to it, water is
18 a homogenous product, whether it's taken from surface
19 water supplies or pumped from wells in the ground.
20 It's treated to meet the same quality standards and
21 provided at the same or similar pressures. There is
22 no good reason why the price of this product should be
23 different depending on where the customer lives within
24 the various serving areas of this company.

25 By the way, the same rationale for

1 consolidating water districts would apply equally to
2 consolidating sewer districts.

3 You don't have to take my word for it
4 though. The Company has retained the services of two
5 expert witnesses in this case to tell you about
6 consolidated pricing and its virtues. The first is
7 Mr. Paul Herbert. He is with Gannett and Fleming rate
8 consultants and has prepared and submitted the only
9 class cost-of-service study for the Company in this
10 case. Mr. Herbert has been working and consulting in
11 the areas of rate design and cost-of-service for
12 nearly 40 years.

13 Second, Dr. Karl Meyer -- or excuse me,
14 Dr. Karl McDermott, who will appear here tomorrow, has
15 also been retained by the Company to provide a policy
16 perspective on the benefits of consolidated tariff
17 pricing. Dr. McDermott has a Ph.D. in economics and
18 has been working in the field of public utility
19 regulation for over 30 years. Notably, part of his
20 work experience includes work on the Illinois Commerce
21 Commission Staff and then later as a Commissioner with
22 the Illinois Commerce Commission. More recently, he
23 is a professor of public -- or excuse me, of
24 economics, including the regulation of public
25 utilities and has taught graduate and undergraduate

1 level courses, including regulatory economics at
2 Illinois State University.

3 One final comment or note about
4 consolidated pricing. And I'm quoting from the
5 testimony of Staff witness Busch who says, Now is the
6 perfect time to consolidate rates when no one district
7 is likely to experience rate shock.

8 You need look no further than the handout
9 you received yesterday to see that while water rates
10 or base rates are increasing by approximately
11 11 percent in this case, nearly 10 percent of that
12 increase has already been experienced by customers in
13 the St. Louis County district through the ISRS
14 surcharge. So the real net increase in base rate
15 revenues for the water district is about 1 percent.

16 We think that makes, as Staff witness
17 Busch would say, a perfect time for the Commission to
18 realign the rates of the various districts in this
19 state and move to meaningful consolidation of those
20 rates and districts. Thank you.

21 JUDGE JONES: Thank you. Mr. Chairman
22 might have a couple --

23 CHAIRMAN HALL: Excuse me, Mr. England.
24 Just a couple of questions. You -- you -- you
25 mentioned that the issue before us on district

1 consolidation is a policy issue, and I agree. I'm
2 wondering though, are there any legal standards or is
3 there any case law out there that would give us any
4 guidance in this policy decision?

5 MR. ENGLAND: Yes, but you put me on the
6 spot, Chairman Hall. I'm not sure any of the parties
7 are arguing that you can't do some level of
8 consolidation or cost averaging. As I mentioned, we
9 already do it at the district level. I believe
10 there's some in the -- what has been called district
11 eight where the small water systems have been
12 partially consolidated.

13 From a legal perspective -- and I can't
14 recall the case name, but it had to -- it dealt with I
15 believe pricing of gas service in and around the Cape
16 Girardeau area. And the city was either arguing for
17 or against rates -- rate differential between inside
18 the city limits and outside the city limits. And I'm
19 coming at this at a very high level because the case
20 is 40 years old, I believe. And my memory these days
21 is not that good.

22 But I do recall that the Court of Appeals
23 in that case, it may have even been the Supreme Court,
24 said that averaging of rates was appropriate, that the
25 Commission was not constrained to set rates within the

1 city limits based on the costs within the city limits
2 and different rates outside the city limits based on
3 those costs.

4 CHAIRMAN HALL: So in other words, do you
5 believe that of the -- of the proposals on the table,
6 Staff's, the Company's, OPC's -- OPC, dash, MIEC and
7 the cities, that the Commission pretty much has
8 discretion to choose from any of them from a legal
9 perspective?

10 MR. ENGLAND: From the ones I've seen so
11 far, yes, sir.

12 CHAIRMAN HALL: Thank you.

13 JUDGE JONES: Okay. Opening -- I believe
14 that's all, Mr. England. Thank you.

15 MR. ENGLAND: Thank you.

16 JUDGE JONES: Opening statements from the
17 Staff of the Public Service Commission.

18 MS. MYERS: May it please the Commission.
19 I am Jamie Myers with Staff counsel and I'll be
20 introducing Staff's district consolidation and
21 consolidated pricing proposals.

22 I would first like to start off by noting
23 that Staff consisting abides by cost-of-service
24 rate-making principles, including the concept that
25 cost should be assigned to cost causers. Yet Staff is

1 cognizant of the reality of rate -- that rate-making
2 does not occur in a vacuum.

3 Staff is sensitive to the important
4 public policy issues implicated here, among which
5 include the need for all Missouri residents to have
6 access to safe and adequate drinking water; the desire
7 to minimize, to the extent possible, rate shock to
8 Missouri residents; and the unfortunate reality that
9 there are many struggling water and sewer companies in
10 Missouri .

11 Staff is here to provide the Commission
12 with a district consolidation proposal that strikes
13 the appropriate balance between cost-of-service
14 rate-making and public policy concerns.

15 Staff's three-district water proposal is
16 a hybrid steam -- or a hybrid scheme. Staff does not
17 at this time support full consolidation of all
18 districts into one, which would result in
19 single-tariff pricing, nor does Staff support a strict
20 application of district-specific pricing.

21 Staff supports combining Missouri
22 American Water Company's water districts into three
23 hybrid districts. Staff consolidated the many service
24 areas of Missouri American Water Company into three
25 districts, combining service areas with similar

1 operating characteristics and geographic locations.

2 Staff's proposed water district one is
3 comprised of St. Louis Metro, which is St. Louis
4 County, Warren County and St. Charles, Mexico,
5 Jefferson City, Anna Meadows, Redfield and Lake
6 Carmel.

7 Staff's proposed water district two is
8 comprised of St. Joseph, Platte County and Brunswick.

9 And finally, Staff's proposed water
10 district three is comprised of Joplin, StoneBridge,
11 Warrensburg, Whitebranch, Lake Taneycomo, Lakewood
12 Manor, Rankin Acres, Spring Valley, Tri-States,
13 Emerald Pointe, Maple Wood and Riverside Estates.

14 Thankfully, Mr. England passed out a
15 handout of which page 2 you can graphically see what
16 Staff's grouping would be. Staff has allocated costs
17 to each respective district. Staff is proposing that
18 the fixed charge and the commodity charge will be
19 uniform within each district for each class.

20 For sewer districts, Staff proposes a
21 five-district plan based simply on geographic
22 location. District one would be Arnold. Sewer
23 district two is Platte County. Sewer district three
24 is Cedar Hills, Warren County, Anna Meadows and
25 Meramec. Sewer district 4 is Jefferson City, Maple

1 Wood and Ozark Meadows. Sewer district five is
2 StoneBridge, Saddlebrooke and Emerald Pointe. Staff
3 is proposing at this time that sewer rates remain at
4 their current levels.

5 Staff witness James A. Busch is here to
6 provide any answers you may have about Staff's
7 consolidation proposal. Mr. Busch has written Direct,
8 Rebuttal and Surrebuttal Testimonies concerning
9 consolidation. Mr. Busch is also sponsoring Staff's
10 report on class cost-of-service and rate design.

11 And I'd also like to bring attention to
12 the Commission in regards to Chairman Hall's question
13 about the legal standards here. Staff had a case, it
14 was SW-2011-0103 that dealt with the legal issues of
15 consolidation. So thank you.

16 CHAIRMAN HALL: What was that citation
17 again?

18 MS. MYERS: It's SW-2011-0103.

19 JUDGE JONES: Questions?

20 CHAIRMAN HALL: Do you agree with
21 Mr. England though that at the end of the day, the
22 Commission has a policy decision to make? It has
23 discretion concerning the various consolidation
24 proposals that are at issue here?

25 MS. MYERS: We do.

1 CHAIRMAN HALL: Okay. Thank you.

2 JUDGE JONES: Thank you.

3 Office of the Public Counsel?

4 MR. POSTON: May it please the

5 Commission. When we consider the issue of district
6 consolidation, we're really considering another aspect
7 of rate design. There's no physical connection being
8 made when two separate water systems consolidate.

9 It's a fictional consolidation for rate-making
10 purposes. The water source, treatment plants, pump
11 stations, storage tanks and the pipes, they all stay
12 separate. It's really just a change in how -- how
13 cost responsibility is shared and allocated.

14 Consolidation establishes a regulatory
15 policy of subsidizing high-cost water systems by other
16 separate and distinct water systems. It requires
17 those served by average- to low-cost systems to pay
18 costs incurred by high-cost systems.

19 We have two witnesses submit testimony on
20 this issue; our in-house economist, Dr. Geoff Marke
21 and our outside consultant, Mr. Ralph Smith of Larkin
22 Associates. Dr. Marke lays out a number of well
23 researched and explained reasons why consolidating as
24 proposed in this case is not in the public interest.

25 And the first reason to reject the

1 consolidation proposed by the Company and the Staff is
2 that it distorts price signals. And by that I mean
3 when you consolidate, you're making it easier for the
4 Company to further invest in high-cost areas that may
5 not even need investment. It masks the investment by
6 spreading it out over more customers, thus, giving the
7 Company an incentive to make needless investments in
8 systems that are already high-cost systems. This --
9 the result is higher costs for everyone.

10 If you maintain the price signal by using
11 district-specific pricing, however, it focuses --
12 forces the Company to be more thoughtful when it
13 invests in its systems. District-specific pricing
14 helps reduce over-investment in infrastructure.

15 Likewise, consolidation also distorts the
16 price signal for the customers. A customer in a
17 high-cost water service that's being subsidized by
18 customers of another water system will have more of an
19 incentive to use more water due to that subsidy.

20 Consolidated pricing violates well
21 established principles of cost causation and does not
22 resolve in cost-based rates. As you heard repeatedly
23 in the public hearings, the majority of the Company's
24 customers want to pay cost-based rates and with a few
25 exceptions, are consistently opposed to paying costs

1 for someone else's water systems.

2 When deciding this issue, you'll need to
3 ask yourself if it's better for thousands of
4 low-income customers in St. Louis, St. Joe or Joplin
5 to pay costs incurred by separate water systems that
6 cannot and will not ever provide them with a single
7 drop of water.

8 Another point Dr. Marke makes is that
9 water service is local. It's not -- it's locally
10 extracted, either from surface water or wells. It's
11 locally treated and it's locally delivered. This is
12 very different than electric and gas utilities where
13 the product can be delivered across the state.
14 Consolidation ignores the fact that water systems
15 hundreds of miles apart do not share plant.

16 Consolidating separate water systems
17 raises the public policy arguments I identified
18 earlier today in my regulatory policy opening
19 statements; namely, those created by Sections 393.130
20 and 393.140 of the Missouri statutes.

21 The rates and regulations of Missouri
22 American cannot provide an undue or unreasonable
23 preference or prejudice, advantage or disadvantage.
24 Consolidating districts will create advantages and
25 disadvantages -- disadvantages, depending on the

1 locale of the water system.

2 That alone, however, doesn't mean
3 consolidating isn't lawful -- to go to the Chairman's
4 question -- since the statute qualifies those
5 prohibitions to those that are undue or unreasonable,
6 suggesting that consolidation is legal, so long as the
7 record supports the Commission conclusion that such
8 consolidation is not undue or unreasonable.

9 To the extent the Commission concludes
10 that it's good public policy to further consolidate
11 Missouri American Water's districts, we ask that you
12 follow the consolidation proposal that we filed with
13 Joplin, St. Joe, Brunswick and MIEC, which was not
14 opposed by the Public Water Districts and the City of
15 Warrensburg.

16 We believe the agreement addresses the
17 needs of every party in this case. It would allow a
18 number of smaller districts to be consolidated with
19 larger districts, while at the same time maintaining
20 the district-specific pricing being advocated by most
21 of the municipal parties in this case.

22 Also, if you consolidate districts in
23 this case as proposed by the Staff, we strongly urge
24 you not to also raise the customer charge. And to
25 instead, reduce the customer charges and help mitigate

1 the rate shock that could occur from the cost shifts
2 and rate increases caused by consolidation alone.
3 Please don't multiply the harmful impacts on customers
4 by hitting them a second time through a higher
5 customer charge.

6 Instead, please order the rates proposed
7 in the Staff's Direct Testimony, which range between
8 9 and 11 dollars depending on the district, or the
9 zone as Staff has characterized it. These rates are
10 consistent with other customer charges in Missouri;
11 namely, those provided by the two largest electric
12 companies in Missouri, Ameren and KCPL, which charge
13 an 8 dollar and \$11.88 customer charge respectively.

14 Missouri American Water seeks a \$17.40
15 customer charge in this case, which is much higher
16 than the rate American Water charges in almost every
17 other state where it provides service. Throughout
18 this case you've heard the Company's witnesses compare
19 Missouri American to electric industry and if they
20 believe such similarities exist, a similar customer
21 charge is also warranted.

22 In conclusion, while we continue to
23 support district-specific pricing, we recognize that
24 the Commission may be interested in consolidating.
25 If that assessment is correct, we urge you to approve

1 our Non-unanimous Stipulation and Agreement and
2 resolve three issues at once; customer charge,
3 district consolidation and sewer revenue requirement.
4 If socialized rate-making is to be the policy of the
5 state to help distressed water and sewer systems, that
6 policy should come from the General Assembly. And
7 hopefully that policy will to share costs statewide,
8 not just by a few distant municipalities. Thank you.

9 JUDGE JONES: Thank you.

10 Mr. Chairman?

11 CHAIRMAN HALL: A couple questions. I
12 understand that OPC does not like either the Company's
13 or Staff's consolidation proposals. Do you have a
14 thought as to which one you dislike more?

15 MR. POSTON: We -- we would by far prefer
16 the Staff's proposal over the Company's proposal.

17 CHAIRMAN HALL: And why is that?

18 MR. POSTON: Well, I think Mr. Marke
19 would probably be the -- or Dr. Marke, sorry, would
20 probably be the best to answer that for you.

21 CHAIRMAN HALL: That's fine. Thank you.

22 JUDGE JONES: Okay. Thank you.

23 Missouri Division of Energy.

24 MR. ANTAL: Good afternoon. May it
25 please the Commission. My name is Alex Antal and I'm

1 here today appearing on behalf of the Missouri
2 Division of Energy. I will save some of my remarks
3 regarding the Division of Energy's interest in this
4 case for my opening in the rate design and customer
5 charge opening; however, I did want to make some brief
6 comments that are related to the consolidation issue
7 in this case.

8 The Division of Energy's witness,
9 Mr. Hyman recommended in his Rebuttal Rate Design
10 Testimony that the Commission requests it consider a
11 comparison of bill impacts between the various
12 parties' district consolidation proposals under a
13 common revenue requirement and billing unit
14 assumptions. Revenue requirement is a key factor
15 affecting the level at which rates are set and in
16 determining the impacts of district consolidation.

17 Now, the Division of Energy renews that
18 recommendation here today. The Division of Energy has
19 had the opportunity to review both Company's
20 consolidation proposals under their filed revenue
21 requirements. However, those revenue requirements, as
22 you know, are significantly different in dollar
23 amounts.

24 Now, the Commission has before it a
25 Non-unanimous Stipulation and Agreement as to a

1 agreed-upon revenue requirement between the parties
2 that has not been approved at this time; however, it
3 does provide a basis for a common revenue requirement
4 to -- for the parties who are proposing consolidation
5 to conduct a bill impact analysis.

6 Now, why is it important to do a bill
7 impact analysis? The purpose of a bill impact
8 analysis is to determine the changes to customer bills
9 as the result of changes in rates, which such an
10 analysis is often based on the average customer.
11 However, it should also take into account customers
12 who use more or less amounts of a given commodity to
13 determine equity and efficiency impacts.

14 We believe that it would be prudent and
15 reasonable for the parties that are proposing
16 consolidation in this case to perform a bill impact
17 analysis and provide that to the Commission so we can
18 do an apples-to-apples comparison under a common
19 revenue requirement. So that's the extent of my
20 prepared remarks. If there are any questions --

21 CHAIRMAN HALL: You're suggesting that
22 the parties submit a bill impact analysis based upon
23 their -- their consolidation position and their rate
24 design position. Correct?

25 MR. ANTAL: Yes. With a common revenue

1 requirement.

2 CHAIRMAN HALL: With a common revenue
3 requirement. I agree. I like that idea.

4 MR. ANTAL: Thank you.

5 CHAIRMAN HALL: Is that something, Judge,
6 that you can specifically request?

7 JUDGE JONES: Sure. The parties are
8 ordered to file a bill impact statement. Is that what
9 it was?

10 MR. ANTAL: A bill impact analysis.

11 JUDGE JONES: And you want Staff and OPC
12 to do that?

13 MR. ANTAL: As well as the Company. I
14 think those are all the three different consolidation
15 proposals. Those parties may have, you know, comments
16 as to the reasonableness and tim-- you know, the
17 amount of time they may need for such an analysis.

18 CHAIRMAN HALL: Yeah, I don't think we
19 need it by, you know, 1:30 or anything. But I --

20 JUDGE JONES: We'll talk about the timing
21 of filing that off the record.

22 CHAIRMAN HALL: Thank you.

23 MR. ENGLAND: Your Honor, excuse me.
24 This is Mr. England back in the back row here. We can
25 have an analysis for you by 1:30 on the various

1 proposals. I'm tempted to offer that the other
2 parties who want to make their own billing analysis
3 make their own sandwich, but we have various scenarios
4 that we think address what Mr. Antal's requesting.

5 JUDGE JONES: Okay. Thank you,
6 Mr. England. Any more questions? You may sit down,
7 Mr. Antal.

8 MR. ANTAL: Thank you.

9 JUDGE JONES: Missouri Industrial Energy
10 Consumers?

11 MR. DOWNEY: Somebody know how to turn
12 the computer on?

13 JUDGE JONES: I know what I have to do up
14 here. I don't know what you need to do over there.
15 Let's see if this works.

16 MR. DOWNEY: I anticipated this might
17 happen so I brought copies. Hopefully enough for
18 everybody. Should I wait for Commissioner Stoll?

19 JUDGE JONES: He'll be right back. Thank
20 you. I think if you'll come over to the witness stand
21 and move the mouse, it may give you a screen.

22 MR. DOWNEY: I thought the mouse was up
23 there.

24 JUDGE JONES: I don't know.

25 MR. FISCHER: It may just be the switch

1 is off on the --

2 JUDGE JONES: Try to turn the power on.

3 MR. DOWNEY: All right.

4 MR. POSTON: He had some problems earlier
5 with that powering down.

6 MR. DOWNEY: You have to turn the power
7 on here.

8 COMMISSIONER STOLL: Sorry.

9 MR. DOWNEY: All right. Good afternoon.
10 May it please the Commission. My name is Ed Downey.
11 I represent industrial consumers in the St. Louis
12 Metro district. In representing them, I'm also here
13 tangentially representing residential consumers in
14 that district as well.

15 The MIEC opposes consolidated pricing.
16 Our witness, our sole witness on this issue is Brian
17 Collins. He's a technical expert with Brubaker and
18 Associates. Unfortunately, he had scheduled a
19 vacation this week before we got the hearing schedule
20 in this case. He's out of town. He is not available
21 today. I've summoned him back to Missouri to testify
22 tomorrow afternoon on this issue. And I certainly
23 hope you will have questions for him since he's going
24 to be traveling and breaking up his vacation.

25 As shown in the Direct Testimony of Brian

1 Collins at page 3, the industrial class of the
2 St. Louis district would see over four times the
3 increase under consolidated pricing. That's over and
4 above what it would see under the current breakdown of
5 districts. Residential and other customers in the
6 St. Louis Metro district would also see
7 disproportionate increases as well.

8 Consolidated pricing places convenience
9 of the Company over fairness and avoidance of
10 discrimination. Consolidated pricing also ignores the
11 differences in costs of providing service. It's
12 inconsistent with traditional cost-of-service
13 principles. It results in subsidies to customers in
14 high-cost districts at great -- great cost to
15 customers in low-cost districts.

16 Consolidated pricing is unfair.
17 Consolidating price -- consolidated pricing can erode
18 the efficiency of the water system by sending the
19 wrong price signals. You've already heard some of
20 those comments from OPC. Consolidated pricing causes
21 decision makers to focus on who gets and who gives the
22 subsidies and that can change over time, causing
23 parties to ever change their positions.

24 As an example of that, you need look no
25 further than Riverside. Riverside in this case thinks

1 consolidated pricing is wonderful. Yet in
2 WR-2000-281, it argued that consolidated pricing was
3 both illegal discrimination and unreasonable. And in
4 its brief, which I have a copy of and I'm going to ask
5 the Commission to take official notice of it, the
6 brief it filed in that case, it cited State ex rel.
7 Kansas City versus Public Service Commission, a very
8 old yet still valid Missouri Supreme Court en banc
9 decision.

10 In that decision, the Court said, Neither
11 convenience, expediency or necessity are proper
12 matters for consideration in the determination of
13 whether or not an act of the Commission is authorized
14 by the statute.

15 What I've heard a lot of today is it's --
16 it's expedient to consolidate districts for pricing
17 purposes.

18 Riverside also cited Section 393.130.1
19 and .3, which I believe Mr. Poston made reference to
20 in his opening statement. Subsection 1 provides, All
21 charges made or demanded by any water corporation for
22 water service rendered or to be rendered shall be just
23 and reasonable. Every unjust or unreasonable charge
24 made or demanded for water service or connection
25 therewith is prohibited.

1 Subsection 3 provides, No water
2 corporation shall make or grant any -- and the
3 important word is undue or unreasonable preference or
4 advantage to any person, corporation or locality or to
5 any particular description of service in any respect
6 whatsoever or subject any particular person,
7 corporation or locality or any particular description
8 of service to any undue or unreasonable prejudice or
9 disadvantage in any respect whatsoever.

10 I also refer you to Bonbright's treatise,
11 Principles of Public Utility Rates at pages 338 and
12 384. And I'm going to ask the Commission to take
13 official notice of that as well. Static efficiency of
14 the rate classes and rate blocks is discouraging
15 wasteful use of service. That's attributes of proper
16 utility rates. Reflection of all the present and
17 future private and social costs and benefits
18 occasioned by a services provision; in other words,
19 all internalities and externalities.

20 He also touts fairness of the specific
21 rates in the apportionment of total cost of service
22 among the different ratepayers so as to avoid
23 arbitrariness and capriciousness and to attain equity
24 in three dimensions: Horizontal, equals treated
25 equally; vertical, unequals treated unequally; and

1 anonymous, i.e., no ratepayers' demands can be
2 diverted away uneconomically from an incumbent by a
3 potential entrant.

4 He also touts avoidance of undue
5 discrimination in rate relationships so as to be, if
6 possible, compensatory, i.e., subsidy free with no
7 inter-customer burdens.

8 He also notes dynamic efficiency in
9 promoting innovation and responding economically to
10 changing demand and supply patterns is an important
11 consideration.

12 Here, as Mr. Collins observes on page 4
13 of his direct, there is no common or economic cost
14 structure across the many company districts throughout
15 this state. Specifically, many of the districts are
16 not interconnected to the same or group of same water
17 treatment plants. A water treatment plant in Joplin
18 or St. Joseph, for example, cannot provide treated
19 water to the St. Louis Metro district.

20 And on page 5, Collins observes,
21 Consolidated pricing is inconsistent with traditional
22 cost-of-service principles and ignores the concept of
23 cost causation. In essence, consolidated pricing
24 results in price subsidies to consumers in high-cost
25 districts at great cost to customers in low-cost

1 di stricts.

2 And you see that here. The consumer
3 groups that are represented if they are in the
4 high-cost di stricts, they want consolidation. If
5 they're in the low-cost di stricts, they're fighting
6 it.

7 He also -- Mr. Collins also notes on
8 page 6, there's a transparency element here. If rates
9 were to be consolidated, there would be no reason to
10 maintain separate books and records for each operating
11 di strict. This could inhibit management from
12 effectively managing each of the di stricts because
13 di strict-specific costs will not be maintained or
14 managed. Due to the loss of transparent operating and
15 financial data for each operating di strict, it would
16 be very difficult to evaluate the efficiency and
17 effectiveness of each operating unit or each operating
18 di strict.

19 Indeed, as the MIEC understands the facts
20 of this case, part of the reason Staff and the Company
21 seek to consolidate di stricts now is that the cost
22 impact to be subsidizing -- to the subsidizing
23 di stricts now is not as great as it will likely be in
24 the next few rate cases. And I think you heard during
25 the opening statement of Staff that that is the

1 testimony of Mr. Busch.

2 But the subsidizing ratepayer should know
3 what the true impact of consolidated pricing to them
4 will be. Not just for now, but in the future.

5 Transparency requires that. The better forum for
6 considering consolidated pricing is in the next couple
7 of rate cases when the cost of large plant
8 improvements are under consideration. That's when
9 you'll know who's going to be paying what.

10 The MIEC notes that Dr. Marke expressed
11 the same concerns to consolidated pricing voiced by
12 Collins. In addition, Dr. Marke observes that the
13 consolidated pricing approach is a solution in search
14 of a problem. And that you can find on his
15 Surrebuttal at page 10.

16 He notes that one of the offered reasons
17 for consolidated pricing is that it will encourage
18 Missouri American to acquire more problem water and
19 sewer systems. However, as he notes, Missouri
20 American is already acquiring those systems while
21 under district-specific pricing.

22 Dr. Marke also notes that the Missouri
23 American residential customers did not share a similar
24 income level. As shown on page 17 of Marke direct,
25 Platte County has one of the highest median income

1 levels and lowest poverty rates while the average of
2 St. Louis Metro is worse in each metric and Joplin and
3 St. Joseph are even worse still. And as for St. Louis
4 Metro, Dr. Marke notes on page 18 of his direct, that
5 Bellefontaine Neighbors and Ferguson, which are part
6 of the St. Louis Metro district, have some of the
7 lowest income levels and highest poverty rates, yet
8 their ratepayers would be subsidizing ratepayers in
9 Platte County.

10 Dr. Marke notes on his direct, pages 18
11 and 19, that under a CTP design, Ferguson and Ladue --
12 he includes Ladue -- and as you know, the income and
13 the poverty rate is -- income is higher, poverty rate
14 is lower there. Those residents would be subsidizing
15 future high-cost districts geographically dispersed
16 across the state and which no direct benefit would be
17 received in St. Louis Metro. This would produce a
18 result for St. Louis Metro customers well beyond the
19 zone of just and reasonable.

20 In this case, Missouri American Water
21 Company has not provided any compelling evidence that
22 consideration of Missouri American Water Company's
23 districts is warranted. In fact, it appears likely
24 that a movement to further consolidate would place an
25 additional burden on those least able to bear it.

1 In addition, you have the testimony of
2 the Joplin finance director Haase -- I hope I'm
3 pronouncing that correctly. Joplin opposes
4 consolidated pricing for some of the same reasons as
5 Collins and Marke, but she included an additional
6 reason that consolidating price is unfair for Joplin.
7 She notes that Joplin had earlier accepted
8 district-specific pricing, which because of expensive
9 Joplin district expenditures, caused Joplin's rates to
10 greatly increase because those expenditures were not
11 socialized.

12 Now, she notes that under -- how unfair
13 it would be to Joplin to have it subsidize expensive
14 plant improvements for other districts that did not
15 subsidize Joplin's improvements.

16 Now, there's a partial stipulation, and
17 I'm sure we'll discuss it in more detail later, but
18 the Missouri Industrial Energy Commission did sign
19 that and there is some consolidation in that. It is
20 non-unanimous and I understand at least the Staff has
21 objected to it. But it -- that stipulation is signed
22 by representatives of the three metropolitan areas
23 served by Missouri American; St. Louis, Joplin,
24 St. Joseph, plus the Office of Public Counsel.

25 That stipulation attempts to address the

1 newly added, smaller problem systems. And in that
2 stipulation, the parties to that stipulation in the
3 spirit of compromise agree to limited consolidation in
4 which Anna Meadows and Hickory Hills would be
5 consolidated into St. Louis Metro. Brunswick would be
6 consolidated into the St. Joseph district, Redfield
7 into the Jefferson district -- Jefferson City district
8 and the remaining districts in district eight would be
9 consolidated with Branson.

10 In addition, St. Louis Metro and the City
11 of Joplin agreed to subsidize a 5 percent rate
12 reduction for Platte County. And of that 5 percent
13 rate reduction, 90 percent of the cost of that would
14 be borne by St. Louis Metro. That's all I had. If
15 you have questions, I'd be happy to answer them.

16 JUDGE JONES: Mr. Chairman?

17 CHAIRMAN HALL: Yeah. Are you taking the
18 position that the consolidation proposals of Staff and
19 the Company are illegal?

20 MR. DOWNEY: The -- I knew that was
21 coming. I wish I had the answer. I think we likely
22 will in our briefing. And I believe we'll likely
23 incorporate a lot of the same briefing that Riverside
24 submitted to this Commission 15 years ago.

25 CHAIRMAN HALL: Okay.

1 MR. DOWNEY: Obviously the standard is
2 whether it's unjust or unreasonable. Discrimination
3 by itself and preference by itself are not the
4 standard. It's got to be unjust or unreasonable.

5 CHAIRMAN HALL: And another question
6 similar to the one I had for Public Counsel is between
7 the Staff proposal and the Company's proposal, is
8 there one that you dislike more?

9 MR. DOWNEY: I -- the person to ask would
10 be Brian Collins, because I don't profess to know
11 enough about them.

12 CHAIRMAN HALL: All right. Thank you.

13 MR. DOWNEY: Thank you.

14 MR. JONES: Commissioner Kenney?
15 Commissioner Stoll?

16 COMMISSIONER STOLL: No questions. Thank
17 you.

18 COMMISSIONER KENNEY: I've got one short
19 one. In your partial stipulation, even though the
20 numbers are smaller but you're -- you're consolidating
21 the districts just like the other stipulation. Isn't
22 yours unjust and unreasonable then?

23 MR. DOWNEY: I -- I kind of thought I
24 might get something like that. I mean we don't want
25 to be the party of no so --

1 COMMISSIONER KENNEY: No, I appreciate --
2 I understand you are giving, but I would think under
3 your same statement, it's still --

4 MR. DOWNEY: I think I'd be hard pressed
5 to challenge something that I stipulated to.

6 COMMISSIONER KENNEY: Thank you.

7 COMMISSIONER RUPP: I'm going to save all
8 my questions for his witness.

9 JUDGE JONES: Commissioner Coleman?

10 COMMISSIONER COLEMAN: No questions.

11 JUDGE JONES: And for the City of
12 Brunswick?

13 MR. DRAG: May it please the Commission.
14 Good morning, Commissioners. My name is Gary Drag. I
15 represent the City of Brunswick.

16 I'm going to give you a little background
17 about Brunswick. It is a city of approximately 900
18 residents located in northwest Missouri, about
19 40 minutes west of Jo-- of Moberly. There are
20 approximately 330 residential MAW customers in the
21 city and total about 340 customers total.

22 About 10 to 15 years ago, Brunswick was
23 dying. The storefronts were boarded up. They have
24 fought back, they have -- they're start -- they're
25 revitalizing the town, but it's an uphill struggle.

1 And they have faced many of the difficulties that
2 small towns face. One of the difficulties is that
3 Brunswick has some of the highest, if not the highest,
4 water rates in the state out of MAW.

5 So because of that, Brunswick supports
6 some form of district consolidation. We have signed
7 the non-unanimous stipulation that was put together by
8 the Office of Public Counsel because we -- we are
9 consolidated into a larger district which will address
10 our long-term issues. Granted, it does give us
11 short-term rate relief, but the bigger issue is
12 that -- that it's the longer-term outlook.

13 In theory, we could also support -- and
14 we made this known -- that we -- we would support
15 MAW's or Staff's proposals for consolidation. We just
16 want to have a viable rate structure for a small town.
17 We do not support keeping Brunswick as a stand alone.
18 Based on the revenue requirements, the rate impact
19 would be -- how can I say -- extremely adverse.

20 One of the things that has not been
21 talked about is the social cost. If we go with
22 single -- single-district pricing, in essence, the
23 smaller districts -- Brunswick, for an example, Platte
24 County, they will be faced with -- or are facing
25 extremely high water rates. There is an economic

1 incentive for people to move out of those to
2 lower-cost areas, especially industry. That causes a
3 hollowing out of these smaller communities. And so
4 there is a social cost.

5 Can that be quantified? I -- probably
6 not. But I think that is an issue that needs to be
7 considered and is -- you know, not just what is good
8 for individual districts but what is good for all of
9 Missouri. And is it good for Missouri to go and have
10 these small towns and small -- you know, hollowed out
11 because of ex-- because of the high rates.

12 I'd also like to talk -- There's been
13 comments made about how in the public hearings people
14 were opposed to consolidated pricing, consolidated
15 tariffs. Consumers have a very short outlook. And so
16 what -- while they may support con-- they may support
17 district-specific pricing now, 10 -- 5, 10, 15 years
18 down the road when they are faced with upgrading
19 their -- you know, upgrades to their water system for
20 new EPA regulations, some unforeseen mechanical issue,
21 infrastructure failure, at that point they'll change
22 their view.

23 I think what needs to be done here is
24 that the Commission needs to take a long-term view,
25 which the consumer doesn't have. And to be honest,

1 many this municipalities do not have. And that is to
2 go and look long term and say, you know, where do we
3 need to go to ensure that there is -- that the -- that
4 we have equitable rates and we have good water supply
5 to all the citizens of Missouri. And so I --
6 that's -- I would also caution this very short-term
7 outlook and caution against, you know, putting much
8 weight in that.

9 So in summary, we are requesting that the
10 Commission do s-- approve some form of district
11 consolidation and with the idea that it will
12 encourage, if not -- definitely not discourage the
13 viability of the smaller districts, their economic
14 viability. Thank you. And do you have any questions?

15 CHAIRMAN HALL: No questions. Thank you.

16 COMMISSIONER RUPP: You're representing
17 Brunswick or New Brunswick?

18 MR. DRAG: City of Brunswick. That's it?
19 Thank you very much.

20 JUDGE JONES: City of Joplin.

21 MS. BELL: May it please the Commission.
22 My name is Stephanie Bell and I'm here on behalf of
23 the City of Joplin.

24 And Chairman Hall, I believe you've asked
25 several questions today already about legal standards

1 and case law so we're going to start with that. As
2 you've heard already today, Section 393.130 prohibits
3 a water company from granting any undue or
4 unreasonable preference or advantage to any locality
5 or subject any locality to any undue or reasonable
6 [sic] prejudice or disadvantage.

7 With respect to discriminatory rates and
8 the City of Joplin specifically, the Western District
9 addressed this issue in 2005 in State ex rel. City of
10 Joplin v. Public Service Commission and explained, The
11 Commission lacks statutory authority to approve
12 discriminatory rates and its approval of the rates,
13 which require Joplin ratepayers to pay significantly
14 more than the actual cost of service in that district
15 for the express purpose of subsidizing the services
16 provided in the Company's other districts that were
17 only paying the actual cost-of-service, arguably
18 exceeded its authority.

19 And so while that case didn't -- wasn't
20 ultimately decided on that point, it offered some
21 suggestion on the interpretation of Section 393.130.

22 So Joplin is here today, as it was in
23 2000 and in the many rate cases in between, in support
24 of district-specific pricing. In -- in the 2000
25 Missouri American rate case, Staff, OPC and almost all

1 of the municipal intervenors opposed a single-tariff
2 pricing or what we call STP. And the Commission
3 determined rates would be just and reasonable under
4 district-specific pricing or DSP. The Commission
5 approved stipulations which maintained
6 district-specific pricing in 2003, 2007, 2008 and
7 2010.

8 Today you've already heard from several
9 of the other parties why single-tariff pricing creates
10 unreasonable preferences, prejudices and
11 disadvantages. But it's not just that STP would
12 create discriminatory rates on its own, which it
13 would, but the real unfairness comes in the game of
14 Ping-Pong.

15 As Mr. Fischer, representing the Public
16 Water Districts, stated in the 2000 case, it is
17 important to recognize that some of -- some public
18 policies just don't work if continuity is not
19 maintained. It is patently unfair to go to DSP in
20 2000 and then flip-flop back now to STP.

21 As Mr. Fischer stated in 2000, if the
22 Commission does not choose to stay the course over the
23 long term, there will be substantial inequities
24 depending on where each district happens to be in the
25 construction cycle.

1 As you know, this Commission has
2 previously found consumers in some districts have
3 subsidized consumers in other districts. Consumers in
4 some districts, for example, Joplin and St. Joseph,
5 have already borne the cost of significant
6 infrastructure investment their own. So now to ask
7 those same consumers to bear the cost of
8 infrastructure investments in other districts from
9 which they receive no benefit is discriminatory.

10 Likewise, some consumers have not
11 contributed to infrastructure investments outside
12 their district and have not faced infrastructure costs
13 in their own district. Now that it could be their
14 turn, they're asking this Commission to shift those
15 costs on to other consumers. To shift those costs now
16 on to the non-benefiting consumers would be
17 discriminatory.

18 As you will hear from Ms. Haase today,
19 Missouri American's made several major improvements to
20 Joplin -- the Joplin water treatment plant in the last
21 15 years, which caused rates to increase in Joplin
22 under district-specific pricing. But the reason
23 Joplin has never wavered and has not wavered from its
24 support for district-specific pricing, despite
25 increasing rates, is because what it sees as the real

1 advantage of district-specific pricing.

2 The real advantage of district-specific
3 pricing is certainty for ratepayers. The promise of
4 DSP for Joplin was that although its residents might
5 pay higher prices for a while for its own
6 infrastructure investment, its residents could know
7 that in the future, they would be shielded from having
8 to pay for infrastructure in other districts.

9 At the public hearing, and I believe,
10 Commissioner Rupp, you were at the Joplin public
11 hearing, you heard from Mr. Mark Anderson, a Joplin
12 resident who said, The creation of several massive
13 water rate zones would further cloud the issues that
14 surround the cost-of-service to revenues making it
15 more difficult in the future for the public to assess
16 the reasonableness of rate changes.

17 This was the primary issue in the 2000
18 case and highlighted by the counsel for Warrensburg
19 when he said, Understandability and acceptability by
20 the people who pay is important. They can't
21 understand why they would have to pay for a plant in
22 another district.

23 While Mr. Anderson talks in terms of
24 clouding cost-of-service issues, what he is really
25 getting at is the issue that was discussed heavily

1 yesterday and which I believe is of particular
2 importance to Chairman Hall, and that's transparency.
3 The main benefit of DSP is transparency for
4 ratepayers. They pay for the services and benefits
5 they receive. This transparency holds the Company
6 accountable and promotes only efficient investments by
7 the Company.

8 In the on-the-record proceeding in the
9 working case that was previously referenced by
10 Ms. Myers, SW-2011-0103, counsel for Staff stated,
11 Staff would note that in situations where DSP
12 currently exists, should the Commission elect to
13 switch to STP, Staff believes that customer education
14 should be an essential component in the rate-making
15 and rate implementation process.

16 The evidence in this case will show that
17 there has been minimal effort on the part of the
18 Company to educate the residents in the anchor
19 communities that consolidation means they might be
20 footing the bill for upgrades in other districts.

21 Moving forward. This lack of
22 transparency is unfair to the residents of Joplin and
23 certainly against the public interest. As this
24 Commission has stated previously in its order
25 approving a non-unanimous stipulation in 2011, the

1 Commission's guiding purpose in setting rates is to
2 protect the consumer against the natural monopoly of
3 the public utility. The principles of cost causation
4 only support district-specific pricing.

5 As argued by Staff in the 2000 case, DSP
6 achieves one of the principal goals of rate-making; to
7 design rates that recover allocated costs of service
8 from those causing the costs to be incurred. In
9 addition, in 2000, Staff argued that district-specific
10 pricing, unlike STP, satisfied another important goal
11 of rate-making, which is to minimize subsidization.

12 In its reply -- in its reply brief that
13 Ms. Myers referenced, Staff also said STP can have the
14 consequence of distorting price signals, interfering
15 with public feedback regarding appropriate levels of
16 investment and masking costs of acquisitions, which I
17 think is similar to what you heard from Mr. Poston
18 earlier.

19 In 1999 -- so Mr. Thompson earlier also
20 posed the question of how people afford water. So I
21 wanted to talk a little bit about how the residents of
22 Joplin afford water. In 1999, the Commission
23 determined that Joplin had been subsidizing
24 St. Charles, Parkville, Mexico and Brunswick.

25 The residents of Joplin will see an

1 increase in excess of 60 percent in the 2000 case and
2 an increase of nearly 25 percent in the 2008 case.
3 Joplin received an increase of almost 16 percent in
4 2010. So in less than five years, the residents of
5 Joplin saw 132 percent increase.

6 Currently Joplin's fixed customer charge
7 for a five-eighths meter is at 18.53. In contrast,
8 St. Louis is at 14.42 and Platte is at 15.47. The
9 only districts with higher customer charges are the
10 very small districts, Brunswick and the like. Joplin
11 residents are paying a higher customer charge for a
12 five-eighths meter than about 95 percent of Missouri
13 American's other customers.

14 Compounding the issue for the residents
15 of Joplin is their median income, which ranges from
16 40- to 42,000 a year. This contrasts significantly
17 with some of the other stand-alone districts.
18 Jefferson City is at 53,000 and as -- has been
19 mentioned, Platte is almost 68,000.

20 The residents of Joplin have been paying
21 for infrastructure investment and has endured
22 substantial increases in recent years. Under DSP,
23 Joplin stands to see a minimal rate increase or even
24 rate decreases over the next 50 years as minimal
25 infrastructure improvements would be required after

1 they have already made significant investments. A
2 move towards STP at this point would significantly
3 disadvantage Joplin's residents.

4 Missouri American's witness Mr. McDermott
5 lists six advantages of STP. If you examine those
6 reasons closely, most of the advantages of STP are
7 really advantages for the Company and they serve to
8 advance the utility's private interest rather than any
9 public interest.

10 The first and third reasons are
11 essentially identical. The Company identifies them as
12 better incentives for standard water quality and
13 promote state economic development goals. But the
14 Company explains this means enabling the Company's
15 recovery of government-mandated investment.

16 The Company next argues that STP provides
17 better incentives for large water companies to
18 purchase under-performing water companies. STP would
19 allow the Company to achieve its goal of acquiring
20 more customers.

21 Two other reasons offered by
22 Mr. McDermott are efficiency and convenience. STP
23 would purportedly lower administrative and regulatory
24 costs and would create a consistent regulatory
25 approach for all public utilities.

1 The Staff provides four justifications
2 for STP. Staff also offers the convenience and
3 efficiency argument. The Staff argues that because
4 the Company continues to add districts, it is
5 difficult to develop rates on a district-specific
6 basis. Likewise, Staff suggests that STP may lead to
7 reduced rate case expense as Staff devotes many hours
8 to allocation and assignment of costs.

9 As you heard from Mr. Downey, the
10 Missouri Supreme Court in State ex rel. Kansas City
11 had previously explained that neither convenience,
12 expediency or necessity are proper matters for
13 consideration in the determination of whether or not
14 an act of Commission is authorized by statute.

15 Staff argues that STP might encourage
16 Missouri American to purchase additional small
17 systems. I don't know how I explain to the Joplin
18 residents that their rates might increase because
19 there is an interest in helping the utility expand its
20 business. Ms. Norton testified earlier these small
21 districts need money. Maybe my explanation to Joplin
22 residents is that those individuals in those smaller
23 districts need their money.

24 Finally, Staff argues that STP will avoid
25 rate shock to the small systems recently purchased by

1 Missouri American. Again, what about the thousands of
2 Joplin customers who have been faithfully paying their
3 water bills despite a shocking 132 percent increase in
4 five years?

5 In addition, the Company's choice to
6 acquire small, under-paying districts is a business
7 judgment that the Company makes and it seems unfair to
8 allow them to use this as a justification to shift
9 costs onto existing ratepayers.

10 The reason the Company and Staff
11 support -- the reasons that we've just gone through
12 that the Company and the Staff support STP are
13 hypothetical. And if you examine these reasons
14 closely, it is difficult to determine how the rate
15 structure would protect the consumer or would be in
16 the interest of all of Missouri American's customers
17 or in the public interest of the state as a whole.

18 On behalf of the citizens of Joplin, I
19 ask that you carefully consider the ramifications of a
20 move towards single-tariff pricing. We believe that
21 you will see the prudent, just and reasonable course
22 is to maintain district-specific pricing. Thank you.

23 CHAIRMAN HALL: Thank you.

24 JUDGE JONES: Do you have a witness that
25 has to leave by 2:00?

1 MS. BELL: Yes.

2 JUDGE JONES: Why don't we go ahead
3 and --

4 COMMISSIONER KENNEY: Mr. Chai --
5 Mister -- Judge, I'd like a question. Ms. Bell,
6 that's a compelling argument, as Mr. Downey made the
7 same one and Mr. Poston. I under-- I appreciate that.

8 We have -- at the Public Service
9 Commission we have several distressed water districts.
10 And oftentimes because of EPA and Department of
11 Natural Resource regulations, that these small water
12 sewer companies are unable to take care of the
13 problems. It's impossible financially.

14 And I -- so I would tend to agree with
15 your argument, but if it's not -- if we don't have a
16 company like Missouri American Water that comes in and
17 buys that distressed community that they're not going
18 to make any money on, there really -- in some
19 instances it would be very difficult to provide water
20 or sewer services to those families. So how would you
21 suggest what we, as the Commission, take into
22 consideration?

23 MS. BELL: Sure. Joplin has actually
24 signed onto the non-unanimous stipulation that's
25 already been I think spoken about today and that OPC

1 presented and I think MIEC went over some of the
2 details. And it seeks to handle some of those smaller
3 districts. You'll see like Brunswick is consolidated
4 and some of the other small districts are consolidated
5 together to handle some of those issues.

6 COMMISSIONER KENNEY: I appreciate that.
7 That's generous of Joplin to do. I'm serious when I
8 say that. But we have several little tiny places out
9 there that are, you know, 50 customers, 75, that it's
10 impossible -- I look forward -- looking forward, I
11 don't see how, unless we have some type of
12 consolidated tariff pricing, that they can get any
13 service in the next several years. That's just my
14 opinion. I think -- I don't know. Some of them are
15 very distressed

16 MS. BELL: Right. And I don't think
17 we're arguing that, you know, there's no
18 consolidation. Obviously in the stipulation there's
19 eight districts and some of those very small districts
20 are consolidated into other districts to handle those
21 very same issues.

22 COMMISSIONER KENNEY: Thank you.

23 MS. BELL: Thank you.

24 JUDGE JONES: Okay. Why don't you -- why
25 don't we go ahead and call your witness up so we can

1 get her on the road and then we'll continue with
2 opening and then take lunch.

3 (Witness affirmed.)

4 JUDGE JONES: Thank you. You may
5 proceed.

6 LESLIE HAASE, testified as follows:

7 DIRECT EXAMINATION BY MS. BELL:

8 **Q. Could you please state your name and your**
9 **business record for the record?**

10 A. Leslie Haase, 602 South Main, Joplin,
11 Missouri.

12 **Q. And where are you currently employed?**

13 A. The City of Joplin.

14 **Q. And what is your current job title?**

15 A. Finance director.

16 **Q. Did you prepare and cause to be filed in**
17 **this case Rebuttal Testimony, which has been marked as**
18 **Exhibit JOP 1?**

19 A. I did.

20 **Q. And do you have any changes or**
21 **corrections you need to make to that testimony at this**
22 **time?**

23 A. I don't.

24 **Q. If I asked you the same questions that**
25 **are contained in Exhibit JOP 1, would your answers be**

1 **the same as shown there?**

2 A. They would.

3 **Q. And is the information in those answers**
4 **true and correct to the best of your knowledge?**

5 A. They are.

6 MS. BELL: I have no further questions at
7 this time. I would offer JOP 1.

8 JUDGE JONES: Any objections to Exhibit
9 JOP 1?

10 I don't hear any. Exhibit JOP 1 is
11 admitted into the record.

12 (Joplin Exhibit 1 was received into
13 evidence.)

14 JUDGE JONES: Let's proceed right into
15 cross-examination from Staff.

16 MS. MYERS: No questions, Your Honor.

17 JUDGE JONES: Department of Energy?

18 MR. ANTAL: No questions. Thank you.

19 JUDGE JONES: MIEC?

20 MR. DOWNEY: Just I'm sorry I butchered
21 your name earlier.

22 THE WITNESS: That's okay.

23 JUDGE JONES: No questions?

24 MR. DOWNEY: No further questions.

25 JUDGE JONES: City of Brunswick?

1 MR. DRAG: No questions, Your Honor.

2 JUDGE JONES: City of Riverside?

3 MR. BEDNAR: Just a couple, Your Honor.

4 CROSS-EXAMINATION BY MR. BEDNAR:

5 Q. Ms. Has, I don't know if you're aware or
6 not or if the city has a position -- the city council
7 and the mayor as to whether or not you would -- the
8 city would accept having Joplin in a district by
9 itself if other districts were consolidated. Has the
10 city taken a position on that?

11 A. I believe that the city -- we're here
12 today to request district-specific pricing for Joplin.
13 As to consolidating anywhere else, we have no opinion.

14 Q. Thank you. Appreciate it. No further
15 questions.

16 JUDGE JONES: City of St. Joseph?

17 MR. LAWYER: No questions.

18 JUDGE JONES: Warrensburg?

19 MR. CURTIS: No questions. Thank you.

20 JUDGE JONES: Public Water Supply

21 Districts?

22 MR. DORITY: No questions.

23 JUDGE JONES: StoneBridge? Triumph?

24 Office of Public Counsel?

25 MR. POSTON: No questions.

1 JUDGE JONES: And Missouri American Water
2 Company?

3 MR. ENGLAND: Thank you, Your Honor.
4 Just a few.

5 CROSS-EXAMINATION BY MR. ENGLAND:

6 Q. Ms. Haase, I represent the Company just
7 to let you know where I'll be coming from. And you've
8 signed on -- or at least Joplin has signed on with
9 this non-unanimous stipulation, as I understand; is
10 that right?

11 A. Yes, sir.

12 Q. And essentially that non-unanimous
13 stipulation holds what I call Joplin harmless, right?
14 You remain on district-specific pricing?

15 A. Yes, sir.

16 Q. No one is consolidated with you and
17 you're not consolidated with anyone else?

18 A. Yes, sir.

19 Q. If there was another rate design proposal
20 that would hold Joplin harmless, continue it on
21 district-specific pricing, is it fair to say you would
22 be -- you would not object to that type of
23 arrangement?

24 A. I would say that we would review the --
25 any proposal like that.

1 **Q. Well, what -- as long as you're held**
2 **harmless as you are today in your non-unanimous**
3 **stipulation, what -- what interest would you have in**
4 **other districts being consolidated or not?**

5 A. I guess from my standpoint, it would be
6 as long as -- yes, as long as we have
7 district-specific pricing going forward and there
8 would not be any term limit to that.

9 **Q. Okay. Thank you.**

10 MR. ENGLAND: No other questions, Your
11 Honor.

12 JUDGE JONES: All right. Any questions
13 from the Commission. Mr. Chairman?

14 CHAIRMAN HALL: Yeah, I think just a few.

15 QUESTIONS BY CHAIRMAN HALL:

16 **Q. Good afternoon.**

17 A. Good afternoon.

18 **Q. Have you done an analysis of the rate**
19 **impact to Joplin customers that would result from**
20 **either Staff's or the Company's consolidation**
21 **proposal?**

22 A. I have seen those numbers.

23 **Q. So have you done a calculation?**

24 A. I have not myself.

25 **Q. What is your understanding of the impact**

1 **from those -- from Staff's consolidation proposal and**
2 **the Company's consolidation proposal on Joplin**
3 **ratepayers?**

4 A. The Staff's proposal is a small increase,
5 I believe less than 1 percent. The -- the
6 stipulation-- the non-unanimous stipulation, I believe
7 the impact is about 1.5 percent to the City of Joplin.

8 **Q. So is it -- is it the actual dollar**
9 **increase that is motivating the City of Joplin's**
10 **opposition to Staff and the Company's proposal? Is it**
11 **philosophical? Is it a concern about what could**
12 **happen in the future? All of the above?**

13 A. I believe that it's the long-term
14 implication. The City of Joplin, we believe that
15 where we're located and our water source and our cost
16 drivers are all unique in Joplin. We do not believe
17 that our citizens should subsidize other districts.
18 And so the long-term implications are really what's
19 driving us being here and opposing the consolidated
20 pricing.

21 **Q. And that would be the case even if -- if**
22 **there was an argument presented that -- that in the**
23 **long run, it could actually result in a reduction**
24 **to -- to rates in Joplin if some type of consolidation**
25 **occurred? For example, if Joplin were combined with**

1 **another water district with a lower cost per**
2 **residential customer, you would still be opposed to**
3 **that?**

4 A. I guess my answer would be that we would
5 want to look at that; however, our belief -- we've
6 already made the improvements. Missouri American
7 Water has made the improvements to our -- to our
8 system and our -- our residents have paid that. You
9 heard the information that our residents have seen an
10 increase of 132 percent.

11 So to move away from that at this point
12 we feel like would be very harmful. The fact that
13 we've had district-specific pricing for -- since 2000,
14 that's 15 years, and now to move to consolidated
15 pricing would unfairly shift cost drivers that the
16 citizen-- the citizens of Joplin should not have to
17 subsidize.

18 **Q. But it is possible that there could be a**
19 **consolidation of Joplin with another system that could**
20 **reduce rates for Joplin customers. You would still be**
21 **opposed to that?**

22 A. Again, I would have to go back to what
23 somebody said earlier. Costs in the short-term can
24 decrease, but over the long term as improvements are
25 made in infrastructure in other districts, Joplin

1 believes that in the long run, the costs for Joplin
2 would be -- would be higher. So while it may be a
3 decrease short term, we believe that long term, it's
4 in Joplin's best interest to keep district-specific
5 pricing.

6 **Q. And that's because the capital**
7 **improvements have already been made in Joplin and you**
8 **don't foresee any significant investment needed --**
9 **capital investment needed in the near to short -- in**
10 **the near to long term?**

11 A. Yes, sir. In addition to the other
12 capital needs across -- at the other districts across
13 the state.

14 **Q. Okay. Thank you.**

15 COMMISSIONER STOLL: No questions. Thank
16 you for your testimony.

17 COMMISSIONER KENNEY: No questions.

18 JUDGE JONES: Any questions based on
19 questions from the Chair?

20 MR. ENGLAND: Yes, Your Honor.

21 MR. BEDNAR: Yes, Your Honor.

22 RECROSS-EXAMINATION BY MR. BEDNAR:

23 **Q. Ms. Haase, I just wanted to go over with**
24 **you again on those potential options when we talk**
25 **about Joplin having already paid for their**

1 **improvements. Did you hear the testimony of**
2 **Ms. Norton and talk about depreciation schedules?**

3 A. Yes, sir, I did.

4 **Q. And so you're -- there is still a**
5 **continuation of cost that you're going to be paying in**
6 **the future for that -- those improvements that have**
7 **been made, not to mention the ongoing annual capital**
8 **expenses that are imposed upon Joplin that you**
9 **understand there would be a cost sharing amongst other**
10 **districts with whom Joplin would be consolidated with,**
11 **don't you?**

12 A. I do understand. But again, Joplin feels
13 like we are unique in that our costs -- we're willing
14 to pay for our costs, but we believe that over the
15 long term, we would be subsidizing other districts.
16 And -- and we can't support that.

17 **Q. Even if it reduced your rates?**

18 A. We believe that over the long term it
19 would not reduce our rates.

20 **Q. But you don't know that, do you? Have**
21 **you seen any models that it might reduce your rates?**

22 A. I have not. But what I would be looking
23 for would be something that goes out for many years to
24 show the true impact to the citizens.

25 **Q. Now, are you aware that in 2007 Joplin's**

1 rate was -- we're talking about increases?

2 A. Uh-huh.

3 Q. There's also an issue of where -- where
4 your base starts and we'll just use 2007 as an
5 example. The average residential rate in 2007 was
6 \$16.29 in Joplin, while at the same time Parkville,
7 Platte County was \$38.39. Today at the present time,
8 I believe Joplin's rate is the 2007 rate of Parkville,
9 38.39, and Parkville's is 66.20. So -- and part of
10 that is you've got 20,000 customers in Joplin and
11 5,000?

12 A. Yes, sir.

13 Q. So if we can maintain your
14 district-specific cost and allocations and other
15 districts consolidate to provide their ratepayers
16 relief, you don't offer any objection to that at this
17 time. Correct?

18 A. That's correct.

19 Q. Thank you.

20 JUDGE JONES: Any other recross based on
21 questions from the Chairman?

22 MR. ENGLAND: Yes, Your Honor.

23 RE-CROSS-EXAMINATION BY MR. ENGLAND:

24 Q. Ms. Haase, you mentioned something about
25 taking the long-term view. Are you aware of the fact

1 **that the Company's had discussions with the city, that**
2 **is Joplin, regarding long-term issue with the source**
3 **of supply -- water supply in the Joplin area?**

4 A. I am.

5 **Q. And that could have a significant impact**
6 **on the investment needed to correct that problem.**

7 **Correct?**

8 A. Yes, sir.

9 **Q. Okay. You also mentioned that you had**
10 **seen an impact on Joplin and quoted a couple of**
11 **percentage figures indicating small increase of maybe**
12 **a half percent to 1.5 percent. Have you also seen**
13 **figures, at least on the Company's proposal, which**
14 **would result in a decrease for the Joplin district?**

15 A. Yes, sir, I have seen that.

16 **Q. Okay. Thank you. No other questions.**

17 JUDGE JONES: Office of Public Counsel?

18 MR. POSTON: No questions.

19 JUDGE JONES: Any redirect?

20 REDIRECT EXAMINATION BY MS. BELL:

21 **Q. Just one question. Based upon the**
22 **information in the previous questions that your rates**
23 **in the short term might decrease, do you still support**
24 **district-specific pricing?**

25 A. We do because of the long-term

1 implications.

2 **Q. Thank you.**

3 JUDGE JONES: Okay. Thank you. You may
4 step down.

5 Okay. Let's go ahead and finish up
6 opening statements for this issue. Moving to the City
7 of Riverside.

8 MR. BEDNAR: May it please the
9 Commission. I think once again, I'd like to repeat
10 that we do not have a district-specific policy -- a
11 pure district-specific policy in the state. This
12 Commission and the parties, at the times they see fit,
13 have consolidated districts in order to -- as
14 Commissioner Kenney brought up, to avoid unjust and
15 volatility in those cases.

16 I think that the characterization that
17 Missouri American -- and believe me, we have issues
18 with Missouri American. We're not in any way taking
19 the position that they are error free, given our water
20 quality issues. But to -- I think it is an unfair
21 characterization to act like they're just out as a
22 Pacman buying up districts.

23 It's my understanding that this
24 Commission has requested, DNR has requested at least
25 an investigation as to what districts that they can

1 acquire because it serves the public interest. And I
2 think that's where this Commission is. And that's the
3 uniqueness of the Public Service Commission compared
4 to any other decision-making body. You have those --
5 you're a tri-headed agency in that you have an
6 executive responsibility, you have a judicial
7 responsibility and you have a legislative
8 responsibility.

9 And many of the issues or concerns that
10 have been raised by MIC and Joplin and St. Joseph can
11 be taken up in rulemaking as well. If you want to
12 have transparency together with your consolidation,
13 you can do that. You can ask for whatever conditions
14 you want in regards to transparency of cost per
15 district. I don't think anybody's objecting to that.

16 In regards to -- I was a little shocked
17 that we've gone down to economics and pitting one
18 resident's average income versus another resident's
19 average income. There's never been in this state
20 customer class or ratepayer class based upon your
21 annual income.

22 I think that we are all sensitive to cost
23 to low-income customers. And there we are equal in
24 that we don't think that a low-income ratepayer in
25 Riverside paying 66 dollars a month is just and

1 reasonable compared to any other district where they
2 may be paying 28 or 30 dollars or even 38 dollars. So
3 I think that is the unique circumstance that the
4 Commission has, the unique authority they have is to
5 balance this out and create a bandwidth as to what's
6 fair for the residential payer.

7 Now, one of the -- again, another option
8 is for the industrial classifications or commercial
9 classifications to take on more responsibility to keep
10 the residential ratepayer harmless. And that's what
11 Mayor Rose in her testimony has suggested as another
12 option of creating a single tariff for residential
13 payers across the state to protect those instances and
14 those who can recover their cost of water through the
15 resale through product or whatever, they have that
16 ability, but the residential customer who does not get
17 to recover their cost is protected. And so we urge
18 the Commission to look at that as a possibility as
19 well.

20 We are open to any approach or policy or
21 new idea that this Commission would throw out or Staff
22 or Public Counsel, any of the parties. We've looked
23 at them all. We believe that there should be more
24 consistency. We believe you have the authority to do
25 that as guaranteed by statute and that this General

1 Assembly has delegated to you, the rulemaking
2 authority, judicial authority and executive authority
3 to make sure that we have just and reasonable rates
4 here in the state. Thank you.

5 JUDGE JONES: Any questions?

6 CHAIRMAN HALL: Yes.

7 JUDGE JONES: Mr. Bednar.

8 MR. BEDNAR: I'm sorry.

9 CHAIRMAN HALL: That's okay. I have not
10 read any of the briefs filed by your client in the --
11 in the prior rate case, but there was some discussion
12 earlier that the City of Riverside took a contrary
13 position on this issue in the last rate case; is that
14 correct?

15 MR. BEDNAR: I would -- did not represent
16 the city at that time. I was representing the State
17 at that time. So just to --

18 CHAIRMAN HALL: But being the kind of
19 lawyer you are, I'm sure you read those briefs.

20 MR. BEDNAR: Yes. I believe that the --
21 that Riverside at one time was opposed to that, but I
22 think as all decision makers and government officials
23 in the legislature and executive branch, we do reserve
24 the right to change our minds. And we have new
25 officials, we have new facts, we have new evidence.

1 And I think that's what's important, so --

2 CHAIRMAN HALL: Well, let me -- let me --
3 let discuss with you those new facts.

4 MR. BEDNAR: Yes.

5 CHAIRMAN HALL: What facts are different
6 in this case from the last case that could justify a
7 change in position?

8 MR. BEDNAR: I -- I don't know that I
9 agree with that position, as attorney to attorney,
10 Chairman. As long as I've been involved in these
11 cases, I've always believed that you have the ability
12 to do consolidated pricing, because the broad
13 authority to do just and reasonable rates. I just
14 disagree with the previous counsel in that position.

15 So I think you do have the authority to
16 ensure that there's just and reasonable rates to all
17 ratepayers of the state and you have the flexibility
18 by statute and by history to do your investigation and
19 hold your horns to develop the right policy. You are
20 the policymakers.

21 CHAIRMAN HALL: So you disagree with the
22 legal conclusion set forth in -- in the brief filed by
23 your client in the last case. What about any kind of
24 factual difference that might justify a change in
25 position?

1 MR. BEDNAR: Well, I think the facts are
2 the ever-evolving knowledge we have of the water
3 challenges of the state that everybody's acknowledged.
4 You have a growing population moving, you have a
5 movement of population. We have new businesses in
6 Riverside now, for example, that -- that weren't
7 there. You have new suburbs, you have new
8 subdivisions, you have new challenges to water systems
9 that people both in the private and public sector did
10 not anticipate in regards to the sustainability of
11 those individual water systems.

12 They might have seemed like a good idea
13 at that time, but the life experiences that we have
14 have shown that there's a tail on all these issues
15 that people did not anticipate 20 years ago, 15 years
16 ago.

17 CHAIRMAN HALL: Okay. Thank you.

18 MR. BEDNAR: Thank you.

19 JUDGE JONES: Commissioner Stoll?

20 COMMISSIONER STOLL: No questions. Thank
21 you.

22 JUDGE JONES: Commissioner Kenney?

23 COMMISSIONER KENNEY: No questions.

24 Thank you.

25

1 JUDGE JONES: Commi ssi oner Rupp?

2 COMMI SSI ONER RUPP: No questi ons.

3 JUDGE JONES: Commi ssi oner Cole man?

4 COMMI SSI ONER COLEMAN: No questi ons.

5 JUDGE JONES: Thank you, Mr. Bednar.

6 MR. BEDNAR: Thank you.

7 JUDGE JONES: Ci ty of St. Joseph?

8 MR. LAWYER: May it please the

9 Commi ssi on. I am Jeff Lawyer, representing the Ci ty
10 of St. Joseph.

11 The Ci ty of St. Joseph has intervened in
12 this case as they did in 2011 because district
13 consolidation is important to us as a government, but
14 more so because it's important to the residents of
15 St. Joseph. For us, this is not simply a
16 philosophical question. It is one that has been
17 concrete and has been quite painful to the people of
18 St. Joseph.

19 In 2000, the Commi ssi on moved away from
20 single-tari ff prici ng and no one but the people of
21 St. Joseph contributed to the construction of a
22 75 million dollar water treatment facility. Some
23 St. Joseph customers saw their rates increase by as
24 much as 230 percent. At that time the Commi ssi on
25 reasoned in part that, quote, one factor for

1 consideration in determining just and reasonable rates
2 is public perception, end quote.

3 Testimony in the local public hearings in
4 that previous case was considered to be strongly in
5 favor of district-specific pricing. And the
6 Commission then reasoned that, quote, Missouri
7 American Water, therefore, must set its rates
8 separately for each service area in order to recover
9 the appropriate revenue requirement for each service
10 area.

11 It is inherently inequitable and
12 discriminatory that the good people of St. Joseph
13 would now or in the near future be required to
14 subsidize capital improvements for St. Louis, Platte
15 County or any other district in the state from which
16 it receives no benefit.

17 The median income in St. Joseph is
18 approximately \$44,000. Under Staff's proposal,
19 St. Joseph customers would subsidize Platte County
20 where the median income is more than 20,000 above that
21 of St. Joseph at approximately 67,000. More would be
22 asked of those least able to give.

23 This Commission should base its decision,
24 at least in part, upon -- in this case upon the
25 reasonable and just principle of cost causation. To

1 do otherwise would lead to the obvious public
2 perception that the people of St. Joseph or the people
3 of Joplin somehow matter less than the people in other
4 districts in the state. Please remember this as you
5 make your decisions. And now if you have any
6 questions for me.

7 JUDGE JONES: Thank you, sir.
8 Warrensburg?

9 MR. CURTIS: May it please the
10 Commission. My name's Lee Curtis. I represent
11 Warrensburg and I've represented Warrensburg in these
12 rate cases since the '80s. It was Missouri Cities
13 Water and the various iterations thereafter.

14 I'm proud to say I'm -- it was music to
15 my ears to hear OPC, MIEC, Joplin and St. Joseph
16 singing the praises of district-specific pricing,
17 because that is what Warrensburg has advocated all
18 along very consistently in the face. Warrensburg --
19 these are clear cost causation issues. We've heard
20 that. These are the proper economic signals to send
21 to districts.

22 These are all non-interconnected water
23 districts. For them to be consolidated and treated as
24 a -- it was originally uniform pricing they called it
25 as a opposed to now single-tariff pricing, is not

1 good.

2 And -- and Mr. England has heard this
3 before, but I'm going to repeat this analogy again
4 because I did it back in 2000 in speaking against
5 St. Joseph. And the analogy is this: You have
6 12 individuals going out to dinner and it's a very
7 nice restaurant. The waiter comes out and he says,
8 How -- how should -- how would we do this? Should we
9 have individual checks or put it all together and
10 divide it by 12? And everyone takes a vote. And 11
11 vote for single check, we'll divide it by 12. And the
12 one guy who votes against it is a vegetarian.

13 They start ordering and the first one
14 orders champagne, caviar -- the Clicquot champagne,
15 the next Kobe beef and on up the line. They get the
16 signal. It's divided equally. And the poor
17 vegetarian gets stuck.

18 Well, if you look at Mr. England's
19 exhibit that he handed out, the groupings, these have
20 the average residential cost-of-service by district.
21 You will see Warrensburg's annual residential
22 cost-of-service is 409 dollars. The top is Platte
23 County at 1,031 dollars. All the others are well
24 above Warrensburg. Warrensburg is the vegetarian at
25 this dinner table.

1 And we resent -- because we have
2 maintained consistently district-specific pricing. We
3 think that should be continued and we join many of the
4 others, as we have in the past.

5 After the non-unanimous revenue
6 requirement settlement was reached, calculations were
7 made on a district-specific basis. And for
8 Warrensburg even with the 31.1 million dollar
9 increase, Warrensburg's average rates went up by
10 1.31 percent. If you look at all the other models
11 that are coming out, and we haven't seen them all yet,
12 Warrensburg residential rates are going to be going in
13 excess of 20 percent.

14 So you've got a 1 point -- a little over
15 1 percent cost-of-service on the new revenues that
16 have been, you know, non-unanimously agreed to. Only
17 a 1 percent increase. And all of a sudden Warrensburg
18 gets 20 percent.

19 I would remind you -- and we haven't
20 really tested I guess the meaning of 393.130, an undue
21 or an unreasonable preference. Is that -- do the math
22 on that. What is that? That's almost 18 times what
23 the cost-of-service would be. That's getting pretty
24 close to maybe being undue or unreasonable.

25 Again, district-specific is the best way

1 to go. I do applaud Staff for their attempt to create
2 the hybrid districts, the three districts, and in
3 recognition that there are troubled, smaller systems
4 that could be brought on board in a fashion. And I
5 think there's a way to achieve a reasonable compromise
6 without, you know, adhering strictly to a
7 district-specific pricing because I think there is
8 flexibility clearly this Commission has.

9 But I think the underlying, the bedrock
10 principle from which you deviate should be
11 district-specific pricing and not much deviation from
12 that. Thank you.

13 JUDGE JONES: Questions?

14 COMMISSIONER KENNEY: Thank you.

15 JUDGE JONES: Thank you, Mr. Curtis.

16 Public Water Supply District?

17 Just a moment, Mr. DORITY.

18 COMMISSIONER COLEMAN: Mr. DORITY, before
19 you start, I would suggest that you make no references
20 to Kobe beef or champagne as it is about 2:10, because
21 I may have to take the Judge outside and have a word
22 with him. Thank you very much.

23 Thank you, Judge.

24 MR. DORITY: Excellent point,
25 Commissioner. I'll keep that in mind.

1 Well, good afternoon. May it please the
2 Commission. For the record, my name is Larry Dority.
3 And Jim Fischer and I again represent the Public Water
4 Supply Districts Numbers 1 and 2 of Andrew County in
5 that matter.

6 These not-for-profit public districts
7 serve rural customers in areas outside of St. Joseph
8 but within the St. Joseph water district of Missouri
9 American. Although they are among the Company's
10 larger customers, they are, in reality, only
11 representing their rural customers since any increase
12 in the cost of water must eventually be passed on to
13 their customers.

14 Their entire water supply comes from
15 Missouri American. They are not standby users. Their
16 need for water and usage is 24-7 throughout the year.
17 As our statement of position reflects, we are most
18 interested in this rate design portion of the
19 proceeding and I will elaborate on our positions in
20 just a moment.

21 In the Staff's water utility rate design
22 analysis filed in this docket last June, Staff
23 candidly acknowledged that rate design, be it water,
24 electric, gas or any other industry, is more art than
25 science. Depending upon the goals of the designer,

1 rate design can take many paths.

2 Well , as you've already heard today, many
3 of us in this room have been down this particular path
4 regarding district consolidation and pricing, a
5 torturous path for some of us. And it seems we may
6 have come full circle.

7 Yes, back in 2000 we were among the
8 voices crying in the wilderness trying to persuade the
9 Commission to hold the course of single-tariff
10 pricing. At that time the new St. Joseph water plant
11 was being placed into rate-base. Along with the City
12 of St. Joseph, we sponsored the testimony of
13 Dr. Janice Beecher, who had recently completed a major
14 public policy study of the single-tariff issue which
15 was sponsored by NARUC and the United States
16 Environmental Protection Agency.

17 We suggested that her study provided an
18 objective discussion of both the advantages and the
19 disadvantages of single-tariff pricing from a former
20 regulator's perspective. Indeed, I would note that
21 excerpts from that study are attached as Schedule
22 RCS-16 to the Direct Testimony of OPC witness Ralph
23 Smith and you've heard discussions about that
24 testimony throughout the morning.

25 What was the Commission hearing from us

1 back in 2000? We acknowledged that there is an
2 understandable desire among regulatory agencies to
3 keep your public policy options open. But it's also
4 important to recognize that some public policies just
5 don't work if continuity is not maintained over the
6 years. I think Ms. Bell referenced that earlier.

7 We stress that this issue was among those
8 public policies where consistency must be maintained
9 if the benefits are to be achieved if it's going to be
10 fair to all concerned.

11 At that time we reminded the Commission
12 that in the Company's previous rate case prior to 2000
13 Wess Henderson, on behalf of the Staff, had observed
14 that this issue by its nature is not a here-today,
15 gone-tomorrow kind of rate design. Asked whether a
16 decision in that previous case would bind the
17 Commission in the future, Mr. Henderson explained, I
18 don't think it would be fair or proper to have
19 single-tariff pricing in this case and then in the
20 next case go back to district-specific and then in the
21 next case go back to single-tariff pricing.

22 We pointed out that if the Commission did
23 not choose to stay the course over the long term,
24 there would be substantial inequities, depending on
25 where each district happens to be in the construction

1 cycle. You've heard that time and time again today.
2 We talked about fairness, we talked about equity and
3 we talked about transparency in the process.

4 The City of Riverside, as Mr. Downey
5 covered in detail and others have discussed, was
6 advising the Commission that single-tariff pricing was
7 unlawful and discriminatory, as well as unreasonable.
8 Their bottom line, the Commission should terminate the
9 single-tariff pricing experiment and return to
10 district-specific pricing.

11 The City of Warrensburg, my friend and
12 colleague, Mr. Curtis, strenuously advocating for
13 district-specific pricing, noted that it had been
14 before this Commission numerous times in the past,
15 it's a battle that's been going on for some time
16 although maybe at a skirmish level. But quoting his
17 opening statement in that proceeding, We are now down
18 to the major showdown. This is a major battle. This
19 is a major issue. And it is vital, we believe, that
20 the Commission address it and resolve between
21 single-tariff pricing and district-specific pricing
22 once and for all.

23 Continuing to quote, So it is time for
24 the Commission to exercise wisdom in adopting a rate
25 design philosophy that will stand the test of time.

1 Sure, it's going to be painful somewhat in that
2 interim in moving to district-specific cost-of-service
3 level for each district, end quote.

4 Boy, was Mr. Curtis right. Prophetic, I
5 might say. Painful, indeed.

6 On a three-to-two vote, the Commission
7 decision going to district-specific pricing and
8 embarking -- also embarking upon inter-class shifts
9 within the St. Joseph district increased our water
10 district's rates by over 200 percent above the
11 previously approved rates.

12 Needless to say, that rate increase was
13 unprecedented in sheer magnitude and the resulting
14 rate shock was extremely difficult for our customers
15 to understand. The district-specific pricing was
16 ultimately upheld. We have continued to participate
17 in these proceedings to protect our and our customers'
18 interests and it doesn't seem possible, quite frankly,
19 that 15 years have passed.

20 I would note that the non-unanimous
21 stipulation filed this morning indicates that while
22 not signatories, we do not oppose the limited
23 consolidation afforded Brunswick becoming a part of
24 the St. Joseph district. And I understand we're going
25 to get into that stipulation momentarily.

1 As I stated earlier, we have consistently
2 maintained that fairness and equity demand that
3 transparency be an integral part of the Commission's
4 consideration of this important topic. However,
5 ironically in this proceeding, it has been suggested,
6 and I believe Mr. England quoted it in his opening and
7 I'll quote it now: Now is the perfect time to
8 consolidate rates when no one district is likely to
9 experience rate shock. Staff is very cognizant of how
10 some customers view the idea of consolidating rate
11 districts. If the Commission were to wait until one
12 district was on the verge of experience rate shock,
13 then the outcry from the other districts would be very
14 focal and the moment toward consolidation would be
15 harder to justify. Thus, consolidating now is an
16 opportune time.

17 Excuse me? Staff's proposed consolidated
18 new district 2 will consist of St. Joseph, the anchor
19 district with the most customers; Platte County, which
20 includes Riverside; and Brunswick.

21 Company witness Dunn in his Direct
22 Testimony and Ms. Norton this morning testified
23 concerning the Platte County water treatment
24 retirement and the fact that they're building a new
25 water treatment plant in Platte County, which is in

1 the Company's current capital investment plan, has
2 construction starting in 2017 with completion by the
3 end of May of 2018. A new water treatment plant. Now
4 that has a familiar ring to it. A loud and expensive
5 ring.

6 I don't see transparency to the customers
7 of St. Joseph in this situation. Consolidate now and
8 they will find out the implications later. I wonder
9 what the turnout would have been in St. Joe if they
10 had seen Mr. England's handout, particularly page 2.

11 Let's look at district -- at page 2 at
12 district two. St. Joseph, costs per residential
13 customer, 418 dollars; Platte County, 1,000 dollars;
14 Brunswick, 937 dollars. And this is before the water
15 plant comes on line.

16 Commissioner Coleman, Commissioner Kenney
17 I think you were at the St. Joseph public hearing. I
18 don't recall, having read the transcript, any
19 discussion, any mention of this new water treatment
20 plant coming online for Platte County. And I would
21 suggest that if they had been made aware of it prior
22 to the local hearing, you might still be there hearing
23 testimony in the City of St. Joseph.

24 So turning to the positive, our statement
25 reflects that the water districts support and

1 appreciate the class cost-of-service main adjustment
2 for the sale for resale customers in the St. Joseph
3 service area. This is an appropriate recognition that
4 the sale for resale customer class is connected
5 directly to the transmission system and does not
6 receive any benefit from the smaller distribution
7 mains.

8 We maintain all of our trunk lines from
9 the points of connection throughout the districts as
10 well as the distribution lines, 400 miles for Andrew 1
11 and 300 miles for Andrew 2.

12 We also support the Staff's position that
13 the existing declining block rate structure for the
14 sale for resale class be maintained in the St. Joseph
15 service territory, which allows larger customers who
16 generally experience better load factors to pay a
17 lower tail block rate to reflect the lower costs to
18 serve them.

19 Thank you very much for your attention
20 and I'd be happy to answer any questions.

21 JUDGE JONES: Questions? Commissioner
22 Stoll.

23 COMMISSIONER STOLL: No questions. Thank
24 you for your history lesson.

25 MR. DORITY: You're very welcome.

1 COMMISSIONER KENNEY: I was going to say
2 the same thing. Regarding that history lesson, just
3 two questions. Is it your opinion and belief that
4 this Commission should be consistent with past
5 Commissions in order that the utilities can have a
6 direction on which way we're going?

7 MR. DORITY: I think generally speaking,
8 there is value in continuity and being consistent. I
9 recognize that conditions change, facts may change and
10 the public policy decisions that you, as the
11 Commission have to render, can change as --
12 accordingly. But as a general proposition, I think
13 there is great value in consistency.

14 COMMISSIONER KENNEY: Would you also
15 agree that a past Commission's decision has no impact
16 on a future Commission decision?

17 MR. DORITY: I think that is the law,
18 that you are not bound by past Commission decision.

19 COMMISSIONER KENNEY: Thank you.

20 MR. DORITY: Yes, sir, Commissioner.

21 JUDGE JONES: Thank you, Mr. DORITY.

22 MR. DORITY: Thank you very much.

23 JUDGE JONES: StoneBridge Village?

24 Triumph Foods?

25 Okay. Well, I don't think we'll talk

1 about the Stipulation and Agreement just yet. Let's
2 go ahead and take lunch. Let's be back here at 3:30.

3 (A recess was taken.)

4 JUDGE JONES: Let's go ahead and go on
5 the record. We've heard opening statements on the
6 district consolidation -- consolidated pricing issue.
7 Let's go ahead and go with the -- a discussion of the
8 agreement that was just filed.

9 OPC, can you -- can you just walk us
10 through that and see if we have any questions?

11 MR. POSTON: Sure. And I'll start with
12 saying we -- one of our goals here, as I think I said
13 before, is we were trying to come up with something
14 that gave a little of something to every party in this
15 case. And that's what we think we've achieved.

16 Starting out with rate design the
17 five-eighths and three -- it says three-fifths, that
18 should be three-fourths meter. These are the current
19 St. Louis rates. And we're proposing just a uniform
20 customer charge across all the districts. And this is
21 something that we thought the Company would -- would
22 help the Company, because I know they're proposing
23 uniform rates across districts at their 17.40. So
24 this isn't up to their level, but it does provide a
25 uniform rate as they have requested for those sizes of

1 meters.

2 So then we just propose that -- that
3 there just be an equal percentage increase based on
4 the overall increase in the case to the other par--
5 the other classes.

6 And if any other parties want to jump in
7 and stop me if they think I'm saying something wrong,
8 please do.

9 And on district consolidation, what we
10 tried to do is we tried to identify the smaller
11 districts that had been recently acquired and -- and
12 identified as possibly having more of a need to be
13 consolidated. And so we addressed those.

14 Anna Meadows and Hickory Hills are close
15 to St. Louis so we consolidated those with St. Louis.
16 Brunswick, which is kind of on its own, it's -- you
17 know, it's not next to any other district, but it's --
18 it is -- I don't know how many miles from St. Joseph,
19 but we did get St. Joseph to agree that they would be
20 willing to take Brunswick. I think there was tes-- we
21 heard it's about 340 accounts. Redfield, be
22 consolidated with Jefferson City. Again, Redfield is
23 just south of here.

24 And then we propose a new Branson
25 district that would take in all of those other small

1 systems that were in the district eight.

2 And then recognizing the concerns that
3 Platte has raised about their current high rates and
4 water quality and all those issues, we've proposed a
5 5 percent reduction which, of course, wouldn't be
6 possible if the representatives from Joplin and
7 St. Louis didn't agree that they would take on that
8 5 percent.

9 On the sewer systems, it's our
10 understanding this 565,000 is the revenue requirement
11 that's -- it's uncertain who's going to pick that up.
12 And so in this, we've come up with a solution that,
13 once again, Joplin and St. Louis have agreed to take
14 that on in order to avoid the consolidation -- the
15 other consolidation proposals.

16 Arnold, we're proposing that be capped at
17 the 33 dollar flat charge consistent with the
18 commitments to Arnold ratepayers that you heard about
19 this morning.

20 Capital expenditure plans this -- you
21 know, there's been a lot of talk in this case about
22 capital -- capital expenditure plans going forward
23 between now and the next rate case. And we just
24 thought that having the Company file this annually
25 would give us an opportunity to have that information

1 available going into the next rate case and to know
2 exactly what -- what plans they do have.

3 And then there's just the general
4 provisions that you saw in the other stipulation.

5 JUDGE JONES: Do you have questions?

6 CHAIRMAN HALL: I do have one question.

7 The fourth bullet under rate design where it says, All
8 other remaining increases and decreases. Is that --
9 is that the volumetric increases or decreases or are
10 you speaking specifically about customer charges? And
11 if so, I'm confused.

12 I asked a question and I'm waiting for
13 the answer.

14 MR. DOWNEY: We're working on it.

15 CHAIRMAN HALL: Okay.

16 MR. DOWNEY: Chairman Hall, Ed Downey on
17 MIEC's behalf. The way I interpreted this language
18 when I signed this stipulation, and I'm not hearing
19 disagreement, is whatever aspects go into rates would
20 be given an across-the-board increase commensurate
21 with -- with the percentage determined, which I guess
22 was the 1.15 percent.

23 CHAIRMAN HALL: Okay. Well, but -- so
24 the three bullets above that concern the customer
25 charge. And then does that bullet -- does this bullet

1 encompass the volumetric? And, you know, I'm --

2 MR. DOWNEY: I understand it would
3 encompass volumetric and every other element that goes
4 into rates. And if --

5 CHAIRMAN HALL: Okay. And then I guess
6 another question for -- for OPC and any other
7 signatory to the agreement is -- and I think I know
8 the answer to this, but if the agreement is only to
9 these specific customer charges, there wouldn't be an
10 agreement to have a statewide customer charge that was
11 higher than that, for example?

12 I mean it's -- there's two components to
13 it. One, you got a statewide charge, but it's that
14 specific charge that you -- that -- I mean it's --
15 you're not voicing support for a statewide charge.
16 It's this specific charge. Does that make sense, what
17 I'm asking?

18 MR. POSTON: Yeah. We're not -- yeah,
19 we're not voicing support for generally a statewide
20 charge. We're --

21 CHAIRMAN HALL: You could live with this
22 one?

23 MR. POSTON: Or less, yes.

24 CHAIRMAN HALL: Or less. And I should
25 know this, but what -- never mind. I see it here.

1 Thank you.

2 MR. POSTON: And I will point out that
3 that charge, as it says, is the St. Louis Metro rate.
4 So that means 80 percent of the Company's customers
5 would not get an increase to their customer charge.

6 JUDGE JONES: Commissioner Stoll?

7 COMMISSIONER STOLL: Okay. I don't know
8 that I have a specific question about this stipulation
9 I'll call it, but those that are opposed to this plan,
10 if anybody would like to make any comments, be happy
11 to hear from you as to -- I don't want you to divulge
12 any plans necessarily, but if there is something you
13 could tell us about your accepting of this or
14 opposition to it, that would be great.

15 MR. BEDNAR: Yeah, I -- our objection to
16 this is it really doesn't address the fundamental
17 policy issues that we need to establish going forward,
18 at least for the Platte County water district is --
19 and it's not even fine print. This is a one-time one
20 rate case settlement at a 5 percent decrease. We're
21 not consolidated with anyone. So it just kind of
22 pushes it down the road, kick the can down the road.

23 And I believe, and I think other parties
24 believe, that there are other consolidation models
25 that will offer not only the Platte County water

1 district but other water districts a decrease in their
2 rates if we establish the appropriate consolidation
3 model.

4 And that's what we would -- that's what
5 we would propose. And that's why I'm opposed to --
6 I'm never opposed to a rate decrease, but this really
7 doesn't -- you know, given all the issues at hand, we
8 really want the consolidation issue to be resolved in
9 this case.

10 COMMISSIONER STOLL: And you were
11 obviously involved in this discussion, but --

12 MR. BEDNAR: No.

13 COMMISSIONER STOLL: You weren't?

14 MR. BEDNAR: It was e-mailed to me this
15 morning.

16 COMMISSIONER STOLL: Okay. You weren't
17 obviously involved then.

18 MR. BEDNAR: No.

19 COMMISSIONER STOLL: Okay.

20 JUDGE JONES: Thank you, Mr. Bednar.

21 MS. MYERS: Staff can speak to this as
22 well. Staff did not sign onto this agreement. While
23 we consider this a step in the right direction, there
24 is some consolidation, it's minimal and it really
25 doesn't address the large issues that we see, public

1 policy concerns that we have. And we really feel that
2 Staff's three-district hybrid scheme is superior in
3 that regard.

4 COMMISSIONER STOLL: Okay.

5 MR. ENGLAND: Commissioner Stoll, I would
6 agree with Jamie's comments or the Staff's comments,
7 excuse me. And we intend to file, if need be, a
8 formal objection.

9 Now, having said that, I do appreciate
10 the parties' efforts to try to reach an agreement and
11 there are some -- as Jamie pointed out, some -- some
12 movement here that's positive. For example, we are
13 very supportive of statewide customer charges. We'd
14 actually like to see them higher and we address that
15 later in our testimony and there's an issue on that in
16 the rate design. But statewide customer charges is
17 certainly a positive. The fact that the parties are
18 willing to consider some consolidation, obviously not
19 as much as we would like, is also a positive.

20 And one thing that I need to mention
21 and -- as it has not been mentioned or at least not
22 since I've been here in the hearing room, is the sewer
23 system revenue contribution. We believe that the
24 contribution needs to be something more in the
25 neighborhood of a million two to million three rather

1 than the 565,000 dollars. We've got a real issue and
2 we'll address it in testimony -- real issue with the
3 Arnold system not recovering or not being able to
4 recover its true cost-of-service at least as -- as
5 proposed by Staff. So that's a big issue as well.

6 COMMISSIONER STOLL: And you said a
7 million two to a million three?

8 MR. ENGLAND: Roughly in that
9 neighborhood, yes, sir. And I think it's roughly an
10 additional 700-- million three is what I'm told. It's
11 roughly an additional 700,000 dollars almost attr--
12 solely attributable to the Arnold situation.

13 COMMISSIONER STOLL: How do you see that
14 being resolved?

15 MR. ENGLAND: Well, I think -- my
16 suspicion is you're going to have to resolve it,
17 because I don't think we're going to reach agreement
18 on it. If you think it's appropriate, then I think we
19 would propose that it be recovered from perhaps all of
20 the districts -- all of the water districts and
21 perhaps residential because the sewer system primarily
22 serves residential customers.

23 COMMISSIONER STOLL: Okay. I won't ask
24 anything further about Arnold right now then. Okay.
25 Is there very -- is there any chance that the entire

1 group could work out a plan on this, a consolidation
2 plan that -- that they could support or -- well, I'm
3 getting all kinds of different looks so --

4 MR. ENGLAND: Well, in fairness to
5 everyone, I think everyone has really tried. I mean
6 I'm not -- I'm not criticizing anybody's lack of
7 effort. But you understand and you've heard some of
8 the testimony so far. There are some parochial
9 entrenched interests that -- that feel like they've
10 gone as far as they can as far as compromise and I
11 think they're willing to let you all, as the
12 policymakers, you know, make that decision

13 COMMISSIONER STOLL: Okay.

14 MR. ENGLAND: I'll let them speak for
15 themselves.

16 COMMISSIONER STOLL: Okay. That's --
17 that sounds like where we are and I certainly
18 understand that. Okay. I do appreciate the efforts
19 everybody has made and will carry on from here and see
20 where our discussion leads.

21 JUDGE JONES: Commissioner Kenney?

22 COMMISSIONER KENNEY: I'm good.

23 JUDGE JONES: Commissioner Rupp?

24 COMMISSIONER RUPP: I'm good.

25 JUDGE JONES: Let's go ahead and start

1 with our first witness on -- or second witness now on
2 district consolidation. I take it that's Herbert or
3 MA-- somebody for Missouri American?

4 MR. BEDNAR: Your Honor, I think they
5 made some accommodations for the mayor of Riverside to
6 speak since Mr. Herbert may run over into tomorrow
7 morning. So I'd call Mayor Kathleen Rose to the
8 stand.

9 JUDGE JONES: Okay. Now, this is on rate
10 design. Correct?

11 MR. BEDNAR: We agreed to -- it's really
12 consolidated tariffs as well as rate design.

13 JUDGE JONES: Can you raise your right
14 hand.

15 (Witness affirmed.)

16 JUDGE JONES: Thank you.

17 MR. BEDNAR: Thank you, Your Honor.

18 KATHLEEN ROSE, testified as follows:

19 DIRECT EXAMINATION BY MR. BEDNAR:

20 Q. **Would you state your full name for the**
21 **record, please?**

22 A. Kathleen Rose, R-o-s-e.

23 Q. **And -- and what is your occupation? What**
24 **is your role today?**

25 A. I am the mayor for the City of Riverside.

1 **Q. And as mayor for the City of Riverside,**
2 **did you cause certain testimony to be filed previously**
3 **in this case?**

4 A. I did.

5 **Q. Under your name?**

6 A. (Witness nodded head.)

7 **Q. And since you filed that testimony, are**
8 **there any changes you'd like to make or new**
9 **information that you have found out that you'd like to**
10 **add to that testimony?**

11 A. Yes. In March -- the first part of
12 March, we -- the City of Riverside, provided a -- our
13 City Hall for Missouri American to hold a town hall
14 meeting. We had close to 100 people in attendance for
15 that town hall meeting. And that meeting I was
16 shocked and surprised at all of the water quality
17 issues that I heard throughout all of the district in
18 Platte County.

19 **Q. What, in particular, did you hear that**
20 **you were surprised about?**

21 A. Well, we have our own subdivision in
22 Riverside. It's only a subdivision that is six years
23 old and there were several residents that were present
24 to talk about their damaged water pipes and faucets.

25 **Q. Now, this was in addition -- at the**

1 **public hearing there was some testimony, was there**
2 **not, on -- and that was from the Thousand Oaks**
3 **subdivision and some from Montebello. Correct?**

4 A. Yes. But we heard about more of them at
5 the town hall meeting. You know, low water pressure,
6 calcified pipes, damaged appliances. It was pretty
7 extensive as far as all over the district.

8 **Q. And do you recall the comments from the**
9 **Company as to what actions they were taking or what**
10 **actions they'd taken since it began back in 2008 or**
11 **'9?**

12 A. Well, they basically had just told
13 everybody in the group that they were working with two
14 or three people in the room. And most people had not
15 had their issues resolved.

16 **Q. Anything else between the time of the**
17 **filing of the testimony and today?**

18 A. No.

19 MR. BEDNAR: I would tender Mayor Rose to
20 others for cross-examination. I'd offer Exhibit 1
21 as -- into evidence.

22 JUDGE JONES: Does anyone have any
23 objection to Riverside Exhibit 1?

24 Riverside Exhibit 1 is admitted into the
25 record.

1 (Riverside Exhibit 1 was received into
2 evidence.)

3 JUDGE JONES: Cross-examination from
4 Staff?

5 MS. MYERS: No questions, Your Honor.

6 JUDGE JONES: Missouri Division of
7 Energy?

8 MR. ANTAL: No questions, thank you.

9 JUDGE JONES: MIEC?

10 MR. DOWNEY: No cross, Judge.

11 JUDGE JONES: City of Brunswick?

12 MR. DRAG: No questions, Your Honor.

13 JUDGE JONES: City of Joplin?

14 MS. BELL: Yes, Your Honor.

15 CROSS-EXAMINATION BY MS. BELL:

16 **Q. Good afternoon. My name is Stephanie**
17 **Bell and I'm with the City of Joplin today. I have a**
18 **few questions.**

19 **In your Direct Testimony you argue that**
20 **it is unjust and unreasonable in this day and age for**
21 **a resident to pay a different amount for his water**
22 **just because he lives in a particular area; is that**
23 **correct?**

24 A. That's correct.

25 **Q. You would agree that residents in**

1 **different areas pay different -- different costs for**
2 **things like housing?**

3 A. Yes.

4 **Q. And for taxes?**

5 A. Yes.

6 **Q. And things like food?**

7 A. Yes.

8 **Q. And would you agree that residents in**
9 **different areas have different median incomes?**

10 A. Yes.

11 **Q. Okay. You state in your testimony that**
12 **you would eliminate district-specific rate-making.**
13 **Specifically, do you support single-tariff pricing?**

14 A. I do. Or some kind of consolidation
15 to -- for -- that the residential ratepayer gets a
16 better rate.

17 **Q. Were you involved in the 2000 rate case?**

18 A. No.

19 **Q. Are you aware that Riverside was involved**
20 **in that case?**

21 A. Yes.

22 **Q. And have you reviewed the brief that**
23 **Riverside filed in that case?**

24 A. No. I was not the mayor.

25 **Q. When did you become the mayor of**

1 **Riverside?**

2 A. 2006.

3 **Q. In 2006. Okay. In that brief Riverside**
4 **said it consistently continues to oppose the**
5 **continuation of STP because it is both unlawful and**
6 **unreasonable, in violation of the common law and**
7 **Section 393.130.**

8 **Does Riverside today believe that STP is**
9 **unlawful and unreasonable?**

10 A. That sounds like something legal that I
11 really can't speak to.

12 **Q. Okay. Do you know has there -- have**
13 **there been any new facts or changes in circumstances**
14 **since 2000 that would have caused Riverside to change**
15 **its opinion?**

16 A. I can only speak since I have been the
17 mayor since 2006 and I've been involved in five rate
18 increases in ten years that I have been the mayor.
19 And never in my wildest days would I have thought that
20 we had seen the water increase double in those ten
21 years' time. So that -- that's a big factor.

22 **Q. And one new fact that we do know is that**
23 **the upcoming plant improvements or plant replacement**
24 **in Parkville within the Platte County district, which**
25 **Riverside is a part. Correct?**

1 A. Yes.

2 Q. The Riverside brief in 2000 says, The
3 touchtone of public utility rate regulation is the
4 rule that one group or class of consumers shall not be
5 burdened with the cost created by another group or
6 class.

7 Do you disagree with that statement now?

8 A. I do.

9 Q. In that -- in that brief Riverside argued
10 that cost-based rates send proper price signals to
11 utility customers, provide appropriate public input
12 and cost-based rates provide earnings stability for
13 the utility.

14 Do you have any reason to believe that
15 statement is untrue?

16 A. No. Again, I cannot speak to what was in
17 that -- that brief.

18 Q. Okay. So you became the mayor in 2006,
19 you said; is that correct?

20 A. Correct.

21 Q. And Riverside participated in the 2007
22 Missouri American case?

23 A. Yes.

24 Q. Do you know if Riverside argued for
25 single-tariff pricing in that case?

1 A. I don't think so.

2 Q. And you participated -- Riverside
3 participated in the 2008 and 2010 cases?

4 A. Yes.

5 Q. And do you know if they argue -- if
6 Riverside argued for single-tariff pricing in either
7 of those cases?

8 A. I know I had very -- I had a lot of
9 conversations with Mr. Kartmann about single tariff.

10 Q. Okay. No further questions.

11 JUDGE JONES: City of St. Joseph?

12 MR. LAWYER: No questions.

13 JUDGE JONES: Warrensburg?

14 MR. CURTIS: No questions. Thank you.

15 JUDGE JONES: Public Water Supply

16 Districts?

17 MR. DORITY: No questions. Thanks.

18 JUDGE JONES: StoneBridge? Triumph?

19 OPC?

20 MR. POSTON: No questions.

21 JUDGE JONES: Missouri American Water

22 Company?

23 MR. ENGLAND: No questions, Your Honor.

24 JUDGE JONES: Questions from the

25 Commission?

1 CHAIRMAN HALL: No questions. Thank you.

2 COMMISSIONER STOLL: No questions. Thank
3 you.

4 THE WITNESS: Okay.

5 COMMISSIONER KENNEY: You're always
6 skipping me, boss.

7 JUDGE JONES: I can't see you sitting
8 down there.

9 QUESTIONS BY COMMISSIONER KENNEY:

10 **Q. Mayor, thank you for your service to your**
11 **constituents. I remember I saw you at the public**
12 **hearing.**

13 **On the town hall, who called the town**
14 **hall?**

15 A. Missouri American. They contacted me
16 about wanting to hold a town hall meeting and they
17 needed a place to provide -- for that town hall and we
18 offered our -- our City Hall for that to happen.

19 **Q. So would you agree that they were very**
20 **proactive in trying to get that going at that point?**

21 A. Yes.

22 **Q. Now, I -- and would you agree that a lot**
23 **of the problems on the water side are -- I don't want**
24 **to use the word "sporadic," but as I listened to some**
25 **of the members of the -- that subdivision -- what was**

1 **the name of the subdivision?**

2 A. Thousand Oaks.

3 Q. Thousand Oaks. That -- and I had heard
4 some testimony that not everybody has the problems. A
5 lot of people do have problems, but then somehow some
6 people don't?

7 A. That's correct.

8 Q. Okay. Have they -- I'm just curious,
9 have they -- and I'm sure there were a lot of angry
10 residents at that town hall that were speaking. I
11 read some of the -- the testimony. Is -- do you agree
12 that you need a new system?

13 A. I agree they need to fix the system that
14 they have.

15 Q. Do you think that system can be fixed,
16 the one they have there?

17 A. I don't know.

18 Q. Okay. Because I've been through it. I
19 think it's -- I don't know -- I forgot how old it was,
20 but it's terrible shape and obviously you're having
21 problems so and I know -- I've heard testimony about
22 leaks happening in the roads and I know they don't
23 have a large staff at that facility. But your
24 argument is that the people who use the water from
25 that facility should not have to pay all the expenses

1 **of that facility; is that right?**

2 A. That's correct.

3 **Q. And why is that?**

4 A. Because water is a necessity of life.

5 And my perspective is a little bit different than
6 other electeds possibly, because I believe that there
7 are -- there are many things that -- as individuals,
8 that we are involved in that we pay for that other
9 people benefit by, number one. But number two, the --
10 the residential ratepayer, that is a basic service
11 that they need and it needs to be a fair and
12 reasonable rate for them to be able to have that.

13 **Q. And that is our commission. We have to**
14 **give fair and reasonable rates. So I would agree with**
15 **that. Your argument is because the expense is so**
16 **high, it's unfair for your constituents?**

17 A. That's correct. And I have an aging
18 population.

19 **Q. Do -- do you believe we should have a**
20 **low-income tariff also or do you support that?**

21 A. I -- I would need to see that, but it
22 sounds reasonable.

23 **Q. All right. Thank you.**

24 A. Anything else?

25 JUDGE JONES: Just a moment.

1 Any recross based on questions from
2 Commi ssi oner Kenney? OPC?

3 RECCROSS-EXAMINATION BY MR. POSTON:

4 Q. Good afternoon. I just wanted to ask how
5 many town hall meetings has Missouri American
6 contacted you about and asked you to hold?

7 A. One.

8 Q. Okay. And it wasn't until this case was
9 opened before the Commission that they asked you that;
10 is that correct?

11 A. That's correct.

12 Q. Thank you. That's all.

13 JUDGE JONES: Any redirect?

14 MR. BEDNAR: Yes, Your Honor.

15 REDIRECT EXAMINATION BY MR. BEDNAR:

16 Q. Just to clarify the transcript, the
17 exhibit that you have attached to your testimony is
18 the testimony that was elicited at the public hearing.
19 Correct?

20 A. That's correct.

21 Q. And then the city sponsored their own
22 town hall community meeting based -- because -- as a
23 result of what you heard at that public hearing.
24 Correct?

25 A. That's correct.

1 **Q. And it was after that second hearing is**
2 **when the Company contacted you about having their town**
3 **hall meeting. Correct?**

4 A. That's correct.

5 **Q. And that's where over 100 people showed**
6 **up for that at 6:00, 7:00 in the evening. Correct?**

7 A. That's correct.

8 **Q. Okay. Now, there's a little spot on the**
9 **cross-examination from Joplin about the socialization**
10 **of rate-making and you talk about your perspective as**
11 **mayor. In your administration, have you taken the**
12 **parochial approach of everybody's responsible for**
13 **their own city and you don't share your services or**
14 **any values or assistance that you can provide other**
15 **communities?**

16 A. Not at all. We -- we -- we have a
17 wonderful relationship and partnership with just about
18 every city in our region that we are -- that we share
19 a lot of different things with. And it's been -- it's
20 been very valued to be able to not just think about
21 your own and think about others.

22 **Q. And you actually have shared with Joplin**
23 **as well, have you not, after the tornado?**

24 A. That's correct.

25 **Q. And you lost a public safety officer.**

1 **Correct?**

2 A. That's correct. We sent one of our
3 public safety officers down for their tornado
4 assistance and he lost his life.

5 **Q. No further questions.**

6 JUDGE JONES: You may step down.

7 THE WITNESS: Thank you.

8 JUDGE JONES: Okay. Missouri American.

9 MR. ENGLAND: Thank you, Your Honor. I
10 think it's time for our witness Paul Herbert --

11 JUDGE JONES: Yes.

12 MR. ENGLAND: -- if I'm reading the
13 schedule correct. Would it be a good idea to go off
14 the record and mark these additional exhibits we've
15 been talking about?

16 JUDGE JONES: Sure.

17 MR. ENGLAND: And distribute them as
18 well. Thank you.

19 (MAWC Exhibits 48, 49, 50 and 51 were
20 marked for identification.)

21 (Witness affirmed.)

22 JUDGE JONES: Thank you, sir. You may be
23 seated.

24 PAUL R. HERBERT, testified as follows:

25 DIRECT EXAMINATION BY MR. ENGLAND:

1 **Q. Would you please state your full name for**
2 **the record, please?**

3 A. Paul R. Herbert.

4 **Q. And by whom are you employed and in what**
5 **capaci ty?**

6 A. I am president of Gannett Fleming
7 Evaluation and Rate Consul tants, LLC.

8 **Q. And are you appearing here on behal f of**
9 **Missouri American Water Company?**

10 A. I am.

11 **Q. Mr. Herbert, did you cause to be prepared**
12 **and filed in this proceeding a document entitled**
13 **Direct Testimony of Paul R. Herbert and marked for**
14 **purposes of identi fication as MAWC Exhibi t 7?**

15 A. I have.

16 **Q. Let me identify your other testimony**
17 **before we get into corrections. Did you also cause to**
18 **be prepared and filed a document entitled Supplemental**
19 **Testimony of Paul R. Herbert, previously marked for**
20 **purposes of identi fication as MAWC Exhibi t 8?**

21 A. I di d.

22 **Q. Next, did you cause to be prepared and**
23 **filed a document entitled Rebuttal Testimony of Paul**
24 **R. Herbert, previously marked for purposes of**
25 **identi fication as MAWC Exhibi t 9?**

1 A. Yes.

2 Q. Finally, did you cause to be prepared and
3 filed in the case a document entitled Surrebuttal
4 Testimony of Paul R. Herbert, marked for purposes of
5 identification as MAWC Number 10?

6 A. Yes.

7 Q. With respect to those exhibits, sir, do
8 you have any corrections you need to make at this
9 time?

10 A. I do.

11 Q. Would you please take them slowly for the
12 folks here as well as the record?

13 A. On MAWC Number 8, my Direct Testimony --

14 Q. Excuse me. I believe that's 7.

15 A. Oh, I'm sorry. MAWC Number 7, yes. My
16 direct. The table of contents, the page numbers
17 beginning with the third line, customer rate design,
18 should be page 12 instead of 11; the next one should
19 be page 15 instead of 14; the next should be page 19
20 instead of 18; and the customer rate design should be
21 page 21 as opposed to 19.

22 Q. Do you have any other changes or
23 corrections?

24 A. I do. On -- on page 3 of the same
25 exhibit or same testimony, lines 17 and lines 20, the

1 Schedule Number PRH-2 should become PRH-1A in both --
2 in both lines, 17 and 20.

3 **Q. And should the exhibit attached to your**
4 **testimony previously marked PRH-2 also become PRH-1A?**

5 A. It should.

6 **Q. Thank you, sir. Any other changes or**
7 **corrections?**

8 A. In my -- in the Direct Testimony, again,
9 for some reason the page numbers from page -- after
10 page 11 did not get registered. So those pages
11 subsequent to page 10 should be numbered page 11
12 through 25.

13 Moving to my Rebuttal Testimony, MAWC
14 Number 9 --

15 **Q. Excuse me, sir. I think you -- that's**
16 **Number 8. You're one ahead of yourself.**

17 A. Rebuttal.

18 **Q. I'm sorry. My mistake.**

19 A. I don't think there's any changes to
20 Number 8.

21 **Q. Your correct. My mistake.**

22 A. On Number 9 -- on page 9 of Number 9,
23 lines 21 and 22, I indicate Mr. Martin suggests. It
24 should have been Mr. Hyman, the same in line 22. It
25 should be Mr. Hyman's position. And on page 13 of the

1 same document, lines 5 and 6, the line 5 the word
2 "Brunswick" should be scratched. And at the end of
3 that sentence it should read, Platte County and
4 Brunswick are. Continuing, The only significant
5 outliers at 1,031 instead of 35 and 937 dollars
6 annually.

7 And then I believe the -- the last
8 changes are to Schedule Number PRH-6 that was attached
9 to my Rebuttal Testimony. On page 1, the cost per
10 residential customer in the last column for Mexico
11 under zone two should be \$578.35 instead of the
12 433.76. And under zone 3, the \$702.92 should be
13 \$937.23.

14 On page 2 of the schedule, the same
15 corrections need to be made for Mexico and Brunswick.
16 For Mexico, 578.35 instead of the 433.76. And for
17 Brunswick, 937.23 instead of the 702.92.

18 **Q. Thank you, sir.**

19 A. With that, I believe that's all my
20 corrections.

21 **Q. Thank you, sir. Now, let me turn your**
22 **attention to the exhibits that were just marked a**
23 **little while ago. The first being I believe MAWC**
24 **Exhibit Number 49.**

25 JUDGE JONES: I think you started at 48.

1 MR. ENGLAND: Looks like I'm the one with
2 the numbering problem, Your Honor. Thank you. You're
3 right, 48.

4 THE WITNESS: I have it.

5 BY MR. ENGLAND:

6 **Q. Mr. Herbert, would you please explain**
7 **what this analysis is purporting to show?**

8 A. This is the -- the Company's original
9 proposal for consolidated tariff pricing for zones
10 one, two and three based on the settlement level of
11 revenue requirement of a 30.6 million overall
12 increase. Uses the agreed -- what I'll call the
13 agreed-to billing determinants and customer charges at
14 17.40 across -- across the statewide for all -- all
15 three zones.

16 **Q. Are the customer charges those that were**
17 **proposed by the Company in its original filing?**

18 A. It -- they are.

19 **Q. And then focusing on the first page of**
20 **that exhibit, can you explain what you're showing in**
21 **the first column, which I believe is column B?**

22 A. Yes. That shows for -- it shows the bill
23 impacts for the different rate and meter size
24 customers by various usages. That shows their present
25 rate, their proposed rate and the percentage increase

1 or decrease.

2 **Q. For example, with respect to the first --**
3 **I guess on line 9, it says rate A, five-eighths inch**
4 **meters. Is that a typical residential customer --**

5 A. It is.

6 **Q. -- size?**

7 A. It is.

8 **Q. And then I think you indicated that you**
9 **are showing it at three levels of consumption?**

10 A. Yes. At 3,000 gallons per month, which
11 would be probably lower than average; 5,000 gallons a
12 month, which would probably be around average; and
13 then a higher level at 8,000 gallons a month, which
14 would --

15 **Q. Moving down to lines 23 and 37, you have**
16 **the rate A, but one is a one-inch meter and the other**
17 **is a two-inch meter. What customers are typically**
18 **served by those size meters, sir?**

19 A. Well, one-inch meters would be maybe some
20 larger residential or some smaller commercial
21 customers.

22 **Q. Okay.**

23 A. Two-inch also could be commercial,
24 that -- that kind of customer.

25 **Q. And before we leave this first page,**

1 **going across the top in the various columns, have you**
2 **listed all of the water districts there?**

3 A. They are listed through columns D
4 through --

5 **Q. And what's the --**

6 A. -- F.

7 **Q. And what's the significance of zone one**
8 **or two or three that you have there?**

9 A. Those are the zones that the Company
10 originally proposed in their original filing. Zones
11 one, two and three are indicated for each of the -- of
12 the districts that those districts fall into.

13 **Q. Okay. Turn the page, if you would,**
14 **please. And what size meters are depicted on this**
15 **page, please?**

16 A. Over on the left on line 51 you can see
17 rate A, six-inch meters. That would be some larger
18 customers, probably industrial or larger public
19 authority potentially.

20 **Q. And then the last group?**

21 A. Rate J are the large customers.
22 That's --

23 **Q. I'm sorry.**

24 A. -- that's the separate category that are
25 indicated for larger users. And they could -- they

1 could not only be industrial , but large commercial s
2 also.

3 **Q. And then it's the same columns for the**
4 **various districts as on the first page; is that right?**

5 A. That's right.

6 **Q. Page 3, can you tell us what's shown on**
7 **that page?**

8 A. The third page simply shows the amount of
9 fixed charge revenue from each district based on the
10 rate design in this scenario and whether -- under
11 present rates and under the proposed rates and the
12 total fixed charge revenue in the far right column S.

13 **Q. Turning the page, I believe it will be**
14 **page 4 -- not marked, but the fourth page in that**
15 **exhibit.**

16 A. Yes.

17 **Q. Can you explain what that purports to**
18 **show?**

19 A. This shows the proposed rates for each
20 district based on the zone that they are assigned to
21 in the Company's original filing. The customer
22 charges are at the top. The volumetric charges for
23 rate A and commercial going onto the next page,
24 industrial , OPA, rate J and sales for resale are then
25 shown in the -- on the second page.

1 **Q. OPA stands for what, sir?**

2 A. Other Public Authority. It's mainly
3 municipal type of operations.

4 **Q. Thank you. Turning to the next page,**
5 **let's say the last --**

6 A. The last two pages are the present rates
7 for each district.

8 **Q. Thank you. Oh, with respect to the**
9 **parameters, if you will, that are spelled out at the**
10 **top of the exhibit on the first page, the last one you**
11 **have a statement that says, Percent change in bills**
12 **includes rolling into base rates the current ISRS for**
13 **St. Louis County. Can you explain that, please?**

14 A. That would mean that the present rate
15 bill includes the ISRS charge.

16 **Q. I think -- do you mean the proposed rate?**

17 A. I'm sorry. The proposed rate has that,
18 yes, I'm sorry.

19 **Q. The present rate does not have that in**
20 **there?**

21 A. That's correct. I'm sorry.

22 **Q. Thank you. Now, turning to Exhibit 49,**
23 **is that a similar type of analysis as to what we just**
24 **discussed?**

25 A. It is.

1 **Q. Except it models a different scenario; is**
2 **that right?**

3 A. That -- that's right. This is the --
4 this is the Staff's consolidated tariff pricing under
5 the same revenue requirement of 30.6 million overall
6 increase. It -- it places what we understand that --
7 of Staff's customer charges for the -- each of the
8 zones. At the top there in column V it shows zone one
9 at 16.50, zone two at 14.80 and zone three at 14.50.

10 And then the rest of the -- these al--
11 this also reflects the agreed-to billing determinants,
12 same as the previous exhibit. And then the rest of
13 the -- the rest of the pages are -- are -- the format
14 is the same. It shows the present rate and bill at
15 various usages for the different rate categories and
16 the proposed -- proposed rates and the percent
17 increase.

18 And these zones -- however, these zones
19 at the top are -- are Staff's zones one, two and three
20 as opposed to the Company's zones, I believe. Yes

21 MR. ENGLAND: Just a second, Your Honor.

22 BY MR. ENGLAND:

23 **Q. Turning your attention to page 2, I**
24 **believe you've got a class customer listed there that**
25 **we didn't have in the first exhibit down at the**

1 **bottom. Do you see that?**

2 A. Rate B?

3 **Q. Yes.**

4 A. That's for the sales for resale.

5 **Q. Yes. Can you explain who those customers**
6 **might be?**

7 A. Those -- those are the customers that the
8 Company sells water in bulk to utilities -- water --
9 other water utilities that resell the water to their
10 own customers.

11 **Q. Like Public Water Supply Districts?**

12 A. Yes.

13 **Q. Okay. Thank you. Turning your attention**
14 **now to Exhibit 50, please describe what that analysis**
15 **purports to show.**

16 A. This is the -- this shows the
17 non-unanimous proposal that was just discussed earlier
18 this afternoon by the parties, including OPC and --
19 and MIEC and the rest. This -- this shows what the
20 rates would be under their -- their global proposal,
21 which includes a 5 percent decrease to Platte County
22 residential customers with them -- that being shared
23 10 percent and 90 percent to Joplin and St. Louis.

24 It includes also a 565,000 dollar
25 contribution from Joplin and St. Louis for sewer

1 customers, excluding Arnold. It reflects a customer
2 charges statewide at 14.42 for five-eighth inch meter
3 and 16.09 for a three-quarter inch meter and a
4 1.15 percent increase to all other larger meter sizes
5 from St. Louis Metro area. At-- but having those
6 customer charges applied statewide.

7 Also, it's based on the agreed-to billing
8 determinants and the rest of the schedule is similar
9 to the previous two.

10 **Q. And does this purport to have the same**
11 **information in the same format as the prior two**
12 **exhibits you discussed?**

13 A. They do.

14 **Q. Let me turn your attention now to**
15 **Exhibit 51. I believe this was a proposal by the City**
16 **of Riverside. Can you please explain this?**

17 A. Yes. Again, this -- this reflects the
18 same revenue requirement level of a 30.6 million
19 dollar increase. It is a consolidated tariff pricing
20 scenario for all districts, excluding Joplin and
21 St. Joe's. That he would -- Joplin and St. Joe's
22 would retain their own district-specific pricing and
23 all the other districts would be consolidated.

24 **Q. What other parameters are included in**
25 **that model or analysis?**

1 A. This includes a customer charge of 16.50
2 across the consolidated districts and main-- maintains
3 the customer charges under present rates for Joplin
4 and St. Joe's. The rate -- I'm looking at the rates
5 page now. It looks like this -- the rate J for
6 St. Louis Metro is slightly -- slightly less than the
7 rest of the consolidated districts. I don't know if
8 that was -- that's an error or that's -- was
9 intentional.

10 I think it was intentional, but I don't
11 know at this point. I'm sorry. I just noticed that
12 it's different. It's 1 point -- it's .1645 instead of
13 the .17 for the other consolidated districts.

14 **Q. Okay. Well, I can't help you with that**
15 **one, Mr. Herbert.**

16 A. I don't know.

17 **Q. Turning now -- or turning back to your**
18 **prepared Direct Supplemental Rebuttal and Surrebuttal**
19 **Testimony and keeping in mind the corrections that you**
20 **previously -- previously indicated, if I were to ask**
21 **you those questions here today on the stand, would**
22 **your answers be the same?**

23 A. They would.

24 **Q. Are those answers true and correct to the**
25 **best of your knowledge, information and belief?**

1 A. They are.

2 Q. With respect to the schedules that are
3 attached to your testimonies and to the four exhibits
4 that you've just identified, 48 through 51, were those
5 prepared by you or under your direct supervision?

6 A. They were.

7 Q. And do they contain information that's
8 true and correct to the best of your knowledge,
9 information and belief?

10 A. They are.

11 Q. Thank you, sir.

12 MR. ENGLAND: I have no other questions
13 of the witness at this time and subject to
14 cross-examination would ask that Company Exhibits 7,
15 8, 9, 10, 48 and 49, 50 and 51 be admitted into the
16 record.

17 JUDGE JONES: Any objections to those
18 exhibits?

19 MR. POSTON: Judge, can we hold off on
20 entering this until tomorrow until we've had an
21 opportunity to look at these numbers that -- we're
22 just getting this now.

23 JUDGE JONES: You mean with regard to 48
24 through 51?

25 MR. POSTON: Yes. I'm sorry. Just 48

1 through 51.

2 JUDGE JONES: Sure. Any objection to
3 MAWC 7, 8, 9 or 10?

4 I don't see any. MAWC 7, 8, 9, 10 are
5 admitted into the record.

6 (MAWC Exhibits 7, 8, 9 and 10 were
7 received into evidence.)

8 JUDGE JONES: And now we'll have
9 cross-examination from Missouri Department of Energy.

10 CROSS-EXAMINATION BY MR. ANTAL:

11 Q. Hello, Mr. Herbert.

12 A. Hello.

13 Q. **My name is Alex Antal. I'm an attorney**
14 **representing the Missouri Division of Energy. And**
15 **it's my understanding that you'll be unavailable**
16 **tomorrow during our rate design and customer charge**
17 **discussion; is that correct?**

18 A. I'll be here in the morning. I won't be
19 here in the afternoon.

20 Q. **Okay. Well, you have a noon flight?**

21 A. I have to leave here around noon to catch
22 my flight.

23 MR. ANTAL: Okay. Well, if -- I'll leave
24 it up to the judge. I know there was some discussion
25 before the break of taking up his customer charge

1 issues at this time. If we want to do that now, I'm
2 happy to answer the -- ask questions on customer
3 charge now, but if -- if we want to take those issues
4 up tomorrow morning, I'll wait until then.

5 JUDGE JONES: Do you have questions
6 concerning district consolidation?

7 MR. ANTAL: Not at this time.

8 JUDGE JONES: Okay. Let's -- let's go
9 ahead and talk about district consolidation at this
10 point in the transcript. And for your convenience
11 after that, if everyone's prepared, then we'll go
12 ahead and talk to you about customer charge so that
13 you don't have to risk missing a flight tomorrow.

14 MIEC, do you have cross-examination?

15 MR. DOWNEY: Yes, Judge.

16 CROSS-EXAMINATION BY MR. DOWNEY:

17 Q. Good afternoon, Mr. Herbert.

18 A. Good afternoon.

19 Q. My name's Ed Downey. I represent
20 industrial customers. And I want to ask you some
21 questions about these exhibits that you just prepared.
22 First of all, did you just prepare these?

23 A. Yes. Over the last couple days.

24 Q. Okay. And did you prepare them or did
25 somebody that works for you prepare them?

1 A. Actually my assistant did the number
2 crunching, yes.

3 **Q. Okay. I want to talk to you about**
4 **Exhibit 50 first. Now, it's my understanding what**
5 **you're doing is modeling rate impacts using the**
6 **non-unanimous stipulation that my client signed --**

7 A. That's right.

8 **Q. -- as well as others?**

9 A. That's right.

10 **Q. And the first column shows St. Louis**
11 **Metro --**

12 A. Yes.

13 **Q. -- is that right?**

14 **Actually that's not the first column.**
15 **That's column D.**

16 A. Yes.

17 **Q. Okay. And if I'm reading this correctly,**
18 **every single class of customer for St. Louis Metro is**
19 **seeing a rate increase; is that right?**

20 A. I believe so, yes.

21 **Q. Some -- some more significant than others**
22 **though. Right?**

23 A. That's right.

24 **Q. And just slide over and look at column N,**
25 **as in Nancy. That's Platte County?**

1 A. Yes.

2 Q. Am I correct that it is showing a
3 decrease in every single -- single customer class?

4 A. That's right.

5 Q. And that's under the non-unanimous
6 stipulation. And in some cases those decreases are
7 above 50 percent. Right? I'm sorry, in one case.
8 I'm going to help you. That's column N, line --

9 A. 68.

10 Q. -- 68.

11 A. Yes.

12 Q. Okay.

13 A. I notice the last line shows an increase
14 for Platte County.

15 Q. Okay. I'm sorry. I guess --

16 A. I'm not sure why.

17 Q. I stand corrected. That's 4 million
18 gallons per month?

19 A. Yes.

20 Q. That's a 10 percent increase. Column N,
21 line 82, that's almost a 50 percent decrease?

22 A. Yes.

23 Q. And that's for 45,000 gallons per month?

24 A. Yeah. It has a lot to do with this lower
25 customer charge.

1 **Q. Okay. And you said something to**
2 **Mr. England about this includes the 565,000 dollar**
3 **contribution from Joplin or St. Louis for sewer**
4 **customers. Explain how you factored that cost into**
5 **this. If you explained it already, I missed it, so**
6 **try me again.**

7 A. No. I didn't explain any details about
8 it.

9 **Q. Okay.**

10 A. Other than it reduces the -- it takes --
11 it takes 565,000 dollars of revenue requirement from
12 the sewer and applies that requirement -- that revenue
13 requirement 10 percent to Joplin, 90 percent to
14 St. Louis County as a revenue target from which the
15 rates can then be adjusted in order to make that up.

16 **Q. Okay. So part of this increase that**
17 **we're seeing in the St. Louis Metro rates in column D**
18 **is attributable to the stipulation's provision that**
19 **St. Louis Metro will absorb 90 percent of that sewer**
20 **cost, that 565,000 dollar sewer cost. Right?**

21 A. That's right.

22 **Q. Okay. That's not something that's on top**
23 **of these percentage increases?**

24 A. No. That's -- that's -- this is
25 all-inclusive of those items.

1 Q. Okay. I've got some more questions.
2 Give me just a second.

3 And I'd like you to look at Exhibit 48.
4 And it's my understanding that's the Company's
5 consolidated tariff pricing model?

6 A. Yeah. Based on their original proposal,
7 yes.

8 Q. All right. And then if we look at
9 column D, that's St. Louis Metro, every single class
10 is seeing a rate increase. Correct?

11 A. That's correct.

12 Q. And then for Platte County, just -- I'm
13 using Platte County as an example because I know their
14 rates are high. In every single instance under the
15 Company proposal, every single class, this is
16 column -- column N, Platte County receives a
17 significant rate decrease?

18 A. That's right.

19 Q. But really the only class that it
20 receives a rate decrease under the Company proposal
21 that it wouldn't receive a rate decrease under the
22 non-unanimous stip is the 4 million gallon per month
23 class; is that correct?

24 A. For Platte County?

25 Q. For Platte County, column N.

1 A. I believe that's correct.

2 Q. **All right. No further questions. Thank**
3 **you.**

4 JUDGE JONES: Any questions from
5 Brunswick?

6 MR. DRAG: No questions, Your Honor.

7 JUDGE JONES: Joplin?

8 MS. BELL: Yes, sir.

9 CROSS-EXAMINATION BY MS. BELL:

10 Q. **Good afternoon, Mr. Herbert.**

11 A. Good afternoon.

12 Q. **I'm Stephanie Bell on behalf of Joplin.**
13 **Earlier Mr. England had made a comment**
14 **about a sewer shortfall of approximately 1.3 million.**
15 **Is that what you heard?**

16 A. That's what I heard.

17 Q. **Okay. If we look at Exhibits 48, 49 and**
18 **51, is that sewer shortfall reflected in the rates in**
19 **those charts anywhere?**

20 A. I don't know.

21 Q. **You don't know?**

22 A. I don't -- I'm sorry. I don't know.

23 Q. **Do you know who might know? You**
24 **calculated these numbers?**

25 A. My assistant did.

1 **Q. Okay. And you said with the calculation**
2 **for fif-- let's see, for the non-unanimous stip**
3 **proposal, which would be 50 --**

4 A. Fifty.

5 **Q. -- you said you had to go in and add that**
6 **565. You didn't add in 1.3 million on these other**
7 **three -- three exhibits, did you?**

8 A. I don't know.

9 **Q. Okay.**

10 A. I wish I could tell you, but I -- I'm
11 sorry. I don't want to say if I'm not sure.

12 **Q. Okay. Do you -- you have stated that you**
13 **don't object to Staff's consolidation plan; is that**
14 **correct?**

15 A. That's right.

16 **Q. Okay. And you understand that Staff's**
17 **consolidation plan would put Joplin in with**
18 **Warrensburg?**

19 A. Yes, it would.

20 **Q. Warrensburg and Joplin's systems are not**
21 **interconnected in any way, are they?**

22 A. They are not, to my knowledge.

23 **Q. And are you aware that Warrensburg is**
24 **more than 160 miles from Joplin?**

25 A. Yes.

1 **Q. And are you aware that Joplin's current**
2 **source of supply is both surface water and**
3 **groundwater?**

4 A. I'll take that, subject to check.

5 **Q. And Warrensburg's source of supply is**
6 **solely groundwater?**

7 A. I don't know, but that could be.

8 **Q. Okay. Are you aware of any effort on the**
9 **part of the Company to educate people in Joplin that**
10 **they had to pay for upgrades -- that they might have**
11 **to pay for upgrades in Warrensburg or in another**
12 **district in the future?**

13 A. I'm not aware.

14 **Q. Okay. In your Direct Testimony, you**
15 **argue that the Company's ability to absorb the cost of**
16 **capital projects is a compelling argument in favor of**
17 **consolidation. You made that argument. Correct?**

18 A. I make the argument that the -- that by
19 having consolidated pricing, it -- it spreads those
20 large construction projects over a wider base of
21 customers, yes.

22 **Q. How --**

23 A. Which -- which leads to rate stability.

24 **Q. Can you explain how that benefits the**
25 **customers in Joplin?**

1 A. It benefits all customers, because at
2 some time down the road everyone's going to need
3 significant improvements to their system. And so I --
4 that leads to the rate stability that I'm talking
5 about. It may not be next year, it may not be five
6 years down the road, it may not be ten. It might --
7 it could be longer. But eventually every district is
8 going to need some kind of significant capital
9 improvement project.

10 **Q. In your Direct Testimony, you state,**
11 **There is no question that the service rendered to a**
12 **residence in one area is the same as the service**
13 **rendered to a residence in other area.**

14 A. The service is the same.

15 **Q. Is surface water and groundwater treated**
16 **and processed the same or differently? It's**
17 **different, isn't it?**

18 A. It doesn't matter. It doesn't matter.
19 It's the end of product. It's what comes out of the
20 tap that's important. Okay? When you draw a glass of
21 water in Joplin or you draw one in St. Louis, does --
22 do you sit there and say, Oh, wow, this is groundwater
23 or oh, my, this must be surface water. You don't
24 know. It's -- it's -- it's the same product. It's
25 the end product that's important.

1 **Q. And I understand that was part of your**
2 **testimony. My question is, do you treat surface water**
3 **and groundwater differently? You do, don't you?**

4 A. The treatment process?

5 **Q. Correct.**

6 A. Of course.

7 **Q. Of course. And so that would be factored**
8 **into the costs? There are different costs in treating**
9 **groundwater versus surface water. Correct?**

10 A. There are.

11 **Q. Are you aware of any capital improvement**
12 **plans in the future for the district of Warrensburg?**

13 A. I -- I'm not the one to ask that.

14 **Q. Okay. No further questions.**

15 JUDGE JONES: Thank you. Questions from
16 Ri versi de?

17 MR. BEDNAR: Just a couple, Your Honor.

18 CROSS-EXAMINATION BY MR. BEDNAR:

19 **Q. Mr. Herbert, MIEC asked you about the**
20 **Staff proposals in regards to -- and Company proposals**
21 **in regards to the increases that St. Louis customers**
22 **would see versus those in Platte County. Correct?**

23 A. Yes.

24 **Q. And he was talking in percentages.**
25 **Correct?**

1 A. He was.

2 Q. Now, if you turn to Exhibit 48, which was
3 the Company's original proposal --

4 A. Yes.

5 Q. -- while Platte County gets decreases in
6 almost every category, their dollar amount is still
7 higher -- at a higher level than St. Louis in every
8 category. Correct?

9 A. It is.

10 Q. And some more significant than others.
11 Correct?

12 A. That's correct.

13 Q. Especially when you get into the
14 industrial aspect. If I could turn your attention on
15 the Company's proposal -- original proposal, column N
16 and D on the second page, the 2 million and 4 million
17 dollars where in St. Louis an industrial user's
18 present rate is 6,380.04 and the current rate in
19 Platte County is 17,623. Even with the decrease of
20 19.3 percent, the Platte County rate will still be
21 double that of St. Louis. Correct?

22 A. That's correct.

23 Q. And that is true on the Staff proposal.
24 The only lines that -- in which Platte County would
25 have a higher rate than Saint -- or lower rate than

1 **St. Louis is on page 1, line 40 under rate A, two**
2 **meters. It would be higher by 22 cents -- or I mean**
3 **23 cents -- I mean lower by 23 cents. Sorry.**

4 A. That's correct. I'm checking the others.

5 Q. **And then on page 2, line 54, it looks**
6 **I like Platte County would have -- be lower by 16 cents?**

7 A. That's right.

8 Q. **And still for your major industrials,**
9 **even after the price adjustments of Staff, the**
10 **industrial rate on line 90 of that column N is**
11 **12,128 dollars while in St. Louis it's \$8,225.09,**
12 **column D, 90?**

13 A. That's correct.

14 Q. **So even though we can play with the**
15 **percentages, St. Louis still has a tremendous**
16 **advantage over Platte County in overall rates. Right?**

17 A. Their rates would still be lower.

18 Q. **Thank you. Appreciate it.**

19 JUDGE JONES: Any questions from
20 St. Joseph?

21 MR. LAWYER: Yes, Your Honor.

22 CROSS-EXAMINATION BY MR. LAWYER:

23 Q. **Good afternoon. Excuse me. Good**
24 **afternoon, Mr. Herbert.**

25 A. Good afternoon.

1 **Q. I have some questions as they relate to**
2 **the Company's original proposal just kind of in a**
3 **generality. Joplin has already asked this question**
4 **about connections between districts. Are you aware of**
5 **any connections between the water systems in these**
6 **districts?**

7 A. I'm not aware.

8 **Q. Not aware of any. And then I believe --**
9 **I don't want to waste the Commission's time on this,**
10 **as I believe it's already been covered previously, but**
11 **you were speaking briefly about what matters is the**
12 **end product. But if I understood that correctly,**
13 **that's not taking into -- the cost that goes into**
14 **creating that end product. Am I correct in**
15 **understanding that?**

16 A. The costs are different.

17 **Q. The costs are different?**

18 A. They -- I would be amazed if they were
19 the same, to be honest with you. It would be
20 remarkable.

21 **Q. Remarkable?**

22 A. Okay? But I don't think it's -- it's a
23 compelling reason to have a different price for the
24 same end product.

25 **Q. For the same end product. Even -- so**

1 **if -- if the Company has different costs in providing**
2 **that, that's irrelevant?**

3 A. It's irrelevant to sound rate design, in
4 my view. It -- because as others have said earlier
5 today, there are cost differences within districts
6 that nobody seems to care about. There -- there's --

7 **Q. Certainly.**

8 A. -- significant difference between a
9 customer that's served at the -- the high service --
10 or directly from the treatment plant pumping as
11 opposed to somebody's who's miles away that require
12 maybe one or two different booster stations and
13 storage tanks.

14 **Q. Certainly.**

15 A. A significant difference in cost. But
16 nobody seems to care about that. They're paying the
17 same rate.

18 **Q. If -- well, I don't want to get into**
19 **hypotheticals. We've heard that many times as being**
20 **used as an example. But would the administrative**
21 **costs of breaking things down to that level be absurd,**
22 **would you say? I mean would it become the -- the**
23 **minutia of that, would that become a ridiculous --**

24 A. Absurd -- absurd is a good --

25 **Q. But using logical geographic districts is**

1 **a -- is a step that everyone's willing to take in**
2 **grouping?**

3 A. Everyone seems to ignore cost differences
4 when it serves them, yes.

5 **Q. Thank you.**

6 A. Uh-huh.

7 JUDGE JONES: Warrensburg?

8 MR. CURTIS: No questions. Thank you.

9 JUDGE JONES: Public Water Supply
10 Districts?

11 MR. DORITY: Thank you, Judge. Just a
12 couple.

13 CROSS-EXAMINATION BY MR. DORITY:

14 **Q. Mr. Herbert, thank you for running these**
15 **various schedules. They're very helpful. And I know**
16 **Mr. Busch has done a tremendous amount of work trying**
17 **to model. And for those of us that don't have experts**
18 **available, we appreciate your sharing work products**
19 **with us.**

20 A. I'll pass your thanks off to my
21 assistant.

22 **Q. Whoever's doing it, we appreciate it.**

23 **I was looking at your -- these Schedules**
24 **48 through 51. And my parochial interest, of course,**
25 **are the sale for resale and I'm looking at St. Joe.**

1 And in all of these various scenarios, it appears that
2 there is a single rate on the sale for resale. And I
3 guess I just wanted to ask you, do you understand that
4 in Staff's proposal, that Mr. Busch is recommending to
5 continue a declining block structure for all
6 non-residential customer rate classifications for his
7 water district number two and district number three?
8 Because I don't see that --

9 A. No. I thought he had --

10 Q. -- when I look at these.

11 A. My understanding was he had single rates
12 for classes for the -- all those districts.

13 Q. I -- I think if you will look at page 6
14 of the Staff cost-of-service report where they discuss
15 design of block rates, he testifies Staff proposes to
16 continue the existing SLM rate structure for water
17 district one and to continue a declining block
18 structure for all non-residential customer rate
19 classifications for water district two and water
20 district three. Staff's method in designing the block
21 rates was to keep the existing ratio between the
22 currently approved blocks constant.

23 And I will cover that with Mr. Busch when
24 he's on the stand, but that's -- that's what Staff has
25 testified to. And I don't see that in any of these

1 **schedules when I look under St. Joe.**

2 A. Well, I would -- I would not -- I would
3 rather have a single block for sales or
4 resale because --

5 **Q. I know you would, but that's not what's**
6 **in existence today. And I think the Staff's report**
7 **had indicated that they would not undertake moving in**
8 **any way in that direction without a full**
9 **cost-of-service analysis, which they have not prepared**
10 **for this case.**

11 A. Well, I think the existing -- existing
12 sales for resale rate in St. Joe's --

13 **Q. I can show you that, if you'd like.**

14 A. I'm looking at it now. St. Joe's sales
15 for resale, rate B.

16 **Q. There is no rate B.**

17 A. Well, it's -- we call it rate B, but
18 it's --

19 **Q. But there is no rate B.**

20 A. -- declining block rates.

21 **Q. When I look in the Company's tariffs**
22 **under rate B, sale for resale, it's reserved for**
23 **future use. I go back and look at rate A, under your**
24 **proposed tariff you have a single rate under second**
25 **revised sheet RT 1.1. And the commodity charge lists**

1 residential, commercial, industrial, public authority
2 sale for resale. There is no longer any rate B, per
3 se for your St. Louis Metro, Joplin, Warrensburg, St.
4 Joe, et al.

5 A. Well, I don't have the tariff in front of
6 me. I'm looking at the Exhibit 48 that you referred
7 me to. Frankly, I think -- I think the single --
8 single rate for rate -- for sales for resale in
9 St. Joe's is appropriate.

10 Q. That's not Staff's -- that's not Staff's
11 recommendation. That's not Staff's proposal. And so
12 what you purport to represent as the Staff proposal
13 and the Office of Public Counsel's stipulation and
14 some of these others, it's really not reflective of
15 those proposals. It might be what you're proposing.

16 A. Okay. We can make that correction.

17 Q. If you could, I would really appreciate
18 it. Thank you. That's all I have.

19 A. That would be on Number 49 though.
20 Right?

21 Q. Well, that would be on 49, 50 -- and
22 let's see, 51. Yeah, all of those.

23 A. I'm not sure it would be 51, but -- since
24 that's the Company's proposal, but --

25 Q. Well --

1 A. -- 49 and 50.

2 Q. -- if we keep Joplin and St. Joe as they
3 are today --

4 A. Oh, I see.

5 Q. -- they'll need to be revised.

6 A. I understand.

7 Q. Thank you. I appreciate it.

8 A. I stand corrected.

9 Q. Thank you very much.

10 MR. DORITY: That's all I have, Your
11 Honor.

12 JUDGE JONES: Now you got me wondering if
13 these documents should even be coming in if they're
14 not accurate.

15 But StoneBridge? Triumph? OPC?

16 CROSS-EXAMINATION BY MR. POSTON:

17 Q. Yes. Just a few over the same schedules
18 that we just saw. And just for my question's sake,
19 we'll assume that there's accuracy to these schedules.
20 I'd like to start with Exhibit 48 -- MAWC 48 and this
21 is the Company's filed position. And if you could
22 turn to the third page on that. And this purports to
23 show the change in the customer charge --

24 A. The revenue.

25 Q. Revenue change. And so under the

1 **Company's filed proposal, St. Louis Metro,**
2 **13.3 million dollars would be shifted in fixed**
3 **guaranteed cost recovery to St. Louis Metro; is that**
4 **correct?**

5 A. The increase in the fixed charge revenue
6 for St. Louis Metro would be increased by 13.388,
7 yeah.

8 **Q. And that -- okay. So the answer to my**
9 **question was yes?**

10 A. Yes.

11 **Q. Out of a total of 14 million dollar**
12 **increase in the guaranteed fixed recovery; is that**
13 **correct?**

14 A. Yes.

15 **Q. And then turning to MAWC 49, Staff's**
16 **proposal, looking at that same sheet three, that would**
17 **shift 5 million from present rates fixed guaranteed**
18 **recovery to St. Louis Metro. Right?**

19 MR. ENGLAND: Objection, Your Honor.

20 THE WITNESS: It would increase the
21 fixed --

22 MR. ENGLAND: Excuse me. Objection --

23 THE WITNESS: -- charge revenue --

24 MR. ENGLAND: Mr. Herbert --

25 THE WITNESS: Yes.

1 MR. ENGLAND: -- I've got an objection.

2 THE WITNESS: Oh, I'm sorry.

3 MR. ENGLAND: I've let it go on long
4 enough, but I'm going to object to the form of the
5 question, argumentative in calling it a fixed
6 guaranteed revenue.

7 JUDGE JONES: Objection overruled.

8 MR. DOWNEY: Marc, which exhibit are you
9 on?

10 JUDGE JONES: Go ahead and answer that.

11 MR. DOWNEY: Which exhibit are you on?

12 MR. POSTON: We're looking at Number 49.

13 JUDGE JONES: Do you need him to re-- do
14 you need to re-ask -- do you need him to re-ask the
15 question?

16 THE WITNESS: I do.

17 MR. POSTON: I -- he answered it. I
18 don't know if she had gotten down his answer. I
19 believe he was answering it while the objection was --

20 JUDGE JONES: I didn't hear what his
21 answer was.

22 THE WITNESS: Could you answer -- ask the
23 question again?

24 BY MR. POSTON:

25 Q. Okay. I will ask it again. And I will

1 change the format of the question as well. So there
2 is -- if you look at the St. Louis Metro, there is,
3 under Staff's proposal, 5.3 million would be in fixed
4 recovery. Between present and proposed, there would
5 be an increase of 5.3 million in St. Louis Metro.

6 Right?

7 A. The revenue from the customer charges
8 would increase 5.3 million.

9 Q. And these are charges that the Company
10 would recover whether the customers used any water or
11 not; is that correct?

12 A. As long as the number of customers stay
13 the same.

14 Q. Okay. And then if we look at MAWC
15 Exhibit 50, same sheet three, you see there's not an
16 impact really to St. Louis Metro. Correct?

17 A. No. And the overall impact is a
18 decrease --

19 Q. I didn't ask you that question, sir.

20 A. -- of 1.7.

21 Q. Well, actually I will go to -- you talk
22 about the overall increase. If you look at between
23 the four different scenarios that you've run here, the
24 MAWC Exhibit 50 is actually closer to what the
25 Company's recovering now than any of the other

1 **proposals that you've run; is that correct?**

2 A. Closer in which way?

3 **Q. Well, sir, in fixed cost recovery between**
4 **what they're getting presently and what they would be**
5 **getting under the proposed.**

6 A. It's closer, but it's less.

7 **Q. I recognize that, but it's closer.**

8 **Right? In all the other three proposals there would**
9 **be greater fixed recovery for the company. Correct?**

10 A. Yes. Because those costs are going up.

11 **Q. I didn't ask you why, sir.**

12 A. I'm telling you why.

13 JUDGE JONES: You all keep arguing, I'm
14 going to make you kiss and make up.

15 MR. POSTON: Do we have to kiss? That --

16 JUDGE JONES: Yeah, you do.

17 BY MR. POSTON:

18 **Q. And on this -- the Exhibit 51, was this**
19 **proposal -- did this proposal appear anywhere in your**
20 **testimony or anybody else's testimony, to your**
21 **knowledge?**

22 A. It does not as I -- to my knowledge.

23 **Q. That's all the questions I have.**

24 JUDGE JONES: Any questions from Staff?

25 MS. MYERS: No questions, Your Honor.

1 JUDGE JONES: Mr. Chairman?

2 CHAIRMAN HALL: Yeah, I have a couple.

3 QUESTIONS BY CHAIRMAN HALL:

4 Q. Good afternoon.

5 A. Good afternoon.

6 Q. Looking at Exhibit 48, are you
7 assuming -- or was your assistant assuming the same
8 customer charge for all rate classes?

9 A. Yes.

10 Q. And is that the Company's objection?

11 A. Yes.

12 Q. Okay.

13 A. I mean by -- by meter size, but across
14 the -- same across the state.

15 Q. Well, is --

16 A. If you turn to page 4 of the packet, you
17 can see at the top section of -- between lines 12
18 through 22, it begins with this -- you might have
19 heard 17.40. That's the five-eighth inch charge
20 that's applicable to most residential customers. And
21 then the -- the charge is higher for subsequent larger
22 meter sizes. But as you can see from column C through
23 A, E, there -- the rates are the same.

24 Q. I guess I'm -- I'm looking at columns
25 R -- wait. Yeah R, S, T where it says five-eighths

1 **seven-forty and then it's the same thing on the next**
2 **page. So you've got the -- the different fixed -- the**
3 **different customer charge factored in to each meter**
4 **size?**

5 A. Yes. Depending on the size of the meter.
6 That's why down where it says one-inch meters, the
7 bills are higher and the two-inch meters, they're
8 higher still.

9 MR. CHAIRMAN: Okay. Judge, are we going
10 to have this witness come back on rate design
11 tomorrow? Is that the plan?

12 JUDGE JONES: Yeah, I think we will.

13 CHAIRMAN HALL: All right. I have no
14 further questions. Thank you.

15 JUDGE JONES: Commissioner Stoll?

16 COMMISSIONER STOLL: Thank you.

17 QUESTIONS BY COMMISSIONER STOLL:

18 Q. **Good afternoon.**

19 A. Good afternoon.

20 Q. **I think I just have one question. On --**
21 **let's take Exhibit 48. On line 4, J, it says, Percent**
22 **change in bill includes rolling into base rates the**
23 **current ISRS for St. Louis County.**

24 **So we had a couple questions about the**
25 **reason for the increase in St. Louis and St. Louis**

1 **Metro. Is that because of the ISRS being rolled into**
2 **the rates?**

3 A. Yes. That -- as I understand it, the
4 ISRS rate would then be set to zero so that those
5 costs that were being recovered through the ISRS are
6 now in the -- in the regular rates.

7 **Q. Okay.**

8 A. That's how I understand it.

9 **Q. Okay. So the figure we see here are the**
10 **present -- let's take line 11, present rate, 24.75,**
11 **the change in the consolidated tariff pricing, 29.02,**
12 **and the difference -- the percentage change 17.3.**
13 **That 17.3 does include that -- what was previously the**
14 **ISRS amount also?**

15 A. Yes.

16 **Q. Okay. Thank you.**

17 JUDGE JONES: Commissioner Kenny?

18 COMMISSIONER KENNEY: Thank you. I just
19 have one quest-- thank you. I just have one question.

20 QUESTIONS BY COMMISSIONER KENNEY:

21 **Q. On your Rebuttal Testimony at the top of**
22 **page 5, line 3 you had said, The cost use of --**
23 **customer cost analysis are based on the Company**
24 **revenue requirement that would be -- result in a**
25 **five-eighths inch customer charge of 17.40 per month.**

1 **The level of the customer charge would be amended**
2 **based on the final revenue requirement on this case.**

3 **That's what you said there, but that's**
4 **not what you're doing, are you?**

5 A. We did not reflect any reduction in
6 revenue requirement to the 17.40 at this time.

7 **Q. So you don't think it needs to be**
8 **adjusted?**

9 A. It -- it probably should be adjusted
10 slightly. I did a quick calculation that it would --
11 instead of 17.40, it would be like 17.20.

12 **Q. All right. I was just curious. Thank**
13 **you.**

14 A. So it was a rather minor change.

15 **Q. Okay. Got it.**

16 JUDGE JONES: Commissioner Rupp?

17 QUESTIONS BY COMMISSIONER RUPP:

18 **Q. Thank you very much. So you're going to**
19 **go back and adjust of some of these numbers?**

20 A. It looks like I need to, yes.

21 **Q. Okay. While you're doing that, would you**
22 **be able to provide the same spreadsheet for a**
23 **single-rate tariff for the entire state and what it**
24 **would do to all the current --**

25 A. Yes.

1 **Q. I would appreciate that. Thank you.**

2 A. We can do that.

3 CHAIRMAN HALL: Yeah. Actually, I'm
4 sorry. I do have a couple other questions -- a couple
5 of additional questions.

6 FURTHER QUESTIONS BY CHAIRMAN HALL:

7 **Q. If we -- could you explain the rationale**
8 **behind the Company's grouping on consolidation? It**
9 **apparently is on the basis of cost. At least that's**
10 **what your counsel indicated in opening. Is that your**
11 **position or your understanding?**

12 A. That was the intent, yes. We were trying
13 to group those -- and we may have been looking at
14 existing rates. This really shows cost-of-service on
15 this Schedule 6 as opposed to existing rates, but we
16 were looking at, you know, the lower -- the lower co--
17 or the lower rate districts in one group, the higher
18 districts in the last group and -- and the ones in
19 between in -- in the second group. That's what our
20 intent was.

21 **Q. But you didn't really do that. I mean,**
22 **there's -- it's -- you've got --**

23 A. This is showing cost, not what the
24 existing rate would be.

25 **Q. Okay. So tell me again what your**

1 **approach was in grouping.**

2 A. Our approach was trying to get the lower
3 rate customers together, the higher rate customers
4 together and the middle ones in the middle. That was
5 our intent. Now, this -- this schedule is then after
6 all the increases to revenue requirements that -- so
7 this -- this is showing a cost per -- per residential
8 customer.

9 **Q. And by "this" you're talking about**
10 **Schedule 6?**

11 A. Yes. And this is just residential. We
12 were -- we were looking at other classes also at the
13 same -- you know, at the same -- we were looking at
14 industrial rates and large users.

15 **Q. So you were -- you were -- you were**
16 **ignoring geographically completely and simply looking**
17 **at the rates?**

18 A. Yes.

19 **Q. And grouping it on the basis of rates?**

20 A. We thought if you grouped it on the basis
21 of rates, then the impact to certain -- certain
22 districts wouldn't be as great.

23 **Q. So you would -- you would minimize rate**
24 **impact to some extent?**

25 A. Yes.

1 **Q. But how do you -- but that would do some**
2 **damage to your -- to your other objectives of -- well,**
3 **the other objectives that you set forth in your -- in**
4 **your testimony.**

5 A. Yeah. And that's why we didn't oppose
6 Staff's groupings, because we felt that those were
7 reasonable also.

8 **Q. I know this will be kind of arguing**
9 **against yourself, but can you explain to me how**
10 **grouping on the basis of cost doesn't necessarily**
11 **support your overall principles for consolidation?**

12 A. I don't -- I don't know if I understand
13 your question.

14 **Q. Well, what are -- what are -- what are**
15 **your -- what are the overall objectives for**
16 **consolidation?**

17 A. Well, to have -- have fewer districts
18 and --

19 **Q. Okay. Well, that's -- I mean in terms of**
20 **the -- the impact on ratepayers, what are the overall**
21 **objectives for consolidation?**

22 A. To have more rate stability among the
23 districts so that large construction projects doesn't
24 affect a single district the way it now can without --
25 with district-specific pricing. To reflect the

1 overall equivalent of service across the state. The
2 fact that it's one company providing the same service
3 in different locations doesn't -- just because where
4 you live shouldn't have an impact on the -- on the
5 price that you pay.

6 **Q. And -- and does grouping systems on the**
7 **basis of rates, does that promote long-term rate**
8 **stability to the same extent as other ways of grouping**
9 **systems?**

10 A. It -- it -- it depends on what happens in
11 the future to -- to how you will want to consolidate
12 rates further down the road. So it -- our -- our --
13 one of our main concerns here in this case was to have
14 less impacts on certain -- on certain districts,
15 though if you group them with their rates more closely
16 aligned, then there wouldn't be as much movement,
17 either increases or decreases, in order to get there.

18 **Q. And is there -- what is the logic behind**
19 **grouping it -- grouping these zones on the basis of**
20 **geography? None of these systems are connected.**

21 A. I personally don't -- don't see any real
22 benefit about the geography part of it, but others do.
23 So you can ask them. But geography doesn't mean -- I
24 mean I come from Pennsylvania. Pennsylvania American
25 serves all over the state, probably 30 systems. They

1 have one rate. All kinds of different costs and
2 different terrain and different -- literally all
3 across the state and they have one rate.

4 **Q. Have you testified before Public Service**
5 **Commissions in other states on -- on this issue of**
6 **consolidation?**

7 A. I have.

8 **Q. How many states roughly?**

9 A. At least -- at least three.

10 **Q. At least three?**

11 A. Yeah. Pennsylvania, New Jersey,
12 Illinois.

13 **Q. And -- and are --**

14 A. West Virginia.

15 **Q. I assume that you're generally aware**
16 **of -- of scholarship and the academic studies and**
17 **analyses of consolidation?**

18 A. I'm aware of some of them, yes.

19 **Q. Is there -- is there -- is there a trend**
20 **from your perspective?**

21 A. Yes.

22 **Q. And what is that trend?**

23 A. Consolidation.

24 **Q. And is it -- is it a -- and is it**
25 **straight line trend or is it -- is it a little jagged?**

1 A. It's certainly been a movement towards it
2 since the '90s. When -- it was in the '90s when we
3 first began consolidating that Pennsylvania had at
4 least I want to say five major rate zones at the time.
5 And it took about three rate cases, but we got it --
6 in about three rate cases we got it down to one rate.

7 In New Jersey they did major
8 consolidations within New Jersey American prior to
9 their acquisition of Elizabethtown and Mount Holly.
10 Elizabethtown and Mount Holly are now combined, but
11 they're still -- at this point slightly lower than the
12 rest of New Jersey American. But there's been major
13 consolidation going on since -- since the '90s.

14 **Q. Okay. Thank you.**

15 A. Uh-huh.

16 JUDGE JONES: Any cross -- recross rather
17 based on questions from Commissioners? I don't see
18 any. Any redirect?

19 MR. ENGLAND: Yes, Your Honor.

20 REDIRECT EXAMINATION BY MR. ENGLAND:

21 **Q. Mr. Herbert, I'm not sure which scenario**
22 **you were asked, but it had to do with the --**

23 JUDGE JONES: Mr. England, is your
24 microphone on?

25 MR. ENGLAND: I'm sorry. Thank you, Your

1 Honor.

2 BY MR. ENGLAND:

3 Q. Mr. Herbert, I believe you were asked
4 some questions by Mr. Downey regarding some of the
5 specific rate reductions in percentages for the Platte
6 County district. Are those individual rate reductions
7 at the various levels that you have depicted as well
8 as the various size meters indicative of the overall
9 decrease to the -- to the district?

10 A. Yes.

11 Q. For example, looking at Exhibit 48 and
12 the -- what I call residential customer, the
13 five-eighths inch meter customer, at the three levels
14 of consumption, you show a decrease of 8.7 percent,
15 12.8 percent and 15.8 percent?

16 A. Yes.

17 Q. And similar -- not similar numbers, but
18 similar decreases in -- in all of the other rates.
19 But what is the overall decrease in the district?

20 A. The overall revenue --

21 Q. Yes.

22 A. -- difference?

23 Q. I believe it's shown on page 4 of your
24 exhibit.

25 A. Oh, in percent?

1 Q. Yes. I'm sorry.

2 A. I thought you were talking revenue.

3 Q. My mistake.

4 A. 14.45 it indicates there in line 7.

5 Q. Okay. Thank you. And you've tried to
6 show those similar district percentages, if you will,
7 for the other scenarios as well. Right?

8 A. Yes.

9 Q. Roughly on page 4 of each of those --

10 A. Yes.

11 Q. -- exhibits?

12 A. Yes.

13 Q. I think Commissioner Stoll was getting to
14 a question I wanted to ask you and that had to do with
15 the roll-in of the ISRS surcharge for the St. Louis
16 County customers. For purposes of my question -- and
17 again I'll focus on Exhibit 48 -- again, the
18 residential customer, let's say, that's using 5,000
19 gallons a month. There is a proposed percentage
20 increase of 16.2 percent. Do you see that?

21 A. Yes.

22 Q. If the ISRS charges are roughly
23 10 percent of that increase, how much is the net
24 increase to that St. Louis County customer?

25 A. That would be like 6.2 percent.

1 **Q. Thank you, sir. Mr. Poston with the**
2 **Office of Public Counsel, had some questions regarding**
3 **the revenues associated with the fixed charges or the**
4 **customer charges. I believe that's on page 3 of**
5 **these -- each of these analyses?**

6 A. Yes.

7 **Q. Approximately how many -- or what**
8 **percentage of the Company's costs are fixed?**

9 A. Oh, I think in -- somewhere in my
10 testimony I indicate that it's like somewhere around
11 93 percent of the costs are strictly -- are fixed
12 costs.

13 **Q. And even with the increases that you've**
14 **proposed and the customer charge, what percentage of**
15 **the total revenues will be recovered through your**
16 **proposed customer charges?**

17 A. About 25 percent.

18 **Q. Do you happen to know what the percentage**
19 **today is of fixed charged recovery as a percent of**
20 **total revenues?**

21 A. Of total existing revenues?

22 **Q. Yes.**

23 A. 21.5 percent.

24 **Q. So your proposed customer charge increase**
25 **is -- only increase the fixed charge -- fixed charge**

1 **revenue recovery by approximately 4 percent?**

2 A. Yes.

3 **Q. Thank you, sir. I have no other**
4 **questions.**

5 JUDGE JONES: You may step down,
6 Mr. Herbert.

7 I don't know about you all, but I'd like
8 to keep going since we're behind by about nine
9 witnesses already. So unless anyone feels --

10 MS. MYERS: If we could just request a
11 short break.

12 JUDGE JONES: A short break? Okay. Take
13 a five-minute break.

14 (A recess was taken.)

15 JUDGE JONES: We are back on the record
16 in Case Number WR-2015-0301.

17 (Witness affirmed.)

18 JUDGE JONES: Thank you, sir. You may be
19 seated.

20 Mr. Poston, did you want to say
21 something?

22 MR. POSTON: Well, just before we move on
23 to Mr. Busch, I want to just go ahead and object to
24 these Exhibits 48 through 51.

25 JUDGE JONES: Oh, you want to object to

1 them now instead of tomorrow?

2 MR. POSTON: I don't need to wait. Based
3 on the testimony we heard, I don't think these numbers
4 can be verified. He wasn't even sure how things were
5 calculated. I think there's errors identified. And
6 so I'd like to object to the admission of 48 through
7 51 and to even strike those numbers from testimony
8 where they were stated in testimony.

9 JUDGE JONES: Well, Mr. England, did you
10 want to say something?

11 MR. ENGLAND: Sure. I believe the proper
12 foundation was laid for the exhibits. To the extent
13 there might be some errors or omissions, one of two
14 things, it either goes to the credibility or the
15 weight you want to give it. And too, as I understand,
16 we can make some of those changes and submit revised
17 exhibits, so I don't think that's a basis for
18 objecting to them.

19 The fact of the matter is that we're the
20 only party that's been able to model any of these
21 scenarios. Neither Public Counsel nor Staff nor any
22 other party to this case can propose or put forward
23 the impact of what they're proposing in the way of the
24 various rate designs they have.

25 These exhibits are very similar to

1 exhibits that have been shared with these parties
2 throughout the week as we discuss the issue. There
3 should be no surprise there. We've tried our best to
4 factor in what we understand to be their parameters
5 when we've tried to factor their proposal.

6 We certainly know what we're proposing.
7 I think have a pretty good idea of what Staff's
8 proposing. Mr. Busch can identify whether or not
9 we've accurately depicted Staff's proposal or not.
10 Again, to the extent they may be erroneous,
11 incomplete, that doesn't go to their admissibility.
12 It just goes to --

13 JUDGE JONES: I tend to agree with you.
14 It does go to their credibility and, you know, that's
15 been made clear in the record.

16 MR. DOWNEY: Judge, before you rule, I'd
17 also like to lodge an objection to 51. That's a model
18 of nothing that's been proposed by any party. It's
19 not in testimony and it's not in any kind of
20 stipulation.

21 MR. ENGLAND: If Mr. Downey would like,
22 Riverside and the Company will enter into a
23 non-unanimous stipulation that supports Exhibit
24 Number 51.

25 MR. BEDNAR: That's correct, Your Honor.

1 And, in fact, I got into that cross-examination of the
2 Joplin witness in regards to setting aside a
3 district-specific plan that would separate St. Joseph
4 and Joplin and consolidate all the other districts.
5 That's in evidence. And for that illustration, that
6 was the purpose, to show that same bill impact as you
7 would anybody else.

8 I agree with Mr. England. This is a real
9 challenge to find out the billing impact analysis.
10 And the fact that the Company was able to do this does
11 all of us a service. We're free to argue the nits and
12 picks of what we think is -- may be inaccurate to go
13 to the credibility, but I think this is a tremendous
14 aid to all of the other parties in order to argue in
15 the briefs and people can argue against it.

16 JUDGE JONES: Well, if there are
17 corrections to be made to those exhibits, I would
18 rather those corrections be made and then re-offer.
19 If they're not wholly correct, that's fine, but at
20 least closer to being correct than what they are now.
21 He's planning on making corrections; is that correct?

22 MR. ENGLAND: And as I understand it,
23 we're also running a fifth scenario for Commissioner
24 Rupp that would be consolidated pricing across all
25 districts.

1 JUDGE JONES: So all of those can be --
2 the corrected versions will be admitted with -- with
3 the -- the statewide consolidated version. And if the
4 parties think that there's something erroneous about
5 them, then that can just be highlighted and go to the
6 credibility.

7 MS. BELL: And Joplin would like to also
8 have the correction about whether or not sewer
9 increase is on those three exhibits, an answer to that
10 provided in the assumption section.

11 MR. ENGLAND: I believe we have the
12 answer, but we're going to double check overnight and
13 put Mr. Herbert back on the witness stand. He'll have
14 that information for you tomorrow.

15 MS. BELL: And we'll have the opportunity
16 to cross on the corrected copies of the exhibits?

17 MR. ENGLAND: Sure.

18 JUDGE JONES: We'll see about whether you
19 have an opportunity to cross. You had an opportunity
20 to cross on these. And I don't see how your questions
21 would change because some of the exhibits were
22 corrected. It seems like your motivation to cross
23 would go to the policy behind consolidation itself
24 rather than the specific numbers that are on those
25 papers. But tomorrow when they're offered and

1 accepted, then we'll see about cross-examination.

2 Staff, you can go ahead.

3 MS. MYERS: Thank you, Judge. Before we
4 get started here, Staff, in addition to Mr. Busch's
5 pre-filed testimony will be offering another exhibit,
6 Staff Exhibit 34. We've given it to all the parties
7 and now we'll be giving it to the Commission.

8 (Staff Exhibit 34 was marked for
9 identification.)

10 JAMES A. BUSCH, testified as follows:

11 DIRECT EXAMINATION BY MS. MYERS:

12 **Q. Mr. Busch, would you please state your**
13 **full name for the record?**

14 A. My name is James A. Busch.

15 **Q. Mr. Busch, where are you employed and in**
16 **what capacity?**

17 A. I am the manager of the Water and Sewer
18 Department at the Missouri Public Service Commission.

19 **Q. Are you the same James Busch who prepared**
20 **or caused to be prepared the Direct, the Rebuttal on**
21 **usage, Rebuttal Testimony on rate design and the**
22 **Surrebuttal Testimony that have been marked as**
23 **Exhibits 9, 10, 11 and 12 respectively?**

24 A. That, as well as the -- my direct for
25 class cost-of-service rate design.

1 **Q. Correct. And you're also the same James**
2 A. Busch who's sponsoring the Staff's report on class
3 cost-of-service and rate design --

4 A. That is --

5 **Q. -- marked as Exhibit 3?**

6 A. That is correct.

7 **Q. Are you also the same James Busch who is**
8 **sponsoring the exhibit that was just sent out as Staff**
9 **Exhibit 34?**

10 A. I am.

11 **Q. Could you explain Staff Exhibit 34?**

12 A. Yes. As -- as has been mentioned many
13 times today, there are a lot of moving parts to all of
14 this discussion that we're having with consolidation
15 versus district-specific and rate design and class
16 responsibilities. So there is a lot of confusion
17 that's out there and hopefully we can clear it up.
18 But it's very difficult. And I know the Company's
19 worked very hard and the other parties have worked
20 hard. And we try to get information out and it's just
21 very difficult to get people the appropriate numbers
22 and it's tough.

23 What this shows is based upon the
24 non-unanimous stipulation for revenue requirement of
25 30.6 million dollar increase, the first sheet is

1 Staff' s districts, district one, district two and
2 district three or zone one, two and three. If you
3 would then go through how Staff came up with the
4 current revenues, the proposed changes to the classes
5 within each of those districts and then the proposed
6 revenues.

7 And then the far right column is the
8 percent change to each individual class within that
9 district. It doesn't necessarily mean that any
10 individual -- like a residential consumer for all
11 residential s in district one get a 13.22 percent
12 increase, because it's residential -- it's -- it's
13 combining the St. Louis Metro, Mexico and Jefferson
14 City all into one and then the overall increase as if
15 those were together currently. So it's difficult
16 sometimes to understand.

17 Then if you turn the page, the second
18 sheet is the same calculations with the revenue
19 requirement. However, what I calculated there is if
20 we did a percentage increase -- an equal percentage
21 increase to each of the customer classes within the
22 districts.

23 Because if you notice on the first page,
24 there are some wide swings within each district. For
25 instance, district one has a -- the Other Public

1 Authority as we calculated it down at a negative
2 15 percent and sale for resale would be 120 percent
3 increase. And I think Mr. Dority mentioned that in
4 some of his remarks earlier when we moved towards
5 district-specific in the 2000 case, there were some
6 very major shifts within the districts as well.

7 And so the second sheet shows if we would
8 just -- if we do -- if the Commission does decide on
9 Staff's consolidated districts, if we just went ahead
10 and then made the increases equal to each customer
11 class within those districts, what that percent would
12 be.

13 And then the last sheet is the same
14 calculation, but it deals with the sewer shift. And
15 as has been pointed out, if you take out Arnold, the
16 Arnold district, the proposed increase to all the
17 other sewer systems is about 565,000 dollars. Staff
18 originally in its Direct Testimony, when it was only
19 an increase of about 39,000 and district two was
20 getting a decrease, we proposed shifting all that
21 revenue responsibility to district two.

22 Now, with a increase that is
23 substantially higher than what Staff's originally
24 proposed testimony was, the amount of revenue
25 responsibility to share has gone up from 39,000 to

1 565,000 and no one major district is getting a
2 decrease.

3 So Staff has decided that the best way to
4 shift that 565,000 would be done on a per revenue
5 basis to each district. So district one, since it's
6 the largest district, it has about 80 percent of
7 current revenues, so they would get 80 percent of the
8 565,000, district two would get 10 percent, and
9 district three would get 10 percent. And so that
10 would be the revenue impacts on each of the classes
11 based on shifting that revenue. So that's the slight
12 increase from sheet two to sheet three.

13 **Q. Thank you, Mr. Busch. Do you have**
14 **anything to correct in any of your testimonies?**

15 A. To the best of my knowledge and belief, I
16 do not.

17 **Q. So with that in mind, if I asked you the**
18 **same questions today, your answers would be the same?**

19 A. I believe they would be.

20 **Q. And so the information in these documents**
21 **is true and correct, to the best of your knowledge and**
22 **belief?**

23 A. They are.

24 MS. MYERS: All right. Your Honor, Staff
25 offers Staff Exhibits 3, 9, 10, 11, 12 and 34 and

1 tenders Mr. Busch.

2 JUDGE JONES: Are there any objections to
3 those exhibit?

4 I don't see any so Exhibits -- Staff
5 Exhibit 9, 10, 11, 12, 3 and 34 are admitted into the
6 record.

7 (Staff Exhibits 3, 9, 10, 11, 12 and 34
8 were received into evidence.)

9 JUDGE JONES: We'll move on into
10 cross-examination. As we -- as we cross -- or ask
11 questions of Mr. Busch, keep in mind that we are on
12 the issue of consolidation and not rate design and
13 customer charge. That's tomorrow. So if anyone asks
14 questions in that area --

15 COMMISSIONER KENNEY: Judge, is he on
16 stand for tomorrow for rate design?

17 JUDGE JONES: Yes. So if anyone asks
18 questions about rate design and customer charge, I
19 encourage everyone to object.

20 First for cross-examination is Missouri
21 Department of Energy.

22 MR. ANTAL: No questions.

23 JUDGE JONES: MIEC?

24 MR. DOWNEY: Yes, Judge.

25 CROSS-EXAMINATION BY MR. DOWNEY:

1 **Q. Mr. Busch, would you explain this third**
2 **page of Exhibit 34?**

3 A. Yes.

4 **Q. It looks to me like the dollars -- for**
5 **district one, for instance, the dollars are the same,**
6 **but the percentages in the right column change?**

7 A. I think if you look at the -- the third
8 column that says Proposed and like, for instance, the
9 residential proposed on the second page is
10 160,616,580.

11 **Q. Okay.**

12 A. It's 160,805,000. So that corresponds
13 to -- the original or page 2 without the sewer shift
14 is a 13.72 percent increase and with the sewer shift
15 is 13.85 percent.

16 **Q. Thank you. I didn't notice that.**

17 A. Okay.

18 **Q. When -- describe what you mean by the**
19 **sewer shift.**

20 A. With the 30.6 million dollar increase --
21 and again, I'm excluding the Arnold situation because
22 that's a different argument. There was a -- all the
23 sewer districts right now combined have a 565,000
24 dollar overall increase through all those districts.
25 Currently three or four -- at least three or four of

1 the districts -- of the sewer districts are paying
2 \$65.22, which is the highest sewer rate of any
3 regulated sewer company in the state of Missouri .

4 So to try to keep that rate from going
5 higher and trying not to put all that increase on the
6 other sewer districts that have lower rates, I think
7 that it was important that we take that revenue
8 responsibility and shift it to the water side. And to
9 be fair -- to do that fairly and not to pick on one
10 district or another district, it goes to all the water
11 districts.

12 And so, again, I calculated the overall
13 revenues. And district one has about 80 percent of
14 the revenues, district two has about 10 percent,
15 district three has about 10 percent. So I took that
16 district 565,000 and spread it to the water districts
17 80/10/10.

18 **Q. So are there some customers in the water**
19 **districts that do not take sewer service from Missouri**
20 **American?**

21 A. That is correct.

22 **Q. And are they seeing the increases for**
23 **this sewer adjustment?**

24 A. They would take some of the revenue
25 responsibility and that would be shifted to those

1 customers, yes.

2 **Q. Do you recall having a conversation**
3 **during any of the settlement discussions where you**
4 **indicated that no sewer customer cost would be**
5 **included in water rates for non-sewer customers?**

6 A. I do --

7 MS. MYERS: I'm going to object to this.
8 These might be privileged communications said during
9 settlement negotiations.

10 JUDGE JONES: I don't -- I wasn't there.
11 I don't know.

12 MR. DOWNEY: And unfortunately, Judge, I
13 wasn't either so I don't know if it's -- it's --

14 THE WITNESS: I don't recall that.

15 BY MR. DOWNEY:

16 **Q. Okay. If you don't recall, then --**

17 JUDGE JONES: Is that your answer or are
18 you saying that you don't recall whether this was
19 discussed during settlement?

20 THE WITNESS: I -- we discussed -- the
21 sewer issue has been discussed. The non-unanimous
22 stipulation that was filed by Public Counsel and
23 signed by MIEC acknowledges sewer responsibility
24 shifts to two districts. So yes, it has been
25 discussed. But as far as making sure that a

1 particular -- the water customers would not pay any of
2 the sewer costs, I do not recall that.

3 JUDGE JONES: Okay. Well, no privileged
4 information is now out.

5 BY MR. DOWNEY:

6 **Q. Okay. But this Exhibit 34 does show**
7 **sewer costs being borne by water customers that are**
8 **not also sewer customers?**

9 A. Very similar to the Non-unanimous
10 Stipulation and Agreement, yes.

11 **Q. And 80 percent of those costs that are**
12 **shifted are shifted in district one?**

13 A. Right. As opposed to the 90 percent in
14 the stipulation. So we actually are shifting less to
15 district one -- well, actually to St. Louis Metro
16 so --

17 **Q. There were other differences in that**
18 **stipulation. Are you --**

19 A. Yes.

20 **Q. -- adopting that stipulation?**

21 A. I am not. I'm just pointing out
22 similarities.

23 **Q. Now, you've testified in many rate cases**
24 **before the Commission. Correct?**

25 A. I have.

1 **Q. And don't you regularly testify to this**
2 **Commission that cost causation should be the primary**
3 **determinant in rate design?**

4 A. Cost ca--

5 MR. BEDNAR: I object. I think the
6 question was rate design. I think we're saving that
7 for tomorrow.

8 JUDGE JONES: Objecti on sustai ned.

9 BY MR. DOWNEY:

10 **Q. Okay. Cost causation -- let me restate**
11 **it. Don't you regularly testify that in determining**
12 **what portion of increases are allocated to classes of**
13 **customers, the primary consideration is cost**
14 **causation?**

15 A. I believe that cost causation is a factor
16 that needs to be considered when determining the
17 proper cost-of-service.

18 **Q. Okay. That's all I have.**

19 JUDGE JONES: Ci ty of Brunswi ck?

20 MR. DRAG: No questi ons, Your Honor.

21 JUDGE JONES: Ci ty of Jopl in?

22 CROSS-EXAMI NATION BY MS. BELL:

23 **Q. I think we're at good evening now, right,**
24 **Mr. Busch?**

25 A. Good eveni ng.

1 **Q. Your plan consolidates Warrensburg with**
2 **Joplin; is that correct?**

3 A. Yes.

4 **Q. And you would agree that Warrensburg and**
5 **Joplin system are not interconnected?**

6 A. Yes.

7 **Q. And Warrensburg's more than 160 miles**
8 **from Joplin?**

9 A. I do not know the distance between
10 Warrensburg and Joplin.

11 **Q. And Joplin's current source of supply is**
12 **both surface water and groundwater?**

13 A. That is correct.

14 **Q. And Warrensburg's source of supply is**
15 **solely groundwater?**

16 A. I believe so, yes.

17 **Q. And are you aware that there are**
18 **different treatment and processing requirements for**
19 **surface water and groundwater?**

20 A. Yes.

21 **Q. Are you aware of any plans for**
22 **improvements in the future for Warrensburg?**

23 A. I don't believe I am. There might have
24 been some discussion at the Warrensburg local public
25 hearing, but any big plans, I'm not familiar with

1 those.

2 **Q. Under your plan -- let's -- let's do a**
3 **hypothetical. Under your plan, if Warrensburg was to**
4 **receive significant improvements in the future, it**
5 **would benefit Warrensburg customers to have such costs**
6 **spread on Joplin customers?**

7 MR. CURTIS: Objection, hypothetical.

8 JUDGE JONES: Objection sustained.

9 BY MS. BELL:

10 **Q. Let's turn to Exhibit PR-- or the**
11 **Schedule PRH-6.**

12 A. What is PRH-6?

13 **Q. I believe it's Herbert's -- the one**
14 **that's marked Staff grouping that was passed out this**
15 **morning and it lists the cost per residential**
16 **customer.**

17 A. I don't remember if I brought that up
18 with me. I know I had it at the desk.

19 **Q. I only have one copy of it.**

20 A. I got it. I got it.

21 **Q. Okay.**

22 A. I'm sorry. I have a lot of paper with
23 me, so --

24 **Q. Me too. As far as page -- if we turn to**
25 **page 2, that shows Staff's consolidation plan?**

1 A. For the most part. It leaves off a
2 couple of small districts. If you would like, I could
3 tell you --

4 **Q. That's all right. The right column**
5 **explains costs per residential customer. Is that your**
6 **understanding?**

7 A. That's what it states.

8 **Q. Okay. So any city -- if we're looking**
9 **just within those districts in those amounts in the**
10 **right column, any city with a lower number compared to**
11 **the other cities and their grouping would be paying**
12 **rates higher than their cost-of-service under your**
13 **plan?**

14 A. I do not know exactly how Mr. Herbert
15 came up with these numbers and I'm not going to -- I
16 cannot verify if that's a true statement or not.

17 **Q. Assuming these are correct.**

18 A. Could you repeat that then with assuming
19 they're correct?

20 **Q. Sure. Any city with a lower number on**
21 **this document would be paying rates higher than their**
22 **cost-of-service under your plan?**

23 A. If -- if you assume that the actual
24 cost-of-service as calculated by Mr. Herbert here,
25 that's an assumption I think you can make, but it's

1 only on a residential basis. It doesn't necessarily
2 get into the other classes, so other classes may be
3 getting a decrease as well.

4 **Q. But the residential customers would be**
5 **paying higher than their actual cost-of-service?**

6 A. Again, I don't know if that's their
7 actual cost-of-service, if that's an assumption we can
8 make.

9 **Q. And under that scenario, assuming these**
10 **are correct, those residents would be subsidizing the**
11 **residents in other districts?**

12 A. I don't necessarily agree that they would
13 be subsidize them.

14 **Q. Some of the costs from that district**
15 **would be shifted to the other districts?**

16 A. That's -- you're assuming a level of
17 specificity on the actual cost of providing service
18 that I cannot assume is correct.

19 **Q. Were you involved in the 2000 Missouri**
20 **American rate case?**

21 A. I very much was involved with that case.

22 **Q. And in that case you were a witness on**
23 **behalf of Office of Public Counsel?**

24 A. That is correct.

25 **Q. But you were present and listened to**

1 **Staff's testimony in that case?**

2 A. I'm sure I was in the hearing room when
3 Mr. Hubs testified for Staff.

4 Q. **And -- and your understanding is that**
5 **Staff in that case supported district-specific**
6 **pricing?**

7 A. I believe that eventually they -- that
8 was their position.

9 Q. **Okay. In that case, Mr. Krueger on**
10 **behalf of Staff, said, In the present case, the**
11 **differences of the cost to serve the various districts**
12 **are substantial. The implementation of STP pricing in**
13 **this case would result in very significant subsidies**
14 **between districts and would shift the burden of paying**
15 **costs from the cost causer to ratepayers and other**
16 **districts. The Staff, therefore, supports the use of**
17 **district-specific pricing in this case.**

18 In the beginning there, he talks about
19 the differences of cost to serve the various districts
20 are substantial. Would you agree that in this case
21 the differences to serve the various districts are
22 substantial?

23 A. In this case, the calculated numbers are
24 vastly different and the revenue responsibilities that
25 we've assigned are vastly different amongst the

1 di fferent classes.

2 **Q. And you testified in 2000 on behalf of**
3 **OPC?**

4 A. I did.

5 **Q. And in that case OPC supported**
6 **district-specific pricing?**

7 A. Under those conditions in that case, that
8 was the position of Office of Public Counsel .

9 **Q. And in your Direct Testimony, you said,**
10 **The main benefit of the district-specific pricing is**
11 **that consumers in a given district pay simply for the**
12 **costs to serve that district.**

13 **Do you agree with that statement?**

14 A. That is -- could you repeat exactly what
15 I said in that case?

16 **Q. You said, The main benefit of**
17 **district-specific pricing is that consumers in a given**
18 **district pay simply for the costs to serve that**
19 **district.**

20 A. At the time that I wrote that, I agree
21 with that statement.

22 **Q. Okay. But your position has changed**
23 **since then?**

24 A. My position -- as my position in this
25 regulatory environment has changed, has been refined.

1 **Q. Refined. Okay.**

2 A. Absol utel y.

3 **Q. Have there been any policy changes**
4 **enacted by the legislature regarding single-tariff**
5 **pricing or district-specific pricing that you're aware**
6 **of since 2000?**

7 A. I'm not aware of any changes in the
8 legislature regarding this issue.

9 **Q. Have there been any changes in case law**
10 **regarding the Commission's authority or lack thereof**
11 **to implement district-specific pricing or**
12 **single-tariff pricing?**

13 A. Considering di strict s-- or si ngle-tari ff
14 pricing and consoli dated pricing exist through many of
15 the regulated industries, I don't believe there's been
16 any changes.

17 **Q. Have there been any changes in the water**
18 **utility rules that bear on this issue that you're**
19 **aware of?**

20 A. Not that I'm aware of.

21 **Q. But you've made a personal shift in your**
22 **own views?**

23 A. As I've grown in this field and as I've
24 been the manager of the Water and Sewer Department
25 since 2008, my views have changed.

1 **Q. But you agree there are still differences**
2 **among the districts in sources of supply?**

3 A. Yes, there are.

4 **Q. And there are still differences among the**
5 **districts in the treatment processes?**

6 A. Some, yes.

7 **Q. In the 2011 working case -- you**
8 **participated in that case. Correct?**

9 A. I'm sorry. Which working case?

10 **Q. I believe I have SW-2011-0103.**

11 A. Yes.

12 **Q. Okay. And in that case, it was a working**
13 **case set up to discuss the legal implications and the**
14 **lawfulness of this type of pricing --**

15 A. I think it was a legal and economic con--
16 concepts of single-tariff versus district-specific
17 pricing.

18 **Q. And you participated in that case on**
19 **behalf of Staff, not OPC. Right?**

20 A. I was with Staff at the time, yes.

21 **Q. Okay. And in that -- in its initial**
22 **brief in that case, Staff stated, In Staff's opinion,**
23 **the recovery of costs in correlation with their cause**
24 **is the most equitable manner to determine the**
25 **appropriate rates for any regulated service.**

1 **Do you still agree with that statement?**

2 A. I do agree with that statement.

3 **Q. And Staff raised two main concerns in**
4 **their on-the-record presentation; that single-tariff**
5 **pricing could result in system over-investment and an**
6 **inequitable distribution of costs between causers and**
7 **payers.**

8 **Do you have the same opinion today?**

9 A. I do agree that when you start to
10 consolidate rates, that there is some opportunity for
11 the Company to invest more than is necessary. And I
12 have addressed that in my testimony, how to try to
13 combat that.

14 **Q. In the same on-the-record proceeding**
15 **which I talked about in my opening, Staff made**
16 **comments about educating consumers. Specifically**
17 **Staff stated, Staff would note that in situations**
18 **where DSP pricing currently exists, should the**
19 **Commission elect to switch to a single-tariff rate,**
20 **Staff believes customer education should be an**
21 **essential component in the rate-making and rate**
22 **implementation process.**

23 **Do you know if Staff engaged in any**
24 **customer education regarding the consolidation with**
25 **the -- specifically with the residents of Joplin?**

1 A. The first part we were talking about a
2 single-tariffed rate and this is a consolidated rate,
3 so there's a difference between those two concepts.
4 But I do not believe that we went out and talked to
5 any consumers.

6 **Q. Okay. Are you aware of any customer**
7 **education by the company related to the consolidation**
8 **issues?**

9 A. I believe -- and I'd have to double
10 check, but I thought that during the information that
11 the Company submitted to the press releases, I think
12 they mentioned consolidation of rates at that time,
13 but it -- it was -- in a one-page document it might
14 have just been a sentence or two so --

15 **Q. And so now today in this case in your**
16 **Direct Testimony you argue for district consolidation;**
17 **is that correct?**

18 A. Yes. Similar to what we did in the 2011
19 case.

20 **Q. And in your testimony under your first**
21 **argument for single-tariff pricing, you say that it**
22 **becomes difficult to continue to develop rates on a**
23 **district-specific basis when the Company is acquiring**
24 **additional districts.**

25 **When you say "difficult," when --**

1 **difficult for who? Difficult for the Staff. Correct?**

2 A. We don't -- we're not proposing
3 single-tariff pricing. We're proposing consolidated
4 tariff pricing. We're not proposing one rate for the
5 entire state. The difficulty is as -- as has been
6 acknowledged today is the designing of the rates when
7 there are so many rate elements to the -- to work
8 with.

9 And when you have that difficulty, it's
10 very -- it's a lot of cost and it's more cost that the
11 Company has to, you know, employ, which then gets
12 passed along to all consumers to -- to look at all
13 those different rates.

14 **Q. And do the residents of Joplin have a say**
15 **in whether or not Missouri American acquires**
16 **struggling or under-paying districts?**

17 A. I wouldn't say that the citizens of
18 Joplin, but they are represented by the Office of
19 Public Counsel which is a party of every case where
20 Missouri American attempts to acquire a system. And
21 the Commission then has to have final authority
22 whether or not any purchase is in the public interest.

23 **Q. But ultimately as has been discussed**
24 **today, Missouri American's decision to acquire**
25 **additional districts is a business judgment by the**

1 **company?**

2 A. They make a business judgment to acquire
3 or not acquire. Then they -- if they propose to
4 acquire a company, they have to come in front of the
5 Commission to get approval from the Commission in
6 order to do so.

7 **Q. And it was their testimony and your**
8 **understanding today that they have considered some**
9 **districts and not acquired those districts?**

10 A. Unfortunately, they have not acquired
11 some systems that Staff would love for them to
12 acquire.

13 **Q. Your second reason for supporting**
14 **consolidation is that it could benefit customers**
15 **through reduced rate case expense. And I think you've**
16 **already spoken to that just now. Do you have a dollar**
17 **figure for that?**

18 A. I do not.

19 **Q. Do you have any evidence for that**
20 **specifically?**

21 A. I -- no, I do not.

22 **Q. Okay. The third reason you use to**
23 **support consolidation is to minimize rate shock. You**
24 **specifically say that spreading costs helps smaller**
25 **system customers, these customers in the newly**

1 **acquired districts.**

2 **How does this help Joplin residents?**

3 A. I think the consolidation of rates on --
4 on the district-specific -- or on the consolidated
5 method that the Staff came up will help all the
6 customers in that area. Because even though Joplin is
7 the largest district in that area, there are still
8 other large districts down in that area, like
9 Tri-States and Emerald Pointe. So when all those
10 districts get combined together, you're going to
11 spread out the Joplin costs.

12 Joplin I think had some flood costs that
13 might get -- that the City of Joplin may have to
14 recover in the future rate case because of the
15 flooding that was -- occurred over the Christmas
16 break. If there was consolidated rates with the City
17 of Warrensburg and the other smaller districts in that
18 area, those costs would be spread out over all those
19 systems.

20 **Q. What's the term? What's the length of**
21 **time when -- when it would be Joplin's turn to be**
22 **benefited by that spreading of costs?**

23 A. I think they're benefited now. I think
24 Ms. Norton very early this morning made a very apt
25 point that -- and this is something that we hear all

1 the time out in the local public hearings and at
2 customer comments is when -- when a company invests,
3 the customers think that all that investment is being
4 recovered right now. And the investment on a large
5 upgrade takes years for the recovery of that.

6 So if Joplin had improvements in their
7 system three or four, five years ago, those recoveries
8 are still occurring today. So they're taking those
9 recoveries and the rest that's still out there and
10 spreading it out over a larger customer base.

11 So I think the citizens of Joplin,
12 citizens of Warrensburg and St. Joseph, anywhere, are
13 going to be benefited by spreading out of all these
14 costs to a larger customer base.

15 **Q. You mentioned specifically earlier**
16 **Tri-States. You would agree that Tri-States' customer**
17 **base is about 3,000?**

18 A. I think that's correct.

19 **Q. And Joplin is about 20,000?**

20 A. I think that's correct.

21 **Q. Okay. Your last reason for supporting**
22 **consolidation is that it would provide an incentive to**
23 **the Company to take over additional districts?**

24 A. Yes.

25 **Q. And ultimately how does providing that**

1 **company incentive benefit Joplin ratepayers?**

2 A. Again, I think when you start to
3 consolidate the rates and if another system is
4 purchased by Missouri American, whether or not it's a
5 troubled, smaller system or a slightly larger system,
6 if it's in the Joplin area, therefore, we would put it
7 with the Joplin rate, it would again help spread out
8 the existing Joplin cost to other consumers.

9 MS. BELL: No further questions.

10 JUDGE JONES: Any questions from
11 Ri versi de?

12 MR. BEDNAR: Just a couple.

13 CROSS-EXAMINATION BY MR. BEDNAR:

14 **Q. Mr. Busch, given your extensive**
15 **experience and history both with Public Counsel and**
16 **Staff positions, how would you explain what has**
17 **changed, in your mind, to move you from a**
18 **district-specific position in 2000 to today seeing**
19 **consolidation and further consolidation as the good**
20 **policy move to make?**

21 A. In the 2000 case when I was with Public
22 Counsel, I worked on gas -- natural gas, I worked on
23 electric cases. You know, Missouri American was the
24 next big case. There was substantial investment to
25 the City of St. Joseph. The public outcry amongst all

1 the other districts was tremendous.

2 Like in this case, I went to almost all
3 of the local public hearings. 300 people were in
4 Joplin. St. Charles County was a part of that. This
5 was before St. Louis County. It was standing room
6 only in the room.

7 So as -- as part of Public Counsel, it
8 was our position that, you know, the large outcry from
9 all of our people who we represented wanted district
10 specific and that was what we argued for.

11 We also at the time -- not only did we
12 argue for district-specific costs, but we also argued
13 there was a prudence disallowance for some of the St.
14 Joseph plant. I believe Staff also made that argument
15 and AG Processing was an intervenor in that case and
16 they also argued for a disallowance and ultimately the
17 Commission did disallow that. So not only were we
18 arguing for district specific, but we were also
19 arguing against the -- some of the plant that was
20 provided.

21 Since the 2000 case, I continued to work
22 for Public Counsel for about four or five more years.
23 You know, only working on large water cases. I didn't
24 get involved with the small water cases at all. I
25 came back to the Staff in 2005 and I got appointed to

1 my position in 2008 as the manager of the Water and
2 Sewer Department.

3 You know, the difference between what
4 happens in a small water case and small water systems
5 compared to what happens in Ameren or LaCledde or
6 Missouri American is night and day. It is
7 unbelievable. Nobody worries about Ameren customers
8 getting electricity unless there's a major ice storm
9 or wind storm or something. Nobody worries about the
10 natural gas unless, you know, there's a safety --
11 something.

12 We have so many small systems that
13 there's -- we have systems that run out of water.
14 And there are real families there. They don't have
15 water. Water runs dry. Sewer backing up violating
16 state law, violating federal law. Raw sewage flowing
17 into people's backyards.

18 We have owners who don't want to be
19 regulated, didn't know they were supposed to be
20 regulated, but they're supposed to take care of those
21 systems. They've got zero money. They can't go to
22 the bank. They can't go to DNR and get funds because
23 they're a privately-owned entity.

24 And so we don't -- you know, that changes
25 your view on world when you all of a sudden have to --

1 you get calls at night, We don't have water in this
2 area. What can we do? And we're Staff. We don't
3 have authority to really do -- we don't have money to
4 give them, we don't have people -- we actually send
5 people out to help at times. You know, there's only
6 so much that we can do.

7 So to have a company like Missouri
8 American and other companies -- and we don't just talk
9 to Missouri American. We talk to anybody who's
10 willing to purchase a system, we're calling them up
11 and sending them out. Because we don't care. We just
12 got to find somebody who has the ability to go out and
13 make the appropriate investments to get these systems
14 running properly.

15 Maybe they're not failing today, but
16 they're got going to fail five to ten years from now
17 where all of a sudden that system that is using the
18 wastewater is fine today, but we know that
19 environmental regulations are going to change and it's
20 not going to be able to fix it.

21 So when that happened, that's what's
22 changed. And American has grown from a system with
23 seven relatively similarly sized systems -- other than
24 Brunswick, it was St. Charles, it was Joplin, it was
25 St. Joseph, Mexico, Warrensburg, very similar size.

1 So it was -- you know, everybody was going -- was in
2 the same boat at that stage.

3 Now as you look, they got St. Louis
4 Metro, St. Louis County, 300,000 customers. They've
5 got -- Redfield has 17 customers. They have
6 wastewater. They didn't have wastewater in 2000. So
7 it's a completely different company hitting a
8 completely different set of facts.

9 So that's what my change in my philosophy
10 has happened from 2000, simply focusing on larger
11 companies, to 2016, focusing on all water and sewer
12 systems that we regulate here in the state of
13 Missouri.

14 **Q. So it's all to forward the goal of**
15 **getting just and reasonable rates with reliable**
16 **service to the community as a whole and that's the**
17 **obligation of the Commission and overseeing that and**
18 **making sure that in your case, you have to have an**
19 **environment available to the companies in order for**
20 **them to take over your -- as I think you mentioned,**
21 **the incentive to look at these districts. They're not**
22 **taking all of them, but every one they do take is an**
23 **advantage for all of Missouri, is it not?**

24 A. I think it is a public policy, a public
25 interest for larger systems to be able to take over

1 small, struggling systems to provide the necessary
2 investment to allow all citizens of the state of
3 Missouri, regardless of where they live, to have safe
4 and adequate service.

5 **Q. And do you think that in 2000, compared**
6 **to today, there was a public understanding of the need**
7 **for infrastructure improvements?**

8 A. I think there's been a lot of discussion
9 of the failing infrastructures throughout the country
10 and the state of Missouri for water and wastewater. I
11 would imagine most people understand that.

12 **Q. And would you say though it -- just**
13 **recently that the understanding is beginning as to the**
14 **true cost of improving that infrastructure across the**
15 **board?**

16 A. I don't know if everybody really fully
17 understands the true cost.

18 **Q. Until it hits you like it did St. Joseph**
19 **or Joplin and you see those costs?**

20 A. I -- that is correct. Until you got to
21 pay for it, you don't really realize how much it's
22 going to cost. How much inflation and just the price
23 of doing business has gone up over the last 20 years.

24 **Q. And we know there's going to be more**
25 **infrastructure in the future and so it does make sense**

1 as a just and reasonable policy that those costs are
2 shared because we're already starting to share those
3 costs. It's really not a change in policy. It's the
4 evolution of a policy that's currently in existence,
5 is it not?

6 A. I think it's an evolution of a policy,
7 yeah.

8 Q. Thank you.

9 JUDGE JONES: City of St. Joseph?

10 MR. LAWYER: Thank you.

11 CROSS-EXAMINATION BY MR. LAWYER:

12 Q. In your -- I believe it was in your
13 Rebuttal Testimony, you were asked if anyone from
14 Missouri American Water has ever indicated that they
15 would cease acquiring small troubled systems?

16 A. I remember that, yes.

17 Q. And I believe in that Rebuttal Testimony
18 that you indicated that you have not been told that
19 Missouri American would cease?

20 A. That is correct.

21 Q. That is correct. So you have no reason
22 to think that should we stay with the status quo or
23 with slight changes to the status quo, that Missouri
24 American Water would cease bidding on and evaluating
25 troubled systems that are brought to their attention?

1 A. I do not have firsthand knowledge that
2 they would. They have not made a threat like that,
3 that they are suggesting that they have to have it
4 otherwise they will not continue. What their actual
5 plans are and how aggressive they want to be in the
6 future, regardless of whether or not they get district
7 specific or not, I don't know.

8 **Q. Certainly. And I realize that you are**
9 **not employed by Missouri American Water.**

10 A. Right.

11 **Q. But you've just spoken of the -- that**
12 **that has influenced your -- your change in view on**
13 **this issue. And so I just wanted to ask if you had --**
14 **had any reason to believe that Missouri American Water**
15 **would cease acquiring those troubled districts?**

16 A. Right. And I wanted to point out, I
17 think it's important and I think it's an important
18 policy for them to do that, but they're not holding
19 that over Staff's head, at least to say if we don't
20 get our way, we are not going to continue with that,
21 so --

22 **Q. Correct. Okay. I just wanted to clarify**
23 **that --**

24 A. Sure.

25 **Q. -- because I thought that was my**

1 **understanding of your Rebuttal Testimony --**

2 A. Right.

3 **Q. -- is -- like I said, I believe it was in**
4 **your Rebuttal Testimony.**

5 **Now, under Staff's proposal, St. Joseph**
6 **would be combined with Platte County; is that correct?**

7 A. Platte County and Brunswick.

8 **Q. And Brunswick, yes.**

9 A. Yes.

10 **Q. And St. Joseph would be combined with**
11 **Brunswick under the non-unanimous stipulation that was**
12 **filed this morning.**

13 **Are you aware of whether or not**
14 **St. Joseph's and Platte County's water systems are**
15 **interconnected in any way?**

16 A. To the best of my knowledge and belief,
17 they are not interconnected.

18 **Q. And are you aware of any upcoming major**
19 **capital improvements in -- for the Platte County**
20 **system?**

21 A. I -- through the course of this rate
22 case, I was made aware that they are going to be doing
23 a new water treatment facility --

24 **Q. So --**

25 A. -- in the Platte County area.

1 **Q. So in the not-too-distant future you**
2 **would expect to see those costs spread across Staff's**
3 **district two if that -- if that proposal were adopted**
4 **by the Commission?**

5 A. Right. The current costs would be spread
6 amongst all district two and then any future costs
7 would be spread amongst all district two, yes.

8 **Q. Excuse me. Sorry. I forgot something.**

9 A. That's okay.

10 **Q. So the numbers in -- that you provided in**
11 **Staff's Exhibit 34, those are only based on right now.**
12 **The -- the consolidation would take place now and then**
13 **there would be -- obviously we're speaking in numbers**
14 **that you haven't seen, but would you -- would you**
15 **expect to see much different numbers next time around?**

16 A. I really don't know. I think the Company
17 testified that throughout the course of -- between the
18 last rate case and this rate case, they did
19 450 million dollars worth of improvements. I know a
20 majority of that was through the ISRS in the St. Louis
21 County area.

22 But there was investment I think in just
23 about all districts from the last rate case to this
24 rate case that would be a part of this proposed
25 increase. So I haven't done the exact determination

1 to determine what was done in each district, but --

2 **Q. And like I -- I did preface it and I**
3 **apologize. I'm asking you a question based on numbers**
4 **that you haven't --**

5 A. Right.

6 **Q. -- had a chance to look at that are**
7 **entirely speculative. Hypothetically speaking, if --**
8 **if that was making a major impact though, St. Joseph**
9 **would already be combined in district two and -- and**
10 **would not be in the same position to -- to seek**
11 **district-specific or I guess neutral status in**
12 **those --**

13 A. Right.

14 **Q. -- with those costs; is that correct?**

15 A. I hate to say this, but, you know, I
16 think truthfully, as was pointed out through the
17 1990's, they -- we -- the Commission, through the
18 Missouri Cities wa-- and with the acquisition of
19 Joplin and St. Joe, were moving towards single-tariff
20 pricing. And in the 2000 case, the Commission moved
21 away from single-tariff pricing to district-specific.

22 So whereas it is my -- my position today
23 that if the Commission does consolidate as the Staff
24 is proposing here, that this would be -- hopefully put
25 this issue to bed for a long -- at least until I

1 retire in a few years, that it would stay at that
2 level. But I don't believe that the -- as was pointed
3 out, that future Commissions are held to what any past
4 Commission has done. So if the City of St. Joseph
5 wanted to argue to go back to some sort of
6 district-specific in a future rate case, I am not
7 aware of any prohibition from that.

8 **Q. Thank you.**

9 JUDGE JONES: City of Warrensburg?

10 MR. CURTIS: No questions, thank you.

11 JUDGE JONES: Public Water Supply
12 District?

13 MR. DORITY: I guess just a point of
14 clarification, Judge Jones. I don't want to tread
15 into rate design and the Schedules 48 through -- or
16 sorry, exhibits 48 through 51 that I had the
17 discussion with Mr. Herbert. My concerns went to rate
18 design that is embedded in these schedules. Now, I
19 can clarify that with Mr. Busch right now or I can
20 certainly wait until in the morning.

21 JUDGE JONES: Okay. Go ahead and do it
22 right now.

23 MR. DORITY: I'll be very brief.

24 COMMISSIONER KENNEY: I had a question
25 too. Let's do it in the morning. Do you want to go

1 to rate design? That's my question. Because if he's
2 going to ask rate design questions --

3 MR. DORITY: The only reason I was
4 asking, Judge is if the Company -- if the Company --

5 COMMISSIONER KENNEY: You just said to
6 object -- you said everybody to object, so I object.

7 JUDGE JONES: This is the reason the
8 whole thing about rate design came up, because of your
9 questions earlier so let's --

10 THE WITNESS: Could I at least just say
11 one statement about what happened with the schedules?
12 Mr. Herbert used a flat uniform rate, which is what
13 Staff has put in all of its schedules. But you are
14 correct, in our rate design we did say maintain the
15 current rate structures --

16 MR. DORITY: Declining block.

17 THE WITNESS: -- rate structures. So
18 that's -- that was the confusion. The Company used
19 the information that we had been providing, but
20 Mr. DORITY is correct that in our testimony we have
21 suggested maintaining the current rate structures. We
22 can discuss that more tomorrow, but I --

23 MR. DORITY: Well, we'll discuss that
24 tomorrow.

25 THE WITNESS: -- hope that clarifies the

1 problem as -- as with these schedules.

2 MR. DORITY: Thank you. That's all I
3 need.

4 JUDGE JONES: Did you have questions
5 though for consolidation?

6 MR. DORITY: No.

7 JUDGE JONES: StoneBridge? Staff of the
8 Commission? Staff?

9 MR. POSTON: You mean Public Counsel?

10 CHAIRMAN HALL: It's a Staff witness.

11 JUDGE JONES: Oh, I'm sorry.

12 THE WITNESS: Have I been traded?

13 JUDGE JONES: OPC? Sorry about that.

14 MR. POSTON: I have questions.

15 CROSS-EXAMINATION BY MR. POSTON:

16 **Q. You attended the Jefferson City public**
17 **hearing. Correct?**

18 A. I did.

19 **Q. And you were a participant in the Q and A**
20 **session before the hearing; is that right?**

21 A. I was.

22 **Q. Do you recall being asked why you, a**
23 **member of Staff, were repeatedly answering questions**
24 **directed at the Company?**

25 A. I remember a customer asked the question

1 why was I answering questions for that -- answering
2 Company questions.

3 **Q. Did you also attend a local public**
4 **hearing in Arnold?**

5 A. I was in Arnold, yes.

6 **Q. I'd like to read portion of the**
7 **transcript. It's on the second-to-last page of the**
8 **transcript, page 71. A gentleman, Terry Buchanan --**
9 **it's the very last statement made in that public**
10 **hearing states, Well, one other thing real quick. It**
11 **seemed like when the public -- representatives of the**
12 **Public Service Commission are talking, it seemed like**
13 **they have a real -- what do you say -- cordial ear for**
14 **the other side.**

15 He's goes on to say, But when you hear
16 them talk, it's like you're almost taking up for
17 American Water. Thank you.

18 **Does it concern you when members of the**
19 **public question the neutrality of Staff in regards to**
20 **Missouri American Water?**

21 A. I -- I remember, like I said, the Jeff
22 City question. And I do remember being in the back of
23 the room at Arnold when that customer made that
24 statement. And I was really taken aback by that
25 statement.

1 I was standing at the front of the room
2 with another Staff member and Dustin Allison, who was
3 the Public Counsel at the time. And there were
4 various times when questions were asked that -- that
5 are -- to me, were more public policy issues or issues
6 that are impacting the entirety of the water and sewer
7 industries in the state of Missouri.

8 And -- and I feel that it's Staff's
9 obligation to give the public at that situation the
10 information that's available and what is actually
11 going on and what Staff has done and the Commission
12 has done. So --

13 **Q. My question to you was, does it concern**
14 **you when members of the public question the neutrality**
15 **of Staff in regards to Missouri American? Does that**
16 **give you any concern?**

17 A. Well, it does give me concern, but I
18 think it's a lack of the customer's understanding
19 about what the Public Service Commission Staff and the
20 Public Service Commission's role is.

21 **Q. Were you in the room when Ms. Norton**
22 **testified about how the Staff will contact the Company**
23 **to see if the Company's interested in acquiring**
24 **troubled or distressed systems?**

25 A. I was in the room.

1 **Q. And how does Staff determine who they**
2 **contact? Like what companies they contact when**
3 **they've identified a system has trouble?**

4 A. Currently? Currently Staff has a list of
5 about four or five companies: Missouri American;
6 Liberty; a newer company that's involved with some
7 rate cases currently is Central States Water; at the
8 time there was a gentleman down in the Jop-- Branson
9 area who was acquiring systems. So any entity that
10 has indicated that they're willing to purchase
11 systems, we send out -- or contact all of them. We do
12 not contact one entity and not contact another entity.
13 We contact all of them at the same time.

14 **Q. So currently how many are there that you**
15 **are able to reach out to and -- and identify or at**
16 **least inquire about a troubled system?**

17 A. Right now we know of -- we know of three
18 entities that have indicated they are willing to look
19 at small sy-- or any system.

20 **Q. Can you identify the other entities other**
21 **than Missouri American?**

22 A. As I said, Liberty.

23 **Q. Okay.**

24 A. And Central States. Those are the other
25 two that I mentioned.

1 **Q. In regards to Missouri American -- and I**
2 **think this question may have been asked already -- do**
3 **they seek to acquire every system that you notify them**
4 **about?**

5 A. I believe that when we -- excuse me --
6 reach out to Missouri American and I know when we
7 reach out to at least one other entity, they -- I
8 believe they look into the systems. They don't always
9 acquire them -- for reasons they don't necessarily
10 share with us, they don't always acquire them. But
11 I'm assuming that they are going out and looking at
12 the systems.

13 **Q. Can you identify systems that Missouri**
14 **American Water did not acquire after you've contacted**
15 **them?**

16 A. I don't know since that's dealing with,
17 you know, what the Company is looking into. I mean, I
18 could tell you -- I don't know if it should be
19 confidential or not and whether -- I look at
20 different -- I turn to my attorney and the Staff to
21 deter-- or the Company if I can make that information
22 public.

23 **Q. You think it's confidential for you to**
24 **contact a company and ask them if they're interested**
25 **in a troubled system?**

1 A. I don't think that's confidential. I
2 don't know whether or not if they look into it and
3 determine not to purchase it. I don't know -- you
4 know, that gets into that. But I mean, if my att--
5 I'm just trying to be overly cautious. If -- if I'm
6 being wrong, I'll be happy to -- I just -- trying to
7 draw -- draw --

8 **Q. I understand. I understand. Would you**
9 **agree that when Missouri American acquires a troubled**
10 **system, it's an investment opportunity for the**
11 **company?**

12 A. Yes. They have the opportunity to make
13 investment into that system.

14 **Q. And they earn a return on that**
15 **investment. Correct?**

16 A. When they come in for another rate case,
17 they will have an opportunity to earn a return on the
18 investment they make.

19 **Q. And you oppose Missouri American's**
20 **proposed consolidation in this case. Correct?**

21 A. That's correct.

22 **Q. And why do you oppose that?**

23 A. I oppose it because the way that they
24 combined their districts, they took districts that
25 are -- currently have low rates and lump them together

1 into a district. They took districts with the next
2 highest rates and put them together. And then they
3 put districts with the highest rates and put those
4 together.

5 And I think as -- if you looked at the
6 Schedule PRH-6 that was presented earlier, 95 percent
7 of all customers are in zone one and hardly any, a
8 blip, is in zone three, which includes Brunswick,
9 Spring Valley, Ozark Mountain, et cetera.

10 I don't think that really accomplishes
11 the goal of helping out the -- the entirety of the
12 systems and does what is -- what we would like to see
13 out of the public policy through consolidation.

14 **Q. Is the consolidation proposed in the**
15 **non-unanimous stipulation in your opinion a better**
16 **alternative than the Company's proposal?**

17 A. You know, I'll have to think about that.
18 I think that the Non-unanimous Stipulation and
19 Agreement is a -- is a fair approach for moving off of
20 where we are today. It's not nearly as good or, you
21 know -- as Staff's, but comparing it to the -- what
22 the Company has proposed, I haven't made that
23 comparison in my head.

24 **Q. Can you point to me where in your**
25 **testimony you've analyzed the impact that your**

1 **proposed consolidation will have on the low-income**
2 **customers in St. Louis, Joplin or St. Joe?**

3 A. I have not made any analysis of the
4 impact on any low-income customers.

5 **Q. And what's Staff's proposal for Arnold --**
6 **the Arnold sewer rate and the 500 -- I think it's like**
7 **700,000 or something like that? Could you explain**
8 **that?**

9 A. Yes. As was brought out earlier when
10 Ms. Norton was on the stand, there was a letter that
11 was sent out to the City of Arnold that capped the
12 price increase, the rate that would go forward at I
13 think \$33.58. St-- excuse me. I'm sorry. I've been
14 battling a cold for three weeks now.

15 When another company is purchasing
16 another entity, whether or not it's a municipal system
17 like Arnold or if it would be a small, already
18 regulated system, I don't think Staff agrees with
19 limiting the increase to one particular district that
20 has just been acquired and then spreading all those
21 additional costs to the other districts. You know, in
22 some of the other districts that have been purchased
23 and acquired, we spread them out over everybody. So
24 they get an increase potentially and so will everybody
25 else.

1 But in this case with Arnold, they're
2 limiting what that increase may be and then there's
3 extra costs that potentially need to be recovered.
4 And I don't think it's Staff's position that that
5 should be then shared with the rest of the customer
6 class. I'm sorry. The rest of the customers within,
7 you know, Missouri American Water or sewer.

8 **Q. Because in your opinion, that type of**
9 **sharing is not fair?**

10 A. Right. Because that would -- if that was
11 the deal that was made between the Company and the
12 City of Arnold, I don't believe it was put forth in
13 testimony or put forth in the agreement that was filed
14 in front of the Commission. Staff and Public Counsel
15 and anybody else did not have an opportunity to say
16 yeah, we think this is a fair deal so we will agree to
17 cap the price at a certain amount and the rest of the
18 consumers will eat that price.

19 So I -- I believe that with Arnold, if
20 they want to cap that price, then anything above that
21 price should be, I guess, eaten by the shareholders.
22 Now, if they want to go above that cap, then we'll
23 discuss that as well.

24 **Q. That's all I have. Thank you Mr. Busch.**

25 A. Thank you.

1 JUDGE JONES: Missouri American Water.

2 MR. ENGLAND: Thank you, Your Honor.

3 Your Honor, do you know if the handout that Staff gave
4 the Commission yesterday on the stipulation
5 presentation showing the various systems and the
6 current revenue and revenue increase was made an
7 exhibit?

8 JUDGE JONES: I don't think it was.

9 MR. ENGLAND: Can we do that? Because
10 I'm going to have some questions of Mr. Busch
11 regarding that and perhaps other witnesses.

12 JUDGE JONES: It's not an exhibit.

13 MR. ENGLAND: May we make it an exhibit?
14 I guess since I'm offering it, it will be MAWC Exhibit
15 52.

16 (MAWC Exhibit 52 was marked for
17 identification.)

18 JUDGE JONES: You are correct, it is 52.

19 MR. ENGLAND: All right. Thank you.

20 CROSS-EXAMINATION BY MR. ENGLAND:

21 **Q. Mr. Busch, let's start with Exhibit 52.**
22 **Was this prepared by you or other members of Staff?**

23 A. It was not prepared by me. I'm assuming
24 it was prepared by other members of Staff.

25 **Q. As far as you know, it's true and**

1 **accurate?**

2 A. I believe that it is. It's -- yes, it
3 is.

4 **Q. All right.**

5 MR. ENGLAND: I'd offer that exhibit.

6 JUDGE JONES: Any objection to MAWC
7 Exhibit 52?

8 I don't see any. MAWC Exhibit 52 is
9 admitted into the record.

10 (MAWC Exhibit 52 was received into
11 evidence.)

12 BY MR. ENGLAND:

13 **Q. While we're talking about --**

14 MR. ENGLAND: Thank you, Your Honor.

15 BY MR. ENGLAND:

16 **Q. While we're talking about exhibits, I**
17 **believe you've had an opportunity to see Company**
18 **Exhibit 49, which is an attempt to model Staff's**
19 **proposed consolidated tariff pricing scheme for**
20 **purposes of this case?**

21 A. I don't know if I'd refer to it as a
22 scheme, but our proposal.

23 **Q. Fair enough. And I think we've noted**
24 **that the proposed rates, if you will, for the sale for**
25 **resale was a uniform rate where there should have been**

1 **a declining block rate; is that right?**

2 A. Yeah. I think so.

3 **Q. First of all, does that make, in your**
4 **opinion, much difference in the percentage impacts**
5 **that this is attempting to show?**

6 A. I'd have to go run the numbers on that,
7 to be honest.

8 **Q. What -- does this exhibit, in your**
9 **opinion, fairly represent Staff's position in this**
10 **case?**

11 A. Are you referring to Exhibit 49?

12 **Q. Yes, I'm sorry.**

13 A. I don't know. I honestly would need to
14 go back and run the numbers myself to make sure that
15 it is -- I know that it looks -- it's very similar to
16 the customer charge as we have calculated based upon
17 the -- the 30.6 million dollar Non-unanimous
18 Stipulation and Agreement. So that is accurate. I
19 just got to go back and double check to make sure of
20 that before I can say that for sure.

21 **Q. Fair enough. Is that something you could**
22 **do by the next time you appear on the witness stand**
23 **tomorrow?**

24 A. Depends on how quickly I get back on the
25 witness stand tomorrow.

1 **Q. I understand. Now, again with turning**
2 **your attention to Exhibit 52, if I understand Staff's**
3 **proposal in this case, they are going to take the**
4 **19 water districts that are shown on the lower half of**
5 **this exhibit and consolidate them into three zones or**
6 **super districts; is that right?**

7 A. We are, yes, combining those districts
8 that are underneath the water section and combining
9 them into three districts, that is correct.

10 **Q. And the basis for that consolidation is**
11 **geographic location or proximity and similar operating**
12 **characteristics. Right?**

13 A. That is correct.

14 **Q. And then you're also proposing to**
15 **consolidate the 13 sewer districts into five zones or**
16 **groups; is that right?**

17 A. That was what we put forth in testimony.

18 **Q. And that leads me to my next question.**
19 **Has that changed since you filed your Direct**
20 **Testimony?**

21 A. Well, if you look at what we actually
22 said in our Direct Testimony, we -- we put the five
23 districts -- we combined the sewer districts into
24 five, but then when we looked at the overall increase
25 was so minimal, we said leave the rates as they are at

1 that stage.

2 So even though we talk about the
3 consolidation of the five districts, I think we would
4 still take the -- the non-Arnold sewer revenue
5 responsibility and shift that to the water side, which
6 would then leave the current rates as they are on the
7 sewer districts, even with the combinations.

8 **Q. So help me then. Would you continue to**
9 **have 13 different sewer rates?**

10 A. I don't think it's quite 13 different
11 rates. For example, the Jeff City sewer is 65.22,
12 which is the same as the Platte County sewer. So
13 we -- and I think Cedar Hill is at 65.22. So we've
14 already got some consolidation of the sewer rates
15 already.

16 **Q. So is it my understanding then that**
17 **although you talk about consolidation in your Direct**
18 **Testimony, when we come here to the hearing, you're**
19 **not proposing to consolidate any of the districts?**

20 A. Well, like I said, in my direct, I talked
21 about consolidation but then I left the rates as they
22 were. So I didn't propose any changes to the sewer
23 rates and we are maintaining that position.

24 **Q. And, of course, that was because the**
25 **study that you had in your direct was based upon a**

1 **revenue requirement -- a total revenue requirement of**
2 **somewhere in the neighborhood of, what, 6 or 7 million**
3 **dollars?**

4 A. I think it was more than that, but I
5 can't -- I don't remember exactly where we were at
6 Direct Testimony. I do know that the sewer increase
7 was about \$39,000.

8 **Q. The increase or the revenue -- the --**

9 A. The revenue increase --

10 **Q. -- contribution?**

11 A. -- for the sewer -- the revenue increase
12 for the sewer was like 39,000 dollars, which we would
13 have spread to district two in our direct case.

14 **Q. Okay. And then what's your increase?**

15 A. Today?

16 **Q. At hearing?**

17 A. At hearing, as I mentioned, the
18 non-Arnold is an increase of 565,000 and we would
19 spread that to district one, district two and district
20 three in an 80, 10 and 10 manner.

21 **Q. Okay. All customers or just residential?**

22 A. I just said all -- all customers.

23 **Q. And I apologize because I'm somewhat**
24 **confused. So if I'm -- back to Exhibit 52, if I'm**
25 **reading the Staff exhibit correctly, and I'm just**

1 **going to start at the top, Anna Meadows, in order to**
2 **recover its cost-of-service, needs an increase of**
3 **approximately 32 percent; is that right?**

4 A. The revenue responsibility assigned to
5 Anna Meadows is ab-- is a 32 percent increase.

6 **Q. Okay. And what is the -- are you**
7 **proposing a rate increase to recover that or not?**

8 A. As of now, I would suggest that we just
9 maintain the current rates.

10 **Q. So is it safe to say for all 13 -- excuse**
11 **me, 12 districts not including Arnold, to the extent**
12 **they show a rate increase, they're not getting it**
13 **because of the 565,000 dollar revenue transfer?**

14 A. Right. Because if you look at Platte
15 County, for example, which according to the revenue
16 responsibilities is a 47 percent increase, if we do
17 you a 47 percent increase on an already \$65.22 rate,
18 you're looking at a sewer rate to the citizens in
19 Platte County of 96 dollars. And so Staff would just
20 take and leave the status quo.

21 **Q. So essentially what you're saying is for**
22 **those sewer districts other than Arnold that would**
23 **otherwise get an increase, and some of them are fairly**
24 **significant, over 40 percent, you're proposing to**
25 **negate that with the revenue transfer from the water**

1 **districts?**

2 A. Right. Because I think that that caps
3 the sewer rate at 65.22.

4 **Q. Are all of them at 65?**

5 A. Some of them are lower.

6 **Q. So they'll stay the same?**

7 A. They would stay the same.

8 **Q. So it's fair to say at least where you've**
9 **got these significant increases, your sewer tra--**
10 **excuse me, your water contribution to sewer is an**
11 **effort to mitigate rate shock that would otherwise**
12 **occur?**

13 A. That is correct.

14 **Q. Would you agree that the Company**
15 **attempted to mitigate the rate shock for the various**
16 **sewer companies -- excuse me, sewer districts by**
17 **capping the allocation of its common cost to those**
18 **districts at roughly 20 dollars a customer?**

19 A. I think that was -- I think I remember
20 the Company making that recommendation.

21 **Q. Would you also agree with me that by**
22 **limiting the amount of common costs that are allocated**
23 **to the sewer districts, the Company achieves the same**
24 **or similar result you do by proposing a revenue**
25 **contribution or transfer?**

1 A. I know -- if I remember correctly, the
2 Company in their -- their sewer was a uniform sewer
3 rate for all districts other than Arnold, which was at
4 a slight increase of up to like 69 dollars based upon
5 their filing. I don't know what the rates are under
6 the new revenue requirement through the Non-unanimous
7 Stipulation and Agreement, but I think -- I think
8 what -- I think I agree with what you're saying.
9 Could you repeat that just for --

10 **Q. Sure. I'm saying that essentially the**
11 **Company sort of achieves the same result that you do**
12 **through a revenue contribution by them limiting the**
13 **amount of common costs that are allocated to sewer**
14 **districts?**

15 A. I think that's a fair statement.

16 **Q. And I think you would also agree -- in**
17 **fact, you testify to this -- that the cost allocation**
18 **process is not precise and more of an art than a**
19 **science?**

20 A. I agree that the cost allocation process
21 is def-- a lot of al -- any allocation is an art.

22 **Q. Would you also agree with me that the**
23 **common costs for Missouri American are close to**
24 **70 percent of the operating and maintenance costs?**

25 A. I had -- I've not looked at those

1 numbers.

2 **Q. Pretty significant though, aren't they?**

3 A. I -- I -- I've talked to some of our
4 auditors and I believe that it's significant number,
5 but I don't know the exact number.

6 **Q. And I believe in response to some**
7 **questions from Mr. Poston, you articulated why you**
8 **were not proposing any revenue contribution to the**
9 **Arnold sewer system. Right?**

10 A. Yes.

11 **Q. But you're proposing at least to increase**
12 **those rates by 44 percent in order for them to recover**
13 **their cost of service?**

14 A. The revenue responsibility shows a
15 44 percent increase to the Arnold rate. That does not
16 take into account the cap that was built in. So if --
17 like I said, if Arnold -- if Missouri American is
18 willing to design a rate that the Arnold system may go
19 above the \$33.58, then I think Staff would be willing
20 to look at some other shifts.

21 **Q. You understand that that cap of roughly**
22 **33 dollars -- the Company set as a cap, if you will,**
23 **wasn't to be achieved until 2020. Right?**

24 A. I'm not exactly sure what the cap was. I
25 do know that Ms. Norton's predecessor, Mr. Kartmann,

1 made a phone call to me and talked about a cap. And I
2 indicated that if the Company was going to do a cap,
3 that any revenue responsibilities above that would not
4 be the responsibility of the other customers and would
5 be shareholders, and he agreed to that.

6 **Q. I beg your pardon?**

7 A. He agreed to that in a phone
8 conversation.

9 **Q. So it's your testimony for the first time**
10 **I'm hearing today that Mr. Kartmann made a commitment**
11 **to you that if the cost-of-service was above the**
12 **33 dollar cap, that the Company would absorb that?**

13 A. The reason that you're first now hearing
14 it is because up until this point, until the
15 30.1 million dollars, Arnold wasn't going to be
16 anywhere near the cap and it wasn't necessary. Arnold
17 wasn't going to have an increase to that level;
18 therefore, it was -- we would have just gone forward
19 with the cost-of-service.

20 **Q. We've been at that cap for a week or**
21 **more. And this is the first time I've heard of some**
22 **commitment that Mr. Kartmann made to you. We've had**
23 **plenty of discussions.**

24 A. We have. No, we had plenty of settlement
25 discussions.

1 **Q. You didn't think it was significant for**
2 **you to tell the Company that Mr. Kartmann made that**
3 **commitment, that the Company would absorb --**

4 MS. MYERS: I'm going to object here to
5 this being called a commitment. It seems to me
6 Mr. Busch said he explained this to Mr. Kartmann and
7 that he agreed.

8 MR. ENGLAND: Sounds like a commitment to
9 me.

10 MS. MYERS: There's no contract from
11 there.

12 JUDGE JONES: Objection sustained. I
13 don't even think it matters whether he committed or
14 not or broke his commitment or they had sundaes
15 together.

16 BY MR. ENGLAND:

17 **Q. Well, let me ask you this: If the**
18 **Company had not made a commitment to the Arnold**
19 **customers to limit their rate increase to the**
20 **33 dollars and the cost-of-service shows that they**
21 **need a 44 percent increase and you're concerned about**
22 **rate shock for all the other sewer districts, would**
23 **you then have agreed to a revenue subsidy for Arnold?**

24 A. Again, I don't know if I would have
25 called it a subsidy but --

1 **Q. A contribution?**

2 A. -- I would -- I would need to rethink
3 that, yes, potentially.

4 **Q. So in other words, the only reason you're**
5 **not supporting a revenue contribution to Arnold is**
6 **because you didn't like the fact that the Company made**
7 **a commitment to those customers that you didn't like;**
8 **is that right?**

9 A. Well, I don't -- it's not that I don't
10 like it. I don't think it's fair for the Company to
11 make a commitment to certain customers and expect
12 other customers to pay for that.

13 **Q. If we hadn't made that commitment, you're**
14 **telling me here today you wouldn't support a 33 -- or**
15 **a 40 percent increase to those customers.**

16 A. I don't know -- I don't know that I would
17 support a 4--

18 **Q. Well, you're not supporting 40 percent**
19 **increases to the other customers.**

20 A. I understand that.

21 **Q. Seems to me that your position is more**
22 **punitive than rate-making, sir.**

23 A. I'm not trying to be punitive at all.

24 MS. MYERS: Objection, this is
25 argumentative.

1 MR. ENGLAND: I'm done with that line of
2 questi oning.

3 JUDGE JONES: Well, objection sustained.

4 BY MR. ENGLAND:

5 Q. You were asked some questions by Ms. Bell
6 from Joplin or on behalf of Joplin about the position
7 you took in 2000 when you were with the Office of
8 Public Counsel?

9 A. Yes.

10 Q. And I believe attached to Public Counsel
11 witness Marke's testimony is a history of
12 district-specific pricing, single-tariff pricing,
13 consolidated-tariff pricing, whatever you want to call
14 it, dating back to the '80s. Did you read that?

15 A. I read it, but it was months ago so I
16 don't re-- I don't recall much of it.

17 Q. Would you agree with me that up until
18 about 1998, the Office of Public Counsel was
19 supporting some sort of consolidated tariff pricing
20 for Missouri American?

21 A. If that was in his testimony, I don't
22 recall that and I don't recall up until that point in
23 time.

24 Q. It was an attachment to his testimony.

25 A. Yeah, I don't recall that.

1 **Q. Would it surprise you to know that?**

2 A. If it was in his attachment, no, it would
3 not.

4 **Q. Would it surprise you to know that Public
5 Counsel supported a form of single-tariff pricing
6 prior to 1998?**

7 A. I wasn't at Public Counsel prior to that.
8 I know what we did in the 2000 case. I'm not neither
9 surprised nor unsurprised.

10 **Q. Okay. I guess what -- where I'm getting
11 at it, it's not -- you're not the only person that has
12 changed his position, if you will, regarding
13 single-tariff pricing or district-specific pricing?**

14 A. I think we've heard plenty of testimony
15 today from different parties that have changed their
16 positions on that.

17 **Q. You were also asked a question by
18 Ms. Bell regarding any changes in the law regarding
19 acquisitions or -- no, excuse me. Any change in the
20 law regarding the setting of rates for water and sewer
21 companies, I believe?**

22 A. Yeah.

23 **Q. There has been a change in the law
24 regarding the acquisition of smaller systems, hasn't
25 there, sir?**

1 A. Yes.

2 Q. And -- and I'm speaking totally from
3 memory so correct me if I'm wrong, but I believe it
4 favors some sort of consolidation or at least
5 temporary consolidation at the time those districts
6 are acquired by a larger utility?

7 A. Yeah. You're referring to the change
8 that would allow the assignment of a current -- of a
9 district that is being purchased to be assigned to a
10 currently existing district. I think that's what
11 you're referring to.

12 Q. Yes.

13 A. Yes.

14 Q. I mean you're familiar with that change
15 in the law. Correct?

16 A. Yes.

17 Q. Okay. I'm going to switch gears with
18 you, but sticking with Joplin. Are you aware of the
19 fact that there may be a source of supply issue there
20 that's going to have to be addressed in the
21 not-too-distant future?

22 A. I'm tangentially aware that there is some
23 issues with source supply in the southwest portion of
24 the state.

25 Q. You were asked a question by Mr. Poston

1 about the -- and I'm going to probably not get this
2 correct, but something about an investment opportunity
3 to purchase small systems. Do you recall that?

4 A. We talked about the purchasing of small
5 systems.

6 Q. Do you consider that to be an investment
7 opportunity for anybody?

8 A. If you have the money and you can invest
9 in a smaller system or any troubled system and get
10 the -- a potential to get a return on that, it is an
11 investment opportunity.

12 Q. Well, let's stick with the potential to
13 get that return. In most circumstances, those small
14 require investment that far exceeds the customer's
15 ability to pay. Correct?

16 A. In some of them, that is correct, yes.

17 Q. In the majority of them, wouldn't you
18 agree?

19 A. Majority of them, sure.

20 Q. And if this was such a great business
21 opportunity, you'd have more people knocking down your
22 door trying to buy these systems, wouldn't you?

23 A. Yes.

24 Q. Thank you, sir. I have no other
25 questions.

1 JUDGE JONES: Questions from the
2 Commission. Mr. Chairman?

3 CHAIRMAN HALL: Yes.

4 QUESTIONS BY CHAIRMAN HALL:

5 Q. Good evening, Mr. Busch.

6 A. Good evening, Chairman.

7 Q. Is it safe to say that the main
8 justification in your view for some type of
9 consolidated tariff pricing is to facilitate
10 acquisition of distressed systems?

11 A. I think it's fair to -- to assume that my
12 position is that with the problems we're having with
13 troubled systems, that moving to some sort of
14 consolidation is ultimately in the best interest.

15 Q. And so your -- you -- you agree that cost
16 causation and potential for over-investment are
17 significant factors in opposing further consolidation
18 of rate districts. You just believe that the
19 countervailing policy of trying to facilitate
20 acquisition trumps those other principles?

21 A. Yeah. I -- and I think the way that
22 Staff consolidated the districts does maintain some
23 level of cost causation. Maybe not to the level that
24 other parties see, but I believe it does maintain some
25 sort of cost causation and I think it's important to

1 maintain that -- keep that in sight and -- I'm sorry,
2 I forgot what the other piece of --

3 **Q. You've answered. You've answered.**

4 **Looking at Missouri American Exhibit 52 --**

5 A. Uh-huh.

6 **Q. -- which you prepared, there are -- this**
7 **document includes the recently acquired systems.**
8 **Right?**

9 A. Yes.

10 **Q. Could you point those out to me, which**
11 **are the -- my understanding, there were five sewer**
12 **systems, five water systems acquired since the last**
13 **rate case?**

14 A. Since the last rate case, Anna Meadows --
15 I'm starting at the sewer at the top. Arnold, Emerald
16 Pointe, Hickory Hills, Meramec and Saddlebrooke. And
17 then going down to water, you have Anna Meadows again,
18 Emerald Pointe, Hickory Hills, Redfield, Saddlebrooke,
19 Tri-States. And Saddlebrooke was right around the
20 last rate case, but I believe it was after the last
21 rates were put into effect.

22 **Q. Okay. And Mr. England asked you some**
23 **questions about a statute. He didn't give you the**
24 **statute citation. I believe it's 393.320, which**
25 **includes a provision that when a -- when a small water**

1 utility is purchased by a large water public utility,
2 it is to be consolidated with another district and
3 that consolidation is supposed to occur in the order
4 approving the acquisition.

5 A. I believe that is the statute, yes.

6 Q. And this is actually a fixed rate
7 provision that you worked on over in the General
8 Assembly, isn't it?

9 A. I do not believe so.

10 Q. No? Okay. Do you know which of these
11 systems that were purchased after the last rate case
12 were purchased after the effective date of this
13 statute such that we could go back and look at the
14 orders approving the acquisition to see what
15 consolidation was included in that acquisition?

16 A. I think Anna Meadows. And when we talk
17 about assigning it to a district, we did not change
18 the rates. If they had a currently existing rate, we
19 did not change the rate to whatever the rate was for
20 that district that it was assigned to. So Anna
21 Meadows, the rate that was being charged, we
22 maintained that same rate. Same with Emerald Pointe.

23 Q. And isn't it standard to keep the same
24 rate until the next rate case on --

25 A. That -- that is Staff's position, yes.

1 So we had Anna Meadows, Emerald Pointe, Hickory Hills,
2 Meramec and Tri-States and Redfield.

3 **Q. Okay. Were you in the hearing room when**
4 **Mr. Herbert was discussing, I believe with me, the**
5 **rationale that the Company used for its grouping of**
6 **systems for consolidation and -- versus Staff's**
7 **grouping?**

8 A. I was in the room, yes.

9 **Q. He argued that grouping them on the basis**
10 **of geography and I'm -- this may not be his exact**
11 **words, but that it didn't make a lot of sense. Do you**
12 **agree -- based on geography and that it made sense to**
13 **group it on the basis of cost.**

14 **So first, looking at the Company position**
15 **on -- which is grouping on the basis of cost, do you**
16 **agree with him that that approach reduces rate shock?**

17 A. No. And I think they -- in my opinion,
18 they grouped them based upon the current rates, not
19 necessarily upon cost.

20 **Q. I -- that's true.**

21 A. And so -- and -- and no, I don't.
22 Especially when you look at their district three,
23 which has barely 1,500 customers out of their
24 400-some-odd-thousand. It's -- I don't see how if
25 there was investment in one of those districts, you're

1 going to avoid rate shock.

2 **Q. Well, I think what he was saying is that**
3 **there -- there would -- and, again, it's just my**
4 **understanding, that -- that grouping on the basis of**
5 **cost or -- or rates would -- would reduce the rate**
6 **shock from the consolidation.**

7 A. Oh, I -- okay. Yeah. If -- if you
8 consolidate it based upon that, the -- the shifts
9 between the different districts would be less than the
10 shifts potentially than what Staff has proposed with
11 its hybrid.

12 **Q. And there's some value in that, would you**
13 **agree?**

14 A. With --

15 **Q. Come on. Staff's not going to take the**
16 **position that rate shock is good.**

17 A. No, rate shock is not good.

18 **Q. Okay. Then you answered that question.**

19 **So -- but you do raise a legitimate issue**
20 **from -- from -- from my perspective that when looking**
21 **at the Company's grouping, you do have a zone with**
22 **very, very few customers thereby impeding the goal of**
23 **spreading out costs.**

24 A. That -- that's my opinion, yes.

25 **Q. Would it be possible to structure these**

1 **zones on the basis of rates and satisfy that concern?**

2 A. I -- I believe that you can consolidate
3 the rates in just about any way imaginable.

4 Q. Well, I mean it doesn't -- I mean, I
5 think I agree with -- with -- with Mr. Herbert, that
6 geography doesn't necessarily make sense as a basis
7 for -- for -- for groupings. So -- but I'll -- I'll
8 go there. What is the -- what's the logic behind
9 geography as a basis for grouping?

10 A. And I think this was getting a little bit
11 to what Ms. Bell was going down. My district one has
12 Jefferson City and St. Louis Metro. It also has
13 Mexico, so that's kind of an outlier. But those two
14 major groups, first of all, have -- their source of
15 supply is the Missouri River or the Meramec River so
16 very similar operating characteristics.

17 District two is more of wells and
18 alluvial wells between Riverside and St. Joseph. So I
19 think at some level there's some similar, not always,
20 not exact, but there's some similar operating
21 characteristics.

22 And the next part about the cost based on
23 geography is that the way that the Company do -- you
24 know, does their operations is based upon geography.
25 The best example I have is because I know this

1 gentleman the best with Missouri American. Matt
2 Barnhart is their -- and I don't know his exact title,
3 but he's an operations supervisor in the southwest
4 region. So he was responsible for Joplin, all the
5 small Bransons and the Warrensburg area. So him and
6 his team focus on those areas.

7 When we were at the Riverside town hall
8 meeting, the gentleman -- and he's new and I forgot
9 his name. I think it's Mr. Carlson is his name.
10 He's -- he's in charge of St. Joe and Riverside. He's
11 over all -- both of those. So -- and in the St. Louis
12 area, it's -- they do St. Louis and they do Jefferson
13 City, they do Mexico. It's a similar type of
14 consolidation with their operations people.

15 So I think by doing it by geography,
16 we're keeping those types of costs together, which
17 falls into our hybrid consolidation districts. So
18 that's why I think in -- in Staff's position we do --
19 we maintain those cost causation that is important to
20 a lot of parties by doing our district consolidation
21 based upon geography, which is similar to what the
22 Company has done.

23 **Q. Okay. So it's not really geography as**
24 **much as operation characteristics? I'm trying to help**
25 **you out here.**

1 A. Sure. But, you know -- and part of it is
2 it's geography because -- you know, I went to 10 of
3 the 12 local public hearings for Missouri American.
4 And I go to a lot of the other public hearings for our
5 smaller systems. And one of the things that we hear
6 in the Q and A and sometimes it's on the record in the
7 local public hearing is the consumers down in an area,
8 they talk about paying for their own costs -- you do
9 hear that a lot. But you also hear them talk about
10 why is my rate 40 dollars when the person down the
11 street is paying 20 dollars.

12 So they -- they're comparing their rates
13 to people who live in the area. They -- they have
14 friends and family and relatives who live near them in
15 the same geographic area. And people look at that and
16 they wonder why is my rate different than somebody
17 else who lives 20 miles down the road.

18 And there are various reasons for that.
19 We try to explain that to them. And maybe this is
20 when I get accused of answering for the Company, but,
21 you know, there's a difference in cost between a -- if
22 it's a municipal system versus a privately-owned
23 system. But people are cognizant in their geography
24 of what the rates are being paid. So I think
25 geography does play a part of that.

1 **Q. Okay. Let's -- let's return for a moment**
2 **to the -- to the fundamental reason why you, on behalf**
3 **of Staff, are proposing consolidation as to facilitate**
4 **acquisition of distressed systems. There's been ten**
5 **acquisitions since the last rate case and we don't**
6 **have a consolidated system. Why -- what's the problem**
7 **that you're trying to fix?**

8 A. Well, we -- the Company has purchased
9 systems and I -- I think I even mentioned this in my
10 testimony. They have been purchasing systems even
11 under their current structure. By as, you know, we
12 struggle through this today even -- the Public Counsel
13 in the Non-unanimous Stipulation and Agreement with
14 MIEC and others, you know, they bas-- you know, they
15 took Tri -States and Emerald Pointe and they combined a
16 bunch of other small systems with them.

17 Eventually we're going to run into a
18 situation where even that, you're going to run into a
19 new investment by the Company that's going to impact
20 when you have smaller districts like that. It will
21 still be a small district. And your -- Warrensburg is
22 a small district, Mexico's a small district.

23 And so I think the consolidation and how
24 we've come up with that and the three districts is
25 just going to allow for better policy on a

1 going-forward basis.

2 Q. Let me see if I can figure out what you
3 just said. I think what you're saying is that yes,
4 the Company is acquiring some systems under the
5 current structure, but they are more likely to acquire
6 more under a consolidated structure?

7 A. I think it's a possibility that, yes,
8 they would be -- they might become more aggressive.

9 Q. If it's just a possibility, I'm not sure
10 that's really going to move us. So I mean, I -- I --
11 I -- I think we -- we as a -- as a -- I'm speaking on
12 my own behalf. If -- if -- I mean Staff's mak-- is
13 taking the position that this is the fundamental
14 reason why we need to change the -- the -- the
15 district structure. But -- so I think we need to have
16 some amount of comfort with the -- with the conclusion
17 that doing so is going to facilitate acquisition of --
18 of -- of troubled and distressed systems.

19 A. I understand that, Chairman, and that is
20 Staff's hope. But again, I think Ms. Norton was asked
21 the question earlier about how aggressive they are and
22 how aggressive they may be. And I don't know if
23 they -- they haven't indicated one way or the other if
24 they will be more aggressive or not. So I can't -- I
25 can't sit here today and tell you that that is going

1 to happen. It's our hope that it will.

2 **Q. In your Rebuttal Testimony, line 5 on**
3 **page 15, you indicate that Staff does not anticipate**
4 **seeking further consolidation in the future.**

5 A. That is correct.

6 **Q. Why is that?**

7 A. Because I -- as I mentioned earlier --
8 when I say further consolidation, we would maintain
9 the three districts. I think as -- for the reasons
10 that we pointed out. And that as new systems would be
11 acquired, they would eventually, you know -- depending
12 upon where they fall in, would be assigned to those
13 districts on a going-forward basis.

14 So we would consolidate if they purchased
15 more, but we weren't -- I don't -- I don't see a
16 further consolidation to two or a single-tariff rate
17 at this time.

18 **Q. Why is that? If -- if moving to three is**
19 **good, why isn't moving to two better and moving to one**
20 **the best?**

21 A. Because, you know, I still believe that
22 there are some cost causation factors with the three
23 that are separate and distinct. And as has been
24 pointed out, and I -- I addressed this in my
25 testimony, there is some concern that you could see

1 maybe investment a little bit more so than is
2 necessary, as pointed out like we talked about with
3 St. Joseph and their plant and the different parties
4 recommending some disallowance, which the Commission
5 agreed to.

6 So I think if you go to a full single
7 tariff, you lose those last two -- two items. And
8 I'm -- as I sit here today, I don't foresee going
9 forward any further. I think this is a good result
10 and I think this is good for the state of Missouri on
11 a going-forward basis.

12 **Q. So in other words, your balancing**
13 **interests and moving to three reaches that -- that**
14 **correct balance from your perspective?**

15 A. From my perspective, yes.

16 **Q. Okay. I have no further questions.**

17 **Thank you, Mr. Busch.**

18 A. Thank you, Chairman.

19 JUDGE JONES: Commissioner Stoll?

20 COMMISSIONER STOLL: I have no questions.

21 But again, thank you for your testimony.

22 JUDGE JONES: Commissioner Kenney?

23 COMMISSIONER KENNEY: I have no

24 questions. Thank you.

25 JUDGE JONES: Commissioner Rupp?

1 QUESTIONS BY COMMISSIONER RUPP:

2 Q. Yeah, so let me follow up a little bit on
3 Chairman Hall's line of questioning. Is -- you know,
4 earlier in your testimony when we were discussing the
5 Arnold sewer rates and how you were moving them from
6 this zone and then you recalculated it and moving it
7 that zone, was primarily the reason that you did that
8 to just affect the different rates so that -- so to
9 smooth them out?

10 A. Are you talking about the --

11 Q. The Arnold --

12 A. Sorry, Commissioner.

13 Q. Wasn't it the Arnold sewer, 500,000 --

14 A. I think it's everybody but Arnold. No,
15 that's everybody but Arnold is the 560,000. So yeah,
16 it was -- it was -- that revenue contribution is
17 shifted to the other water districts to try -- in what
18 we think is an equal basis.

19 Q. And it's shifted to try to --

20 A. Try to avoid seeing a rate over
21 65 dollars for some of the sewer customers.

22 Q. Okay. So walk me through how -- how --
23 how -- how -- how is this statement incorrect: That
24 we have deviated from rate design and we're now
25 picking winners and losers in -- in -- in districts

1 **based off of current rates.**

2 A. As was briefly touched upon, a lot of the
3 costs are corporately allocated. When you look at a
4 small system -- when a small system comes in for a
5 rate case and they don't have a customer -- a customer
6 call center to handle their complaints. They have the
7 owner.

8 There are a lot of big costs that are a
9 part of Missouri American system, because of the large
10 size of them, that get allocated on a method, on a
11 formula that is reasonable and is a good a method as
12 any way. But it doesn't, in my opinion, tell me what
13 the true cost of providing service is to some of these
14 smaller systems because those smaller systems don't
15 have a lot of the costs that are now being allocated
16 to them.

17 And so because of that, I don't really
18 see how we're picking and choosing winners and losers
19 because a lot of times a small -- you know, when
20 Missouri American purchases a small system, they don't
21 go and add to their customer call center. They don't
22 add more people to handle those calls. They just --
23 you know, they get, you know, put in there. But all
24 of a sudden now that district is picking up a part of
25 those costs.

1 So in some ways, some of those costs --
2 those smaller systems are actually, you know,
3 providi -- taking some of those costs away from the
4 larger districts, you know.

5 St. Louis County, you know, was a huge
6 company prior to the purchase of Missouri American
7 purchasing them. There -- a lot of these costs were
8 for Missouri American -- or for St. Louis County. So
9 those costs are going to be there regardless of
10 whether or not they pick up a smaller system or not.

11 So when we start allocating those --
12 those big corporate costs -- and Mr. England mentioned
13 the -- a pretty significant amount of those costs are
14 corporately allocated -- I don't think those are
15 really being caused by a small system. Because when
16 we do a small company rate case, those costs, they're
17 nowhere to be found in a small company rate. They're
18 only found when we -- they get a part of Missouri
19 American's system. So I think they're already being
20 assigned through the process, a portion of those
21 costs.

22 So when you look at those rates -- so
23 when I start looking at -- you know, I call it a
24 revenue contribution because we determine what a
25 revenue requirement is, but it may not be the exact

1 precise costs of providing service to that area. So
2 when it gets --

3 **Q. All right. Let's -- let's -- let's take**
4 **a step away from small water and sewer being absorbed.**
5 **Let's just talk about figuring out are we going to**
6 **have five zones, four zones, three zones on the**
7 **current -- the current number of -- of customers that**
8 **are here, not anyone new. That is kind of where my**
9 **question was.**

10 **How -- how is -- or have -- have we**
11 **deviated from rate design into picking winners and**
12 **losers by trying to spread across the cost to those**
13 **zones, i.e., the 500,000 dollars in the -- in the**
14 **Arnold service?**

15 **A. Commissioner, I -- I -- I think I**
16 **understand what you're suggesting. I just have a hard**
17 **time saying that we're picking winners and losers.**
18 **But definitely, based upon current rates and based**
19 **upon what was calculated as a revenue requirement that**
20 **was based upon Exhibit 52, some people are going to**
21 **have an increase and some are going to have a**
22 **decrease. When do you that consolidation, that is --**
23 **that is what happens.**

24 **Q. And I guess that's kind of where I'm**
25 **struggling is, to me, it's either these are your**

1 costs, this is where you live, this is where you chose
2 to live, this is what you need to pay. Or if we're
3 going to have consolidation, then why don't we just
4 have complete consolidation and have one -- one rate
5 for the entire state that says, okay, new system came
6 on board, then next rate case, all this stuff gets
7 added in.

8 To me, it's -- it's -- we start picking
9 winners and losers when we deviate from full cost of
10 service and we start going down this path of
11 consolidation, but we really don't want to go all the
12 way because we're afraid of what's it's going to do to
13 some of the zones and there's sticker shock and
14 whether or not you'd have the votes for it on the
15 Commission.

16 That's where I struggle with the picking
17 of the winners and losers because there's a -- there's
18 a decision being made based off of, well, that -- that
19 rate's getting kind of high on this one, we better
20 re-jigger it and spread it around. And so that's
21 where I'm struggling on.

22 If we're walking down this path, why do
23 we stop at four, why do we stop at five? If we're
24 going to go there, why don't we just go to one?

25 A. I understand your point, Commissioner.

1 And I -- because I do still believe in some of the
2 cost causation factors and -- and some of the other
3 points that I -- that I've mentioned earlier that I
4 think doing it -- excuse me -- with the three
5 districts is appropriate. Because, you know, the
6 other parties do, you know, make some points and
7 there's things that I've argued in the past.

8 So I think, you know, you need to -- you
9 need to look at the changing world of Missouri
10 American, the changing water and sewer world and
11 acknowledge that some consolidation is a good -- good
12 thing.

13 And, you know, I made this exact same
14 proposal in the last rate case well before I had any
15 of this -- you know, like the Riverside plant
16 treatment facility. So I didn't make it and go, oh,
17 my gosh, Riverside's going to go up in the future. I
18 did it because I thought it was right thing to do
19 based upon, you know, those reasons. And -- and, you
20 know, I -- I think that when we -- I just can't go all
21 the way to single-tariff pricing at this time.

22 **Q. So some of those costs things -- like you**
23 **said, some of the water comes from Meramec River in**
24 **one area and some of it comes from underground.**
25 **How -- help me understand how that is different than**

1 on an electric rate, you know, there's a coal plant
2 over here and there's a natural gas plant over here
3 and all those costs in differentiation in figures are
4 allocated. Help me -- help me with that.

5 A. You know, a lot of people talk about how
6 the electric side is an interconnected industry. And
7 when -- you know, they have different generation
8 facilities, they have -- you know, Ameren they have
9 the nuclear facility, Bagnell Dam, they have
10 coal-fired plants, they have gas generation. And when
11 you -- when the lights go on, we don't know where
12 those -- necessarily where they come from. So I think
13 that's slightly different.

14 Then you do -- you know, as people
15 pointed out, you know, nobody -- when I go home
16 tonight, even though I'm not on the Jeff City system,
17 but when I turn my tap to get water, it's not coming
18 from St. Louis. There's no doubt about that.

19 But again, it's my opinion that the --
20 some of the operation characteristics of the Company
21 are such that a geog-- you know, those costs are
22 there. You know, someone who is over all, you know,
23 the Mexico and St. Louis area is over all that stuff
24 for the Company. And so that person doesn't go -- as
25 I mentioned Mr. Barnhart, Joplin, he doesn't work in

1 the St. Louis area.

2 So it's still trying to maintain some
3 level of cost causation to a localized area. And
4 so -- and maintain that, which I think is important,
5 without going all the way. And I don't know if I'm --
6 I don't know if I'm going to be able to articulate
7 exactly what -- what you're looking for.

8 **Q. And I'm not looking for anything. I'm**
9 **really struggling with this whole issue and I'm trying**
10 **to -- I'm trying to -- trying to be convinced of --**

11 A. Sure.

12 **Q. -- of other people's inputs.**

13 **So on the three districts -- okay. Let**
14 **me ask this question: Smaller water and sewer**
15 **rural -- like small water and sewer districts, if I**
16 **looked at a map of the state, where are most of them**
17 **at?**

18 A. Most of the small water and sewer
19 systems?

20 **Q. Yeah. The ones that are struggling.**

21 A. The ones that are regulated by the PSC or
22 the ones that are overall?

23 **Q. I guess they would -- regulated by the**
24 **PSC that you would be looking for someone to help take**
25 **them over.**

1 A. The most regulated water systems by the
2 Public Service Commission are in the southwest portion
3 of the state, below the Missouri River and basically
4 west of the Jeff City -- put Jeff City in the middle.

5 **Q. So most of them would be in water**
6 **district three under Staff's grouping?**

7 A. Yeah. There's a handful that are around
8 the St. Louis area. There's I think only one system
9 that we regulate -- water system that's up in the --
10 would be considered in the second --

11 **Q. Well, then --**

12 A. -- district two.

13 **Q. -- that's my question. If we go to the**
14 **three -- and it was your statement that we won't have**
15 **to hopefully touch this until you retire and a long**
16 **time. But the high-cost sewer -- water and sewer**
17 **districts that are -- that could be failing that --**
18 **that tend to probably have a lot of needs that come in**
19 **and they're -- majority of them are located in one**
20 **area, will that not adverse-- more adversely affect**
21 **the rates in that area compared to the other two and**
22 **then force us to have to revisit this sooner than --**

23 A. I -- I don't know. Because with a
24 smaller system an increase -- or, you know, if they
25 have to upgrade it, the investment's going to be

1 smaller. So even though it might have a huge impact
2 on a smaller system or a smaller grouping, you know,
3 when you start getting upwards of 25-, 30,000
4 customers overall, the impacts may not be nearly as
5 substantial. So it may not really impact it as -- as
6 much as one would think as we're sitting here.

7 **Q. All right. And then you -- Commissioner**
8 **Hall -- Chairman Hall asked you a question about why**
9 **the three, why not one. If everyone's rates barely**
10 **changed and everyone -- and you could go to a one --**
11 **one district with oversight of disallowance of any**
12 **type of imprudent investment, would you be for that?**

13 A. I would be for the districts as we've --
14 the three districts.

15 **Q. Still stay with the three?**

16 A. I would stay with the three, yes, sir.

17 **Q. Stay with the three. As I look back, it**
18 **seems like we're having a similar conversation and**
19 **help -- and hel -- and challenge me on this because I**
20 **want to see -- I want to get on the same train of**
21 **thought with this. Whether or not we're talking about**
22 **tax -- tax credits for businesses in the state,**
23 **whether or not we're talking about the Foundation**
24 **Formula for how we fund our schools and what school's**
25 **going to get more based off of the geographic area and**

1 everything.

2 **Is there a way -- let's look at the**
3 **school formula. We -- this whole entire state how --**
4 **what school district is going to get more money from**
5 **the State, they throw all these factors in, what area**
6 **of the state are you in, what's your free and reduced**
7 **lunch, things of that nature.**

8 **Is there a way to take a look at the**
9 **rates for the entire state and look at the investment**
10 **that maybe Joplin has recently done and provide a**
11 **dollar amount formula to that to where they could get**
12 **credit for that? Look at the investments made in the**
13 **last five, ten years and make adjustments for what**
14 **they might need to spend in the next five, ten years**
15 **and look at some type of formulaic rate for the entire**
16 **state for water and sewer based off of recent**
17 **investments?**

18 A. Well, I'm first going to preface anything
19 I say, I'm not familiar at all with the school formula
20 and all that other stuff.

21 **Q. It's a mess.**

22 A. Luckily, my youngest graduated from high
23 school. We're -- I'm -- so just -- if I understand,
24 Commissioner, what you're asking, let me try to
25 repackage it. You're talking about a -- do a single

1 tariffed rate throughout the state, all districts and
2 then look at each individual district or zone or
3 whatever, however you want to -- and then say, well,
4 they spent so much now over the past, therefore, we
5 lower that rate for -- for a period of time. Is
6 that --

7 **Q. No. I'm kind of looking to say, okay, so**
8 **we have one single-zone tariff rate and this is**
9 **what -- this is what the dollar amount is going to be.**
10 **And let's say in Joplin it's going to be, you know,**
11 **539 dollars, you know, per residential customer. But**
12 **then we can say, but they just made a huge investment**
13 **in the last several years on new stuff. They're not**
14 **going to need to build anything new for 20 years.**

15 **So can we provide in the initial -- once**
16 **you do it the first time, say, okay, the likelihood**
17 **that they're going to -- to need some type of**
18 **investment is small so, therefore, when we're starting**
19 **out, we'll give them a 20 percent reduction and**
20 **reallocate their costs to -- to other places and come**
21 **up with a -- just a boom, here's your rate moving**
22 **forward?**

23 **A. I think that's very similar to what we**
24 **have today. We kind of do that today except we don't**
25 **develop a single rate and then reduce. We just**

1 develop what the rates are.

2 The other comment I would make upon that
3 is even though the -- a certain district may not
4 necessarily -- maybe they just have some big
5 improvement to their area through, you know, their
6 treatment plant. The Company would -- you know, may
7 need to be replacing mains and there may be other
8 factors that haven't been addressed that need to be
9 addressed in the future. And that those costs are
10 going to be, you know, be there going forward.

11 So I think the Company, you know, invests
12 in many of its service territories constantly.
13 Sometimes it gets bumped up a little bit higher than
14 at other times, but I think there's a constant level
15 of investment. And even though a treatment facility
16 may last for a long period of time, there's a lot of
17 moving components to that that may, you know, wear out
18 in a shorter period of time that may need to be
19 replaced.

20 So there's always an upgrade of the
21 system and -- and the facilities that is always going
22 to need to be updated and those customers are going to
23 have to pay for that on a going-forward basis.

24 So I just -- you know, going to that
25 single-tariff rate and trying to figure out those

1 changes, I don't know that we get necessarily where we
2 want to go. And I think that the -- maintaining how
3 we develop rates and looking at investment done in
4 certain areas is still the best way to go forward.

5 **Q. See, this conversation once again reminds**
6 **me of the formula -- school formula, as they created a**
7 **hold-harmless rate simply just to not make people mad**
8 **that they weren't going to get as much money. And the**
9 **difficulty is if you try to provide credit to Joplin**
10 **or you try to apply credit, is it -- you're deviating**
11 **away from just what the math says it is. And so**
12 **again, I'm back to, okay, if we're going to do it, rip**
13 **the Band-aid off, this is it and you've put it to bed.**

14 COMMISSIONER KENNEY: I've got a
15 suggestion for you. Why don't you ask Mr. Bednar to
16 talk about Senate Bill 380. And he could give you a
17 whole discussion on the formula.

18 COMMISSIONER STOLL: That's the whole kit
19 and caboodle. That's where it all started.

20 MR. BEDNAR: That you very much.

21 COMMISSIONER STOLL: That's where it all
22 started.

23 BY COMMISSIONER STOLL:

24 **Q. And it was an ability to cobble together**
25 **votes and try to please people and not make everybody**

1 mad. But -- and that's why I'm -- that -- that is the
2 feeling that I'm getting when I look at these. Well,
3 we're moving the \$500,000 here because theirs is
4 already high and over here -- it seems like we're --
5 once you deviate from either this is your cost and you
6 start going down that road, there's always an argument
7 to be made for -- like you told the Commission, well,
8 you could consolidate these 500 million different
9 ways. And -- so that's where I'm struggling is if
10 we're going to do, let's do it; if we're not, let's
11 just go to cost-of-service.

12 A. Well, and to -- Commissioner, just -- you
13 know, the 500,000, that's on, you know, the sewer to
14 water issue and then the -- you also then got the
15 consolidation piece. And, you know, it's been a lot
16 of -- we've had a lot of agreements through the years
17 with trying to cobble together something that all the
18 parties could live with to put in front of the
19 Commission.

20 And, you know, there has always been some
21 recognition of, you know, when the costs get high and,
22 you know, some sort of revenue responsibility shifts,
23 you know, that -- that people have agreed to for
24 various reasons and, you know, that gets put forth.

25 So, you know, it's really difficult when

1 you look at the revenue responsibilities today and
2 what they should be, to know exactly what the actual
3 cost of providing service is because, you know, there
4 are a lot of ways that this has been sliced and diced
5 over the last, you know, 16 years.

6 So it's very difficult and that's where
7 I'm having to struggle to say this is the exact cost
8 to providing service to any one district. You know,
9 we're making a good faith effort to determine what
10 that is, but to hold our hat to say well, the numbers
11 that are on this sheet are the exact cost of providing
12 service, I just think that's a level of specificity
13 that is not there.

14 **Q. Thank you very much --**

15 A. Thank you, Commissioner.

16 **Q. -- for Assisting me in my thought**
17 **process.**

18 JUDGE JONES: Any recross based on
19 questions from the Commission? Missouri Department of
20 Energy?

21 MR. ANTAL: No questions, Your Honor.

22 JUDGE JONES: MIEC?

23 MR. DOWNEY: No recross.

24 JUDGE JONES: Brunswick?

25 MR. DRAG: No questions, Your Honor.

1 JUDGE JONES: Joplin?

2 MS. BELL: Yes, Your Honor.

3 RECROSS-EXAMINATION BY MS. BELL:

4 Q. Commissioner Rupp talked about the
5 Foundation Formula and I want to kind of get to that
6 legislative policy making. So isn't the decision on
7 whether to offer and provide incentives to businesses
8 to facilitate acquisition of troubled water systems a
9 public policy decision for the legislature?

10 A. I -- I -- I don't know if that's true or
11 not. I'm not an attorney so I -- I don't know that I
12 have an opinion on that.

13 Q. Okay. The legislature in the past has
14 made decisions concerning small water districts and
15 has passed legislation concerning small water
16 districts as you heard from Mr. England today.
17 Correct?

18 A. I believe that the -- yes, the
19 legislature has made some and I think the Commission
20 has as well.

21 Q. Okay. You talked a little bit about who
22 you contact when you have a troubled water system and
23 you mentioned I think fi-- three to five companies.
24 Do you ever contact municipalities about acquiring
25 those small systems?

1 A. Since we have no authority over any
2 municipality --

3 MS. MYERS: Objection, this is not based
4 on recross. This was a question asked in cross.

5 JUDGE JONES: Objection sustained.

6 MS. BELL: Well, I would argue that the
7 Commissioners did ask questions about the acquiring
8 new districts and how they go about acquiring the new
9 districts and what the incentive for acquiring those
10 new districts is.

11 JUDGE JONES: Objection sustained.

12 BY MS. BELL:

13 **Q. Okay. You did talk in response to**
14 **Commission questions about the fact that you don't**
15 **think cost allocations are necessarily correct. You**
16 **said you don't think the cost allocations are being**
17 **properly assigned; is that correct?**

18 A. It's not that I don't think they're being
19 properly assigned. I just -- when you start to
20 allocate the large amount of costs that are -- spacing
21 on the right word -- that are for all the customers,
22 the large amount of costs that are corporate costs and
23 need to be spread out, when you start spreading those
24 out to more and more districts, I think you start
25 losing what it actually means to the actual cost of

1 providing service to that area.

2 So we're trying to allocate costs and
3 there has to be a method to do that. But when
4 you're -- but, you know, a lot of what we're hearing
5 is, you know, well, what's the cost of providing
6 service to Joplin. I don't know that anybody has
7 figured out what the exact cost of providing service
8 to Joplin is as a stand-alone entity. And in my
9 opinion, that's the actual cost of providing service
10 there.

11 When you put them a part of a bigger
12 system and you have to start allocating costs for
13 making a determination -- and I think our auditing
14 staff does a fine job of trying to find a fair way to
15 allocate those costs, but just because it's a fair way
16 and a reasonable way doesn't mean it's the exact cost
17 of providing service to any given area.

18 **Q. There is nothing in the evidence, in the**
19 **record or in anyone's testimony of a different way to**
20 **allocate costs in this case?**

21 A. That is correct. That's why I talk about
22 revenue responsibilities.

23 **Q. No further questions. Thank you.**

24 JUDGE JONES: Reverse?

25 MR. BEDNAR: Yes, Your Honor.

1 MR. BEDNAR: I will say the school
2 Foundation Formula is revisited often, but I believe
3 it was the right decision when it was made at that
4 time.

5 RECROSS-EXAMINATION BY MR. BEDNAR:

6 Q. That aside, Mr. Busch, would you agree
7 with me though that Commissioner Rupp's idea that it's
8 possible to begin to build some transparency in the
9 process that, I think by your testimony, you admit
10 goes on in every rate case; and that is, you get a --
11 you get a district -- small district, costs are
12 exceeding what anybody would think would be a
13 reasonable cost for a monthly water bill.

14 And so whether it's Staff or another
15 party says, you know, we got to do something here,
16 we've got to bring some relief. And every district,
17 at least for the last decade, without a lot of
18 transparency, adjustments have been made. And so now
19 we're down -- would you agree with me in that -- just
20 given by district eight from the last case?

21 A. I guess I don't quite know what you mean
22 by lack of transparency.

23 Q. And I don't mean that in a bad way. I
24 think everybody's intent is to do well. But I think
25 what -- if I'm understanding Commissioner Rupp's

1 point, is you can -- you have a thought process in
2 your head as to when it's time to make an adjustment.
3 There's a thought process when too high is too high.
4 It's a little bit what I got into earlier with Dr.
5 Marke on the issue of what's too high for Office of
6 Public Counsel .

7 I think the rulemaking process alone
8 could be a possibility to start establishing that --
9 some specific objective elements of when there should
10 be consolidation of a district into a larger district.
11 Would you agree?

12 A. I don't think so. And the reasoning why
13 is that to try to get the rule -- there might be small
14 systems that are not owned by a Missouri American or
15 another relatively large system that may have -- may
16 be in line for large increases and high rates that
17 would -- by definition of anybody, might result in
18 rate shock. And I don't know -- I don't know what we
19 can do about that.

20 And so -- so I don't know how -- you
21 know, if we get into rulemaking like you're referring
22 to Mr. Bednar, I think there's a lot of other
23 situations that may be difficult. And I think
24 ultimately Staff's district-speci f-- or consolidated
25 pricing with the three districts alleviates a lot of

1 that, okay, there's a problem, we got to stop it.
2 We -- we -- I think once you consolidate like Staff
3 did, a lot of those concerns I think should not be a
4 concern going forward so --

5 **Q. And I think I'm talking very similar to**
6 **what you're saying, Mr. Busch. I'm just saying is**
7 **there a way to document and adopt by rule that thought**
8 **process that led Staff to believe that three districts**
9 **were the right way to go? What are the elements that**
10 **were examined?**

11 A. I mean, I'm assuming that you could do a
12 rulemaking on anything.

13 **Q. Okay.**

14 A. So --

15 **Q. Now, and I turn back to Section 393.320.**
16 **Doesn't that give us all some guidance when -- well,**
17 **though it was adopted in 2010 by the General Assembly,**
18 **it speaks of a small utility being 8,000 or less.**
19 **Correct? I mean you don't have the document --**

20 A. And I don't know exactly -- 320, which
21 one that is.

22 **Q. It's the statute that deals with the**
23 **acquiring of a small utility.**

24 A. Okay. Okay. Okay.

25 **Q. Okay. And I think there, again, the**

1 **legislature gave great deference to the consolidation**
2 **process for a smaller utility when acquired by a**
3 **larger.**

4 A. I -- yeah. I think that's one way of
5 looking at it.

6 Q. So when you look at your -- the -- the
7 Staff's grouping and your zones, I mean let's take a
8 look at all the districts. You have St. Louis at
9 355,000, you got St. Joseph at 28,000, you've got
10 Joplin at 20,000 and all the rest are under 8,000
11 significantly, except for Jeff City at 9-.

12 And so really if you go to Exhibit 51
13 that the Company prepared today, that's kind of a
14 model. It's still three zones, but it just
15 reconfigures it so that your districts of 20,000 or
16 more keep their district specific and you consolidate
17 everybody else into a large district.

18 And would you agree with me that there's
19 some basis for that in -- in the statute?

20 A. The statute I believe -- I'm not an
21 attorney so I'm just -- from what I've seen of it --

22 Q. Right.

23 A. -- is about the acquiring of new systems.
24 And I think the 51, leaving Joplin and St. Joseph by
25 themselves and mixing everybody else together, goes

1 beyond what -- what Staff wants to view as, you know,
2 the cost causation principle. Because you're putting
3 systems that have no -- you know, that have no
4 characteristics together. And -- and that's why Staff
5 would prefer not to do that type of scenario.

6 **Q. Except for the common characteristics are**
7 **they're a small system with a higher customer base of**
8 **residential users without the industrial/commercial**
9 **users to absorb some of the cost allocation of that**
10 **district. Correct?**

11 A. Well, Jeff City has some industrial,
12 Platte County has some industrial, Mexico has some
13 industrial. So there's some -- there's some larger
14 customers in those smaller districts.

15 **Q. Right. But the Platte County rate that**
16 **is almost double those of those other districts would**
17 **reflect a smaller district coupled with a higher**
18 **residential?**

19 A. It's more sim-- yeah, it's probably a
20 little bit more similar. But they -- I mean, they've
21 got customer class that are -- you know, the
22 allocations like most of the other larger ones so --

23 **Q. No further questions.**

24 JUDGE JONES: St. Joseph?

25 MR. LAWYER: No questions.

1 JUDGE JONES: Warrensburg?

2 MR. CURTIS: Just one.

3 RE-CROSS-EXAMINATION BY MR. CURTIS:

4 Q. Good evening, Mr. Busch.

5 A. Good evening, Mr. Curtis.

6 Q. Commissioner Rupp asked you about where
7 the smaller systems are that are out there and maybe
8 troubled, maybe not. And he indicated those are
9 southwest Missouri pretty much?

10 A. Most of the systems that are being --
11 that are regulated by the State -- by the Public
12 Service Commission are -- a majority of them are in
13 the southwest.

14 Q. And I know the PSC Staff would not
15 necessarily be involved in assisting or facilitating
16 any acquisition by Missouri American of municipal
17 systems, but are you aware that Missouri American is
18 currently looking at the possibility of submitting an
19 RFP for the system for the City of Hermann?

20 A. I am not.

21 Q. So you would not -- and there may be
22 others obviously they may be discussing with
23 municipalities in addition to the City of Hermann --

24 A. They're --

25 Q. -- that would not necessarily involve the

1 **Staff?**

2 A. Yeah. I -- they do not come to the Staff
3 and let us know what other acquisitions that they're
4 thinking about. Yeah, I have no idea.

5 **Q. Thank you.**

6 JUDGE JONES: Public Water Supply
7 Districts?

8 MR. DORITY: No questions.

9 JUDGE JONES: StoneBridge? Triumph?
10 Public Counsel?

11 MR. POSTON: Yes, a few.

12 RECROSS-EXAMINATION BY MR. POSTON:

13 **Q. You were talking with the Chairman about**
14 **your rationale for your three districts. And one of**
15 **them was the ability to acquire these struggling**
16 **systems. And the Chairman mentioned 393.320 and I was**
17 **able to pull it up here and I just want to read a**
18 **paragraph real quick.**

19 **And it says, Upon the date of the -- this**
20 **was in subsection 6. Upon the date of the acquisition**
21 **of a small water utility by a large water public**
22 **utility, whether or not the procedures for**
23 **establishing rate-making rate-base provided by this**
24 **section have been utilized, the small water utility**
25 **shall, for rate-making purposes, become part of an**

1 existing service area as defined by the Public Service
2 Commission of the acquiring large water public utility
3 that is either contiguous to the small water utility,
4 the closest geographically to the small water utility
5 or best suited due to operational -- operational or
6 other factors. This consolidation shall be approved by
7 the Public Service Commission in its order approving
8 the acquisition.

9 So I guess my question is, the law seems
10 to already provide relief for Missouri American when
11 it acquires a struggling system to be able to put it
12 into another system; is that correct? Into another --
13 into an already existing district?

14 A. They have the ability to assign that to
15 a -- to an already existing district.

16 **Q. And the Commission has fairly wide**
17 **discretion into what system they put it in?**

18 A. Right. But, you know, when we do that,
19 we have not yet, you know, to agree to the rates on a
20 going-forward basis. So -- so Staff is believing that
21 if we can consolidate into three districts, then that
22 would be -- the assignment would be better.

23 **Q. But I mean, coming up with the rates,**
24 **that's not an insurmountable task to develop the rates**
25 **and have the Commission approve those rates; is that**

1 correct?

2 A. Yeah. That's correct.

3 Q. And then the other reason you talked
4 about was people looking over the fence at their
5 neighbors' rates.

6 A. Uh-huh.

7 Q. So are you staying that somebody in
8 Jefferson City will walk down the street to their
9 neighbor in Ferguson and look at their rate?

10 A. Well, that's a pretty long walk to get
11 from Jeff City to Ferguson. But I do know that there
12 are -- I've heard consumers compare their rates to
13 friends and family who live in very disparate parts of
14 the state.

15 Q. All right. That's all I have. Thank
16 you.

17 JUDGE JONES: Missouri American Water?

18 MR. ENGLAND: Thank you, Your Honor.

19 RECROSS-EXAMINATION BY MR. ENGLAND:

20 Q. Mr. Busch, I want to follow-up on a
21 question I believe Commissioner Rupp was asking you
22 regarding sort of one extreme or the other; full or
23 single tariff pricing for everybody --

24 A. I remember that.

25 Q. -- or full district-specific pricing.

1 A. And I remember that.

2 Q. **And I want to explore the full**
3 **district-specific pricing because that results in**
4 **rates that not only would be characterized as rate**
5 **shock, but perhaps unaffordable, wouldn't it?**

6 A. Without calculating the rates as they
7 are, based upon the revenue requirement, yes, I think
8 you could see some very high rates. I'm thinking of
9 Brunswick, already pays a 22 dollar customer charge
10 and a \$10.85 per thousand gallon usage. And according
11 to the revenue requirements by Staff, their rates
12 would go up 80 percent. So yes, you would -- in the
13 Brunswick area for sure you would see massive rate
14 shock.

15 Q. **So as a practical matter, one end of the**
16 **spectrum really isn't possible. Right? Full**
17 **district-specific pricing.**

18 A. It's possible, but I would not recommend
19 it. That would be -- I mean the rates would be a
20 hundred dollars or more for water service.

21 Q. **Okay. Well, certainly on full**
22 **single-tariff pricing that is possible?**

23 A. You could also go to single-tariff
24 pricing as well.

25 Q. **But we won't have the problem of people**

1 **being priced out of the ability to purchase water,**
2 **will we?**

3 A. I believe with the more consolidation you
4 do, the less likely you are to have rates that are
5 unaffordable.

6 **Q. Thank you, sir.**

7 JUDGE JONES: And redirect?

8 MS. MYERS: Yes. Before I begin my
9 redirect, I wanted to answer a question that Chairman
10 Hall had posed. He had asked where he could find --
11 look up the cases of systems that had been recently
12 acquired by Missouri American Water.

13 So in Staff's cost-of-service reports on
14 page 3, there is a chart that lists the system name,
15 the utility type, the location of those systems, case
16 numbers and then the date they were approved by the
17 Commission. And, again, that's page 3 of Staff's
18 revenue requirement cost-of-service report.

19 REDIRECT EXAMINATION BY MS. MYERS:

20 **Q. And with that said, Mr. Busch, you were**
21 **asked multiple questions about cost causation. And**
22 **when formulating this proposal, this district**
23 **consolidation proposal, did Staff consider cost**
24 **causation?**

25 A. I believe so.

1 **Q. Did Staff you think, in your opinion,**
2 **deviate from the basic principles of cost causation in**
3 **formulating this principle?**

4 A. I don't think we deviated from the basic
5 principles of cost causation.

6 **Q. And also you were asked several questions**
7 **I noted from Joplin as well as from St. Joseph,**
8 **questions about interconnection and just how in light**
9 **of these districts, they're not interconnected and so**
10 **it doesn't make sense to lump them together or to**
11 **group them together.**

12 A. That is correct.

13 **Q. When looking at other service utilities**
14 **and when they come up with service areas and even**
15 **rates, you know, is interconnection really that**
16 **important or is that a characteristic for all of these**
17 **utilities?**

18 A. It -- it's not a characteristic of all
19 utilities. You know, listening to the witness from
20 Joplin today got me thinking about other areas. And
21 so I went up and I looked in the natural gas industry.
22 And I was thinking of MGE because back when I was
23 at -- when I was first with Staff back in the late
24 '90s, I worked in the gas department -- in the
25 Procurement and Analysis Department. Then when I went

1 to Public Counsel , I spent a lot of time in the gas
2 world.

3 And MGE, you know, which is now purchased
4 by Laclede, provides service to Joplin, Kansas City
5 and St. Joseph. Those are not interconnected systems
6 at all, but they all have one rate. And then for
7 their -- the customer charge and the volumetric
8 charge. And then you have the PGA/ACA, which is the
9 cost of the gas, which is different pipelines provide
10 that gas to Joplin and then different -- you know, up
11 to Kansas City and then up to St. Joe. They have one
12 PGA rate that's blended together for all of their
13 customers.

14 So it's a very similar concept of what
15 Staff is proposing here as to what has already been
16 approved for years by -- in the natural gas industry.
17 Ameren has a similar concept with its gas prices as
18 well.

19 **Q. And you were also asked multiple**
20 **questions about your time with the Office of Public**
21 **Counsel , particularly your involvement in a 2000**
22 **Missouri American Water rate case. Who does the**
23 **Office of Public Counsel represent?**

24 A. The Office of Public Counsel represents
25 the consumers.

1 **Q. And who does the Public Service**
2 **Commission -- the Missouri Public Service Commission**
3 **represent?**

4 A. I don't believe the Commission represents
5 anybody. The Commission is supposed to balance the
6 public interest between the consumer and the
7 investor-owned utilities.

8 **Q. So does it make sense that OPC may have a**
9 **different position than, say, the Missouri Public**
10 **Service Commission?**

11 A. Oh, Public Counsel and Staff have many
12 different positions.

13 **Q. Do they often disagree?**

14 A. We often disagree. We agree a lot too.
15 We -- it's -- it's -- it's a very enjoyable
16 relationship.

17 **Q. And so at that time when you were with**
18 **the Office of Public Counsel, which represents the**
19 **public at large, you were proposing a different rate**
20 **design -- or rate scheme -- consolidation scheme, I**
21 **should say?**

22 A. Again, I don't want to agree with it was
23 a scheme.

24 **Q. I'll avoid using scheme. I apologize.**

25 A. We proposed a district-specific

1 philosophy at the -- in the 2000 case.

2 **Q. And now you're proposing a consolidation**
3 **philosophy?**

4 A. And now with the Staff, we are proposing
5 a consolidated rate structure.

6 **Q. What conditions have changed since then?**

7 A. As I pointed out, you know, the Company
8 is -- you know, was at seven distinct districts of
9 relatively similar size except for the City of
10 Brunswick and now it has expanded, purchased the
11 St. Louis County, purchased the Jeff City utilities,
12 purchased many smaller systems and even some larger
13 systems.

14 So that's a big -- the Company's
15 different. It provides wastewater service. It never
16 provided wastewater service, at least in Missouri,
17 back in -- in the year 2000. And I believe that the
18 overall discussion of the, you know, infrastructure
19 needs in the water and wastewater industries have --
20 has really been discussed nationwide over the last
21 15 years. It wasn't -- it may have been out there,
22 but again, as Public Counsel, I wasn't that involved
23 with it, so --

24 **Q. Ms. Bell had asked if you had educated**
25 **Joplin specifically on consolidation. There was a**

1 **Local public hearing in Joplin. Correct?**

2 A. There was.

3 **Q. And that's part of the rate case**
4 **procedure, is it not?**

5 A. It is.

6 **Q. And what -- what happens in a local**
7 **public hearing?**

8 A. Local public hearings -- before a local
9 public hearing starts, there is a question and answer
10 session to -- for the consumers to ask questions to
11 get answers because during the actual local public
12 hearing when the Judge and the Commissioners are
13 there, they are not -- you know, they can't answer the
14 questions that the consumers have.

15 And so it allows for the Company, Public
16 Counsel and Staff to get up and try to answer
17 questions that the customers may have and to -- we
18 hear complaints. The -- we discussed earlier about
19 the Riverside issue, we learned all about the
20 Riverside issue. So it's an opportunity for the
21 Company, OPC and Staff to present its position to the
22 customers and then to answer questions and try to be
23 informative to the customers.

24 **Q. And so that would present an opportunity**
25 **for consolidation to be discussed if there were**

1 **questions about it?**

2 A. If there were questions about the
3 consolidation process, yes.

4 **Q. Okay. There are a lot of concerns about**
5 **when you move towards consolidation. There's risks of**
6 **over-investment. Do you agree with the more you**
7 **consolidate, the greater the risk of over-investment?**

8 A. Yes. I think that is a -- excuse me. I
9 think that's a very real concern. And as I put forth
10 in my testimony, I believe my Rebuttal Testimony, that
11 I would recommend that the Commission order the
12 Company, if we do consolidate rates, to submit like a
13 five-year plan.

14 I think the -- if I'm not mistaken, the
15 parties talked about a ten-year plan in their -- in
16 their non-unanimous, but that they would submit their
17 plan for investment five years, especially focusing on
18 what's going to happen in the upcoming year to give
19 Public Counsel, Staff and any other interested party
20 an opportunity to understand what the Company's
21 proposals are going to be.

22 It wouldn't be a pre-approval process
23 because, you know, I don't think anybody here is
24 agreeing to pre-approve. But it gives the parties an
25 opportunity to understand what the -- what the Company

1 is proposing to do and to maybe make suggestions in a
2 manner to find maybe a better or at least a lower cost
3 alternative than what the Company's thinking about.

4 **Q. All right. Thank you. And Commissioner**
5 **Rupp had asked you a question, you know, why aren't**
6 **you comfortable just moving to single-tariff pricing.**
7 **When you move towards single-tariff pricing, is the**
8 **risk greater then of over-investment even with -- if**
9 **you have some sort of oversight versus our**
10 **three-district plan?**

11 A. I -- you know, I agree that as -- you get
12 further away. Because, you know, an issue that is
13 brought up -- and I don't disagree -- is that when
14 you -- when you start to spread out those investments
15 over a larger group, the overall impact on the
16 consumers is less. And it makes it easier to -- for
17 the Company, because they're going to get a return on
18 that investment.

19 So if they can get a little bit higher
20 return from a higher investment and it's -- the rates
21 aren't going up as much, that's a real concern, in my
22 opinion. And I think it's a concern of some of the
23 others in the room as well.

24 **Q. Thank you, Mr. Busch.**

25 JUDGE JONES: Thank you, Mr. Busch. You

1 may step down.

2 Okay. I think we should probably call it
3 a night. Am I to understand -- am I to understand
4 that OPC's witness Smith is next?

5 MR. POSTON: It was my understanding
6 nobody was going to have questions for him, so you had
7 agreed to let him be dismissed.

8 JUDGE JONES: And the only witnesses --
9 witness that we have then for tomorrow on this issue
10 is Marke. Right?

11 MR. POSTON: Yes.

12 JUDGE JONES: Because McDermott and
13 Collins aren't available until the afternoon on
14 Wednesday?

15 MR. ENGLAND: That's correct, Your Honor.

16 JUDGE JONES: Okay. All right.

17 MR. ENGLAND: Your Honor, because of
18 Mr. Herbert's travel schedule, could we put him
19 then -- the need for him to be cross-examined on rate
20 design issues -- to the extent parties have those
21 questions and the extent that he's going to support
22 modifications to Exhibits 48, 49, 50 and 51 and
23 parties may want to ask additional questions, would it
24 be wise to put him on first to try to get him done by
25 noon?

1 JUDGE JONES: Well, the only witness we
2 would have otherwise is Marke on consolidation.

3 MR. ENGLAND: Right.

4 JUDGE JONES: Do you think we can do both
5 of them by noon? At the rate we've been going, maybe
6 we can't. I don't know.

7 MR. ENGLAND: And that may be possible,
8 but at least if we start with Herbert, hopefully we'll
9 be certain to get him done by noon.

10 JUDGE JONES: Does anyone have any strong
11 feelings about that? Okay. We can do that.

12 MR. ENGLAND: Thank you.

13 JUDGE JONES: Do you all think we can get
14 through all the witnesses tomorrow? Is there anyone
15 that doesn't think we can?

16 MR. ENGLAND: Just a second.

17 JUDGE JONES: Without my glasses on, I
18 can't see.

19 MR. ENGLAND: Through all of the issues
20 or the witnesses on --

21 JUDGE JONES: All the issues. I mean the
22 only real -- the only issue left is rate design and
23 then low-income tariff. Right?

24 MR. ENGLAND: I'm as interested as
25 anybody in getting it done by the end of the day. I'm

1 just reluctant to make that guarantee today --
2 tonight.

3 JUDGE JONES: Well, you know, you can't
4 make a guarantee. Here, I'll suggest this: For yes
5 and no questions, I will insist on yes or no answers.
6 You don't need to embellish or talk about things that,
7 you know, explain away why you say yes or no. So if
8 you get -- witnesses get a yes or no question, give a
9 yes or no answer and let your attorney rehabilitate
10 you, if that's necessary. We'll try that for
11 tomorrow.

12 All right. Let's go off the record.

13 (Staff Exhibit 33 was marked for
14 identification.)

15 (Joplin Exhibit 2 was marked for
16 identification.)

17 (Whereupon, the hearing was adjourned
18 until 9:00 a.m., March 23, 2016.)
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