

BEFORE THE PUBLIC SERVICE COMMISSION
STATE OF MISSOURI

TRANSCRIPT OF PROCEEDINGS

EVIDENTIARY HEARING

May 19, 2016

Jefferson City, Missouri

Volume 2

In the Matter of the Water Rate)
Request Of Hillcrest Utility) File No. WR-2016-0064
Operating Company, Inc.)

MICHAEL BUSHMANN, presiding
SENIOR REGULATORY LAW JUDGE
DANIEL Y. HALL, Chairman
WILLIAM P. KENNEY,
COMMISSIONERS.

REPORTED BY:
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1 P R O C E E D I N G S

2
3 JUDGE BUSHMANN: Good morning. Today is May
4 19th, 2016. The Commission has set this time for an
5 evidentiary hearing in the matter of the water rate request
6 of Hillcrest Utility Operating Company, Incorporated, File
7 Number WR-2016-0064, et al.

8 My name is Michael Bushmann. I'm the
9 regulatory law judge that will be presiding over the
10 hearing today. And let's have counsel make their entry of
11 appearance.

12 For Hillcrest Utility?

13 MR. COOPER: Thank you, Your Honor. Dean
14 Cooper appearing on behalf of Hillcrest Utility Operating
15 Company, Inc. The court reporter has the address.

16 JUDGE BUSHMANN: Commission Staff?

17 MS. PAYNE: Whitney Payne for Commission
18 Staff.

19 MR. WESTEN: Jacob Westen for Commission
20 Staff. Our information has been provided to the court
21 reporter.

22 JUDGE BUSHMANN: Thank you.

23 And for Office of Public Counsel.

24 MS. MAYFIELD: Cydney Mayfield for Office of
25 Public Counsel and the ratepayers. And my information has

1 been previously provided to the court reporter.

2 JUDGE BUSHMANN: I'd advise people in the
3 audience if you haven't already done so to please silence
4 any cell phones or mobile devices that you may have with
5 you.

6 Do the parties have any preliminary matters
7 that we need to discuss before we get any further? Yes,
8 Mr. Cooper?

9 MR. COOPER: Just one, Your Honor. I've
10 just -- for procedural purposes, is it all right if counsel
11 inquires from the tables?

12 JUDGE BUSHMANN: That's perfectly fine.

13 MR. COOPER: Thank you, Your Honor.

14 JUDGE BUSHMANN: I have no problem with
15 that. As far as the order of witnesses, we'll follow the
16 order that was filed by the parties in their joint list of
17 issues and witnesses. Do any of the parties need to have
18 any of their exhibits marked by the court reporter?

19 MR. COOPER: Not at this time.

20 MS. PAYNE: Not at this time.

21 JUDGE BUSHMANN: That's all the preliminary
22 matters that we were going to be dealing with. And as I
23 mentioned, we need to wait for a few minutes for a
24 commissioner to arrive before we start opening statements,
25 so we'll be in recess for just a few minutes.

1 (Off the record.)

2 JUDGE BUSHMANN: All right. Let's go back
3 on the record. We're now ready for opening statements.
4 And the first opening statement will be by Hillcrest
5 Utility.

6 MR. COOPER: Thank you, Your Honor.

7 My name is Dean Cooper. I'll be
8 representing Hillcrest Utility Operating Company, Inc. here
9 today. Hillcrest is the owner of the water and sewer
10 systems that are the subject of our small company rate case
11 proceeding.

12 The shares of Hillcrest are owned by an
13 entity called Hillcrest Utility Holding Company, Inc.
14 Shares of that entity are held by a limited liability
15 company by the name of First Round CSWR, LLC. First Round
16 is managed by Central States Water Resources, Inc.

17 Our witness today, Mr. Josiah Cox, is an
18 employee of First Round CSWR, LLC, and is also the
19 president of the various corporations that are involved in
20 this -- in this organization. In his direct testimony,
21 Mr. Cox describes that Central State's business model is to
22 purchase, improve, and operate small failing water and
23 sewer systems. This is the first rate case that it has
24 gone through since it's started that process.

25 Through a similar structure, the

1 organization also currently owns two other regulated
2 utilities: Raccoon Creek Utility Operating Company, Inc.,
3 and Indian Hills Utility Operating Company, Inc. And I'll
4 talk a little bit later in the opening about where those
5 two utilities are in their process.

6 In terms of the systems that are the subject
7 of our rate case here today, this is the first rate case in
8 a decade for those systems. We believe that the rates in
9 these systems have not changed since 1989. And maybe it's
10 inaccurate to even say that they changed in '89, because I
11 think the systems began in '89.

12 These systems were previously owned by an
13 entity called Brandco Investments, LLC. And Hillcrest
14 purchased the systems and approval of its financing was
15 addressed by the Commission in its file W0-2014-0340.
16 Hillcrest became the owner of the systems on March 13th,
17 2015.

18 The Brandco systems had a history of
19 compliance issues. This was especially true on the
20 wastewater side for the wastewater treatment plant; had
21 been under multiple Missouri Department of Natural
22 Resources and Missouri Attorney General compliance and
23 enforcement actions. In fact, the system was so bad and
24 had such few assets that during the acquisition case and
25 before Hillcrest owned the systems, Hillcrest intervened

1 and paid for emergency repairs, a temporary water
2 disinfection system, and operations in order to get a
3 longstanding oil order lifted while the case was
4 progressing.

5 When Hillcrest came before the Commission
6 seeking approval of its proposed acquisition and proposed
7 financing, Hillcrest described the system issues, the costs
8 of the necessary improvements, and the costs of money it
9 had available to address those issues.

10 In that same acquisition case, the
11 Commission staff described the Brandco situation as follows
12 in its initial recommendation. It said, "Staff is quite
13 familiar with Brandco, having spent a considerable amount
14 of time assisting the utility with its operations issues
15 and shortcomings, customer billing and financial reporting.
16 Although the owner of Brandco has been running the utility
17 for a number of years, he no longer has adequate ability to
18 accomplish operations tasks and also has limited financial
19 resources. Staff takes the position that without question
20 the owner of Brandco needs to be able to exit the
21 responsibilities associated with owning and operating any
22 utility company."

23 Hillcrest began construction on drinking
24 water and wastewater improvements approximately 30 days
25 after it acquired these systems. Since that time,

1 Hillcrest has invested approximately \$1.2 million in water
2 and sewer facilities to bring these facilities -- or these
3 systems into compliance. The construction was completed in
4 the fall of 2015.

5 We -- my client, Hillcrest, recognizes that
6 this case presents a difficult situation for the
7 Commission. It would be nice if the question for the
8 Commission were whether safe, adequate service should be
9 provided a low rate or a high rate. Unfortunately that's
10 not the choice that's -- that faces the Commission here, at
11 least when it comes to failing water and sewer systems.

12 The choice in regard to previously failing
13 small water and sewer systems, such as it is, is whether
14 customers will be provided with safe and adequate service
15 that is in compliance with clean water and discharge
16 requirements established by the state and federal
17 government. Unfortunately, if the answer is yes, then
18 significant rates are the necessary consequence of that
19 choice.

20 As Mr. Cox states in his direct testimony,
21 he wishes this were not the case here; however, choices are
22 very limited, and those choices are expensive, especially
23 when compared to the number of customers served by the
24 systems. Now, while it's not as small as some utilities,
25 Hillcrest is still very much a small water and sewer

1 company. It has about 240 water customers and about 242
2 sewer customers in an industry where economies of scale
3 make a difference.

4 Hillcrest initiated this case with its
5 submission of a letter seeking a small water and sewer
6 company rate case on September 15th of 2015. Hillcrest was
7 subsequently able to reach a partial disposition agreement
8 with the staff of the Commission. That agreement has been
9 provided to the Commission through the testimony of staff
10 witness Kim Bolin.

11 The agreement was deemed partial because the
12 parties reserved certain issues to bring before the
13 Commission in a hearing. Later, the Office of the Public
14 Counsel also identified issues it wanted to bring before
15 the Commission. And the sum of those issues have been
16 identified in a list of issues filed prior to this hearing.

17 Although it is last on the issues list, the
18 first issue I want to discuss is the corporate allocations
19 issue as it will -- you'll hear it referenced and it will
20 run through some of the other issues. Hillcrest has
21 proposed to use 14 percent for the purpose of allocating
22 corporate costs to Hillcrest. The 14 percent represents
23 the percentage of time the company believes will be
24 required of employees at some point in the future provided
25 the organization is able to complete additional

1 acquisitions. The company believes that basing the
2 allocation on either current customers or the current time
3 spent on Hillcrest would result in a higher allocation to
4 Hillcrest than the 14 percent identified by the company.

5 There's also a payroll issue in this case.
6 Hillcrest corporate support is provided by three employees
7 of First Round CSWR, LLC. Those are Josiah Cox, Jack
8 Chalfant, and Brittany Eves. In determining what portion
9 of labor or payroll costs should be utilized in setting the
10 revenue requirement for Hillcrest, the company suggests
11 that the Commission should look to the Missouri Economic
12 Research and Information Center, or MERIC, weigh
13 adjustments based on the St. Louis region and a 2014 study,
14 recognize that these three individuals are experienced, and
15 adjust for the employment cost index inflation rates in
16 order to provide hypothetical salaries.

17 Hillcrest further proposes that only 14
18 percent of the resulting salaries, salary amount be
19 allocated to Hillcrest for rate-making purposes.

20 There's a property tax issue in this case.
21 This issue arises from the fact that since the last tax
22 bill was paid for Cape Girardeau County, Hillcrest has made
23 the over \$1.2 million in improvements that I referenced
24 earlier to the water and wastewater systems. Those
25 improvements are in service. It's known that they will be

1 taken into account in the property tax Hillcrest will pay
2 later this year, as well as in future years. Thus, it
3 seems unreasonable to ignore such an obvious new cost for
4 the company.

5 Hillcrest, as mentioned in the testimony,
6 has done some negotiation with the county and at this point
7 believes that the new tax amount will be at least \$2,972.

8 Additionally, there's an issue as to whether
9 fees related to auditing and tax preparation should be
10 included in the revenue requirement. Tax preparation and
11 audit fees are a normal course of business for a
12 professionally managed utility. This is particularly
13 important for a utility or group of utilities that is
14 actively engaged in attempting to raise capital for the
15 purposes of construction.

16 Hillcrest has sought and received bids for
17 this work, and seeks to add the costs associated with the
18 lowest bid for the Hillcrest work and to allocate 14
19 percent of the costs associated with the parent work to the
20 Hillcrest revenue requirements.

21 In regard to capital structure, Hillcrest
22 believes that its actual capital structure -- 19 percent
23 equity, 81 percent debt -- should be used to calculate the
24 company's overall rate of return. As to the rate of
25 return, Hillcrest finds that Staff's range of equity

1 recommendations, both 12.88 to 14.13, to be reasonable;
2 however, the company believes that its actual debt costs of
3 14 percent should be used in calculating the overall rate
4 of return as this was the only debt available to the
5 company for the purpose of completing the necessary
6 improvements.

7 Now, I did want to mention that -- I'm in
8 hopes we won't get confused by this. We -- the allocation
9 factor that's proposed -- and I think by both the company
10 and the staff -- of 14 percent and the debt costs of 14
11 percent are, while the same number, unconnected otherwise.
12 Coincidence that those are the same numbers. So I --
13 again, I wish they weren't the same numbers because I think
14 there's the potential for confusion, but I just wanted to
15 mention that.

16 As to this debt cost issue, the staff and
17 company are, to a certain extent, like two ships passing in
18 the night. Staff has taken an academic approach to
19 identifying a debt cost; however, the company doesn't
20 believe that that academic approach is appropriate in this
21 situation.

22 It's easy for the staff to say what the debt
23 cost should be; however, saying that doesn't make that
24 money available to make \$1.2 million in improvements to
25 failing water and sewer systems.

1 Mr. Cox searched for many years to find
2 financing for this and similar endeavors. The financing in
3 place is the only financing he was able to obtain. It is
4 certainly his hope that this organization can grow,
5 establish a track record, and establish sufficient revenues
6 to make less expensive financing available in the future;
7 however, that day is not here yet.

8 This rate of return issue may be the most
9 important issue before the Commission in this case from the
10 company's perspective. In addition to the Hillcrest
11 investment, this organization has made approximately \$1.4
12 million in investments in the three systems that are a part
13 of the Raccoon Creek Utility Operating Company that I
14 mentioned earlier; has begun making improvements to the
15 Indian Hills Utility Operating Company system that are
16 estimated to eventually cost about \$1.8 million; and is
17 working with the Commission staff as to various other
18 failing systems, to include contracts concerning two
19 systems that are currently in receivership.

20 The Commission's treatment of the funds that
21 are available to address these situations will be important
22 information for those involved or those that might agree to
23 become involved in the future as this effort moves forward.

24 The last major issue identified on the
25 issues list is rate design. The company believes that in

1 setting the customer charge and volumetric charge for the
2 water rates, the Commission should be mindful of the fact
3 that water costs are primarily fixed. The average volumes
4 used by staff may be overstated, and recovery of most costs
5 through the customer charge may be the only way to provide
6 Hillcrest with a reasonable opportunity to recover whatever
7 revenue requirement may be set in this case.

8 Moreover, there should not be a phase-in, as
9 that has been described by Staff and the Office of Public
10 Counsel. A phase-in of rates will not provide sufficient
11 cash to keep this utility viable in the short term. And
12 the carrying costs associated with the booking of the
13 deferred revenues would have a consequence that, in the
14 end, customers would pay more out of their pockets than
15 they would in the absence of a phase-in, all else being
16 equal.

17 In closing, Hillcrest understands that this
18 is a tough situation for customers and a difficult
19 situation for the Commission; however, at its root is this
20 question: Does the Commission want failing water and sewer
21 systems to be rehabilitated, and does it want money to be
22 available for that purpose? Hillcrest hopes the answer is
23 yes.

24 That's all I have.

25 JUDGE BUSHMANN: Questions?

1 CHAIRMAN HALL: I have a few. Good morning.

2 MR. COOPER: Good morning.

3 CHAIRMAN HALL: Concerning the property tax,
4 the amount that the company is seeking in rates is \$2,972;
5 is that correct?

6 MR. COOPER: Correct.

7 CHAIRMAN HALL: However, in the test year,
8 the amount of property tax the company paid was how much?

9 MR. COOPER: Closer to \$300.

10 CHAIRMAN HALL: Okay. I understand your
11 position that it's perhaps unfair, perhaps unrealistic to
12 assume that -- well, it is unrealistic to assume that that
13 is the correct property tax going forward. But how do you
14 address OPC's position -- and I believe Staff took the same
15 position in general -- that if we're going to deviate from
16 the historic test year, we need a number that is known and
17 measurable, and we do not have a number that is known and
18 measurable.

19 MR. COOPER: Well, first, we would argue
20 differently. We would argue that certainly -- we would
21 argue certainly that it's known, to start with, because
22 it's known that the amount of property that was in service
23 as of January 1, 2016 was greatly different than the
24 property that was in service as of January 1, 2015.

25 CHAIRMAN HALL: But the actual tax that will

1 be due and owing is not known.

2 MR. COOPER: There is a question as to the
3 measurable nature of that. Can we know the exact number?
4 And it's a difficult question. The company has done some
5 negotiation. They've done -- had discussions with the
6 county. They've come up with a number they believe that,
7 at a minimum, the tax will be. But I can't tell you that I
8 know the exact number. You're correct.

9 Now, in --

10 CHAIRMAN HALL: And you believe --

11 MR. COOPER: I'm sorry.

12 CHAIRMAN HALL: And you believe that the
13 Commission has the discretion to go beyond the historic
14 test year and to go beyond what is known and measurable to
15 set the revenue requirement?

16 MR. COOPER: I think they do. That doesn't
17 mean they necessarily will utilize that discretion, but --
18 in the way that I would like, but I think the Commission
19 does have the discretion to do so.

20 I will tell you that in a different
21 situation, but in order of magnitude, in regard to the
22 utility probably similar, years ago when I was involved in
23 the Missouri American rate case, when the St. Joseph
24 treatment plant was put in place -- it would've been the
25 2000 case -- there was a similar issue. There was, you

1 know, \$50 million maybe of plant that had gone in that was
2 going to be new and different from the prior year. The tax
3 wouldn't be paid until some point after the true-up period
4 in that case. And in that situation, the Commission dealt
5 with it with a -- essentially a tracker-type mechanism.

6 CHAIRMAN HALL: Now -- but a tracker would
7 not -- would not work in this situation; is that correct?

8 MR. COOPER: Oh, I think it could work in
9 this situation. If the Commission said, "Okay. We're
10 going to build in" -- whatever the number is, two -- that
11 we talked about -- two thousand so many dollars, and said,
12 "We're either -- if it's less than that, we're going to
13 give the customers the benefit going forward, or if it's
14 more than that we're going to allow the company to book a
15 regulatory asset." I think it would work in that
16 situation.

17 CHAIRMAN HALL: But my understanding was
18 that the company did not like Staff's suggestion of the
19 booking of a regulatory asset with regards to another item
20 because the company claims it needs the money now. So how
21 -- so how can it work with regard to property tax but not
22 work with another item?

23 MR. COOPER: You can have much bigger
24 dollars involved in those other items than there are in
25 regard to the property tax.

1 CHAIRMAN HALL: Concerning the cost of debt,
2 which I believe the evidence thus far is that it's about 14
3 percent?

4 MR. COOPER: Correct.

5 CHAIRMAN HALL: Okay. Is that -- that's
6 loans from banks?

7 MR. COOPER: It is not loans from banks. It
8 is private financing.

9 CHAIRMAN HALL: Is it private financing that
10 would allow for a refinance?

11 MR. COOPER: Conceptually.

12 CHAIRMAN HALL: Because, I mean, if the
13 Commission were to significantly increase rates as is being
14 requested, wouldn't that make the company more credit
15 worthy and allow for a refinance of some sort?

16 MR. COOPER: It's certainly our hope that
17 that's where it goes. You're going to hear that there's --
18 there are some costs to refinancing, and the company has
19 the ability to refinance. There's going to be costs that
20 if they refinance that, primarily because the people that
21 have provided that -- those dollars have done so at a point
22 when the utility is not well established, before it had
23 constructed these improvements, before it gets due rates,
24 while it's an extremely high risk. So there are some
25 dollars in there for those -- for that lender if that

1 financing is taken out early.

2 CHAIRMAN HALL: So if the company were to go
3 to a bank, borrow the money that it owes the private
4 investors, there would be a penalty for early payoff. Is
5 that what you're --

6 MR. COOPER: That's what I'm saying.

7 CHAIRMAN HALL: Okay.

8 MR. COOPER: Yes.

9 CHAIRMAN HALL: What is the penalty?

10 MR. COOPER: I do not know off the top of my
11 head. Mr. Cox would know that.

12 CHAIRMAN HALL: That's all I have. Thank
13 you.

14 JUDGE BUSHMANN: Thank you.

15 By Commission Staff?

16 MS. PAYNE: May it please the Commission, my
17 name is Whitney Payne, and I represent Staff of the
18 Commission here today. As you just heard in Mr. Cooper's
19 opening and you may have read in testimony or remember from
20 the acquisition case for this utility, the water and sewer
21 systems at the center of this matter were in disrepair at
22 the time of Hillcrest acquisition.

23 Staff wholeheartedly agrees that the systems
24 are better functioning today as a result of the
25 improvements made since the acquisition. We also

1 understand that with improvement comes costs, and a utility
2 company is entitled to recoup a portion of those costs
3 through rates.

4 Hillcrest, the customers themselves, at the
5 local public hearing, stated that they understood rates
6 would increase in relation to the new ownership. Staff's
7 purpose here today is to ensure that while the company
8 collects an appropriate amount through rates to account for
9 its improvements and the cost of operation those customers
10 of Hillcrest are not spending above and beyond the cost of
11 water and sewer.

12 Staff and the company, through negotiations,
13 have reached a partial disposition as mentioned of some of
14 the issues in this matter. It was documented in the
15 partial disposition agreement filed March 25th.

16 Staff witness Kim Bolin provided testimony
17 regarding this and will be on the stand just a little later
18 to answer any questions you have as to policy and the
19 partial disposition itself.

20 The only issues remaining here today, in
21 Staff's opinion, to decide are the matters of payroll,
22 property taxes, auditing and income tax or accounting fees,
23 the rate of return, and rate design.

24 Now, Staff has also attributed Hillcrest the
25 14-percent allocation factor based on its own work product,

1 as Mr. Cooper mentioned in his opening. You will hear that
2 referenced throughout my opening and the testimony.

3 It is important to note that although Josiah
4 is referred to as the president of Central States Water
5 Resources, that is not the holding company that -- as
6 stated in Mr. Cooper's opening about the structure, but
7 actually is the named manager of First Round, which --

8 All right. Now, I'm going to go through
9 each of the issues and explain which Staff witnesses most
10 appropriate to answer questions. Staff witness Paul
11 Harrison provided testimony regarding the payroll in this
12 matter. Staff used the MERIC, or the Missouri Economic
13 Research and Information Center's, salary standards to
14 determine an appropriate payroll amount. MERIC uses three
15 levels of experience to calculate the salaries:
16 Experienced, mean, and entry.

17 Staff used the mean, or the middle level, of
18 MERIC in this case for its recommendation from which it
19 calculated an hourly salary for each employee, and then
20 applied the 14-percent allocation factor for the portion of
21 that salary attributable to Hillcrest specifically.

22 Hillcrest president, chief financial
23 officer, and office manager have less than one year's
24 experience working for a regulated utility as of the end of
25 the update period for this rate increase request. Staff

1 does not deny that all three employees have prior work
2 history, but it believes that does not equate to the level
3 of an experienced salary as considered by MERIC.

4 Staff painstakingly calculated the
5 applicable hours for the systems based on Josiah's
6 timesheet and other information provided to Staff by the
7 company. The company had no timesheets for the office
8 manager or chief financial officer prior to November 2015,
9 which is outside of the update period, so Staff used other
10 documentation in its determination.

11 The MERIC rates that Staff used are current
12 as of the end of 2014, and the update period in this matter
13 ended October 2015, which is a difference of less than a
14 year. The rates were approximately applied and do not
15 require any updates.

16 Staff witness Ashley Sarver provided
17 testimony regarding property taxes. Historically, Staff
18 has supported and, as the chairman stated earlier, the
19 Commission has upheld that amounts known and measurable are
20 the only ones to be applied to rates in rate increase
21 requests. The term "known and measurable" as defined in
22 the Commission's report and order in ER-2014-0370 relates
23 to items or events affecting a utility's cost of service
24 that must have been realized or known, and must be
25 calculable with a high degree of accuracy or measurable.

1 To that end, Staff finds it inappropriate to
2 include property tax payments to be paid 12 months after
3 the end of the update period in rates.

4 The matching principle is a rate-making
5 concept that refers to the practice of ensuring that all
6 elements of a revenue requirement, revenue expenses and
7 rate base be measured from the same general point in time.
8 To update property tax rates without updating the other
9 elements would be a violation of that matching principle.

10 An estimated amount is outside of the test
11 year and would not be considered known under the working
12 definition of known and measurable mentioned just a minute
13 ago.

14 Staff witness Paul Harrison provided
15 testimony regarding accounting fees. In its calculations,
16 Staff included the amount of accounting fees the company
17 paid in its test year and update period allocated by the
18 14-percent allocation factor to Hillcrest. Similar to
19 Staff's position on the property tax fees, it has included
20 accounting fees for those amounts known and measurable as
21 of the end of the update period for this matter. Not only
22 are known and measurable accounting fees unavailable at
23 this time, the estimated or proposed amounts the company
24 presented were not available to Staff prior to the start of
25 2016, which is well outside the test year and the update

1 period.

2 To address the company's concerns regarding
3 the accounting fees and the property tax fees, Staff has
4 entered an agreement as part of its partial disposition
5 with the company that the company will return for a rate
6 case within 12 months from the effective date of rates in
7 this proceeding. At that time Staff expects a known and
8 measurable amount of fees would be available.

9 The allowance for funds used during
10 construction, or AFUDC, is affected by the cost of debt
11 rate, which is at issue in this matter. Should the
12 Commission order a different cost of debt than that used by
13 Staff for its calculations, that weighted cost of debt
14 should be applied to the AFUDC carrying costs for this
15 case.

16 Staff witness Shana Griffin provided
17 testimony regarding the rate of return. Staff, as part of
18 its investigation on this rate increase request, has
19 recommended a hypothetical capital structure of Hillcrest.
20 This structure takes into consideration the company's
21 proposal, but also places a practical limit on the amount
22 of debt and capital structure.

23 Rather than proposing definite amounts,
24 Staff created ranges for the return on equity and the debt
25 rate to permit the Commission flexibility in its decisions.

1 Those ranges take into consideration the recent significant
2 changes to the junk bond markets in recent months, but
3 accounts for the fact that over the majority of the past
4 five years that has not been the norm.

5 Through its proposed structure, Staff hopes
6 to permit the company to recoup an amount appropriate to
7 cover its debts while ensuring that the customers are not
8 paying beyond a just and reasonable amount for what Staff
9 considers a nontraditional capital structure.

10 Staff witness Jarrod Robertson provided
11 testimony regarding rate design. Only the method of the
12 rate increase itself is at issue. Rate design in this case
13 requires careful consideration because Hillcrest customers
14 have not experienced a rate increase since 1989, if ever.

15 Staff recognizes that this scenario
16 heightens the risk of rate shock to the customers. Rate
17 shock is when rates increase so suddenly that customers are
18 not prepared for their expenses. This can lead to serious
19 detrimental effects for a community of people that are
20 labeled as in the middle income strata.

21 On the other hand, as Mr. Cooper stated in
22 his opening, the company is concerned about being able to
23 meet its financial obligations if the rates are not fully
24 implemented. It contends that any alteration to the
25 traditional rate implementation equates to the company

1 failing to meet debt obligations and cost of operation.

2 In light of these two ends of the spectrum,
3 Staff has chosen to provide two options for the
4 Commission's consideration without taking a firm stance on
5 either approach. First, Staff's traditional approach would
6 grant the company the full amount of the rate increase as
7 of the effective date of rates. This approach grants the
8 company the ability to meet its obligations, but leads to
9 concerns of harm to the ratepayers.

10 Staff's phase-in approach would implement
11 rates in two stages: One portion at the effective date of
12 rates in this case and another portion one year from the
13 effective date. This approach would grant the ratepayers
14 time to adjust to heightened rates prior to a full
15 increase, but may require the company to extend the time
16 for some of its payment obligations.

17 Staff does note that Hillcrest has already
18 filed an extension with its financing -- within its
19 financing agreement for payment of its debt.

20 Corporate allocation has been included on
21 the list of issues for this case, but Staff and the company
22 have not been in dispute on these factors; therefore, I
23 will not go into this any deeper.

24 In conclusion, Staff recognizes the vast
25 improvement of water and sewer service to the customer

1 since Hillcrest acquisition. However, Staff considers the
2 Commission's directives here especially important as
3 Central State Water Resources has already acquired two
4 other systems and intends to acquire approximately 32
5 before it's done. Any disputes here in this matter between
6 the company and Staff are strictly due to Staff wanting to
7 ensure that customers are not being charged in excess of
8 the proper amounts for service and are properly taken into
9 consideration for rate implementation. Thank you.

10 JUDGE BUSHMANN: Questions?

11 CHAIRMAN HALL: Good morning.

12 MS. PAYNE: Good morning.

13 CHAIRMAN HALL: This question might better
14 be directed at Ms. Bolin, but I'm going to ask you first.
15 I don't -- how do you reconcile the phase-in approach on
16 the rate increase that you guys are -- that Staff is
17 offering as one approach with the requirement that the
18 company come in for a rate case in 12 months?

19 MS. PAYNE: Our assumption on that matter is
20 that in -- the second degree of the phase-in would occur 12
21 months after the effective date of rates. A new rate case
22 would be filed then. The effective date of rates for that
23 new rate increase request would not occur until maybe even
24 another 12 months, depending on what the normal case is.

25 CHAIRMAN HALL: Okay. That makes sense.

1 Now, the agreement that the company come in again in 12
2 months, is that part of the stipulation?

3 MS. PAYNE: It is.

4 CHAIRMAN HALL: Okay. So since the partial
5 stipulation is just a position of the parties now, there is
6 no commitment -- no binding commitment for the company to
7 come in in 12 months, or is there?

8 MS. PAYNE: Well, as long as the stipulation
9 agreement would be approved by the Commission, it's an
10 agreement, but currently no, it's not binding on the
11 parties.

12 MR. COOPER: Commissioner, I -- if I could
13 insert one thing in there. If the question was whether the
14 stipulation requires the company to file a rate case, I
15 don't believe that it does. I think that it calls for a
16 Staff rate review or a rate case, so --

17 CHAIRMAN HALL: Okay. Do you know the
18 median income of the -- of the Hillcrest customers?

19 MS. PAYNE: According to the government
20 census website, it says that the average income of a Cape
21 Girardeau resident, after taxes, would be about \$39,000.

22 CHAIRMAN HALL: But we don't have that
23 specific for the Hillcrest customers?

24 MS. PAYNE: I personally do not have the
25 Hillcrest employees' incomes. No.

1 CHAIRMAN HALL: Okay. That's all I have.
2 Thank you.

3 MS. PAYNE: Thank you.

4 JUDGE BUSHMANN: Commissioner Kenney?

5 COMMISSIONER KENNEY: No.

6 JUDGE BUSHMANN: I have one question.

7 MS. PAYNE: Yes, absolutely.

8 JUDGE BUSHMANN: There's a statute that
9 provides electric corporations to phase in rates. What's
10 the legal authority for the Commission to order a phase-in
11 of rates for a water and sewer companies?

12 MS. PAYNE: I personally do not have that
13 off the top of my head, but I can absolutely provide that
14 in brief if that would be okay with the judge.

15 JUDGE BUSHMANN: Thank you.

16 Opening by Office of Public Counsel?

17 MS. MAYFIELD: Thank you and good morning.
18 I'm Cydney Mayfield. I'm here for the Office of the Public
19 Counsel and for ratepayers, and if it may please the
20 Commission.

21 Lack of transparency, lack of trust, failure
22 to inform, concern about legitimacy, absence of
23 information, lack of good faith, not at armslength, serious
24 concerns. Now, these words sound like someone who may be
25 upset or very angry in a very subjective way.

1 Would you like me to do it?

2 But this is what the Public Service
3 Commission Staff said in sworn testimony about CSWR and its
4 management. The Office of the Public Counsel, who
5 represents the public, shares these concerns and these
6 sentiments. The evidence will show that these statements
7 of concern, distrust and lack of transparency will also
8 resonate with this Commission as well.

9 This case is unlike any other that I've
10 participated before in this Commission. And, granted, I do
11 not have an extraordinarily long tenure here, but this is
12 the first case where the rate request sought by the company
13 would result in over a 400 percent increase in the water
14 rates and over a 400 percent increase in sewer rates to the
15 ratepaying customers of Hillcrest.

16 Many residents in Hillcrest prior to the
17 improvements were paying on average \$28 a month for
18 combined water and sewer service. Customers are now faced
19 with the prospect of bills averaging \$30 a month for water
20 and over \$70 per month for sewer. That's a total water and
21 sewer utility bill of over \$130 a month. To put that in
22 perspective, that is -- that means that the average
23 customer will need to pay an additional \$102 more per
24 month, or approximately \$1,224 a year.

25 This is also the first case where the

1 required improvements that were undertaken at the utility
2 were the result of an abatement order on consent involving
3 both the Missouri Department of Natural Resources and the
4 attorney -- Missouri Attorney General's Office, meaning
5 that this system, as you have already heard, was in a very
6 sad state of disrepair when it was acquired by Hillcrest,
7 and many improvements to the plant facilities were
8 required.

9 During the local public hearing which
10 Commissioner Coleman attended, you will see comments from
11 residents who are thankful for the improvements,
12 particularly to the water system, but you will also see
13 comments from residents imploring this Commission not to
14 raise rates higher than they need to be raised because of
15 the overall concern and the overall rate hike.

16 For instance, Corey Crouse (ph.), a resident
17 of Hillcrest, had this to say during the public hearing:
18 "My biggest problem is I'm a single person in my house. I
19 pay for all my bills, and a \$200 increase will break me. I
20 will have to sell my house." Or what about resident Dana
21 Nice who said, "Water is a basic human right, a necessity,
22 and we're being put into a position to where we have had no
23 choices. There has been a lack of information, and the
24 amount of money being asked from us is extravagant,
25 unreasonable, and out of line." And, finally, Randy Ruger

1 (ph.), who said, "We have been in contact with Jim Bush for
2 a good while now, and we told him that we were having
3 problems out here when Brandco had it, and he acted like he
4 didn't know anything was going on. There's a disconnect
5 somewhere that let this system get in the bad of shape
6 because somebody had to come out here, put this much
7 improvement into it, and now try to gouge everybody to pay
8 for -- that much."

9 In this modest community where the median
10 household income hovers around \$50,000 per year for a
11 family of 3.2, or 200 percent of the poverty line, most
12 ratepayers who testified are on fixed incomes, are
13 retirees, or small families just starting out. Now, the
14 disagreement between the parties centers on the high cost
15 of overhead to manage the utility and requests by the
16 company to include into rates items that fall significantly
17 outside of the test year and update period for this case.

18 Finally, this is the first case where even
19 after discovery and depositions of the company's president
20 and its two employees, that more questions than answers
21 remain. Even after OPC asking exhaustive questions, the
22 answers provided were less than transparent and raised more
23 concerns than they resolved. One has to wonder why it is
24 so difficult to get answers to basic questions like how the
25 utility is financed, who is providing the financing, the

1 relationship between the utility and some of its vendors,
2 employee hours worked for the regulated utility, what the
3 employees of the company actually do in their jobs, or how
4 an owner's personal finances will affect the capital and
5 management of the company.

6 It is this basic struggle to obtain basic
7 information that is both reliable and credible that really
8 sets this case apart for others for me. And the Commission
9 should be aware of the difficulties encountered during this
10 process.

11 As for the open issues, one of the biggest
12 differences between the parties revolves around payroll and
13 the appropriate job classifications for the employees of
14 Hillcrest. OPC's concern about payroll and job
15 classification is that both the payroll amount for each
16 employee and the job title selected for each employee at
17 Hillcrest was arbitrarily assigned and the salaries paid
18 were not the result of a true armslength transaction, but
19 were rather agreed to without argument or discussion by the
20 passive members of the Board of Directors.

21 OPC's concern is that the title and the job
22 function match up for purposes of assessing a salary. For
23 example, Josiah Cox who is the president of the utility
24 selected his own job title of president and set his own
25 yearly salary, which according to him was presented to the

1 board members and they simply didn't argue with it. The
2 same goes for the other two employees in the utility: CFO
3 Jack Chalfant was given a job title, yet his duties, when
4 examined during his deposition, align more closely to that
5 of an accountant or auditor.

6 If the standard before this Commission is
7 that employees at a utility can select any job title they
8 want and the Commission has to accept that without ensuring
9 that the title and the job function match when determining
10 the appropriate salary, we'd have a lot of utility
11 presidents and CEOs, but that is not the standard.

12 The Commission has regularly used the
13 Missouri Economic Research and Information Center, or
14 MERIC, rates and job classifications, as well as
15 comparisons to other water and sewer utilities as a
16 yardstick to make a determination of the appropriate job
17 classification as well as salary determination for each
18 position.

19 As this Commission has already heard, all of
20 the parties agree to the use of MERIC. OPC has used the
21 MERIC job titles for each employee to compare salaries for
22 each of them. OPC has determined that general and
23 operations manager to be the most appropriate for Mr. Cox,
24 and accountants and auditors to be the most appropriate for
25 Mr. Chalfant, as these titles best fit the job duties of

1 each employee and have typically been used by OPC and Staff
2 in the past to compare salaries.

3 Salary recommendations for each of the
4 employee positions is contained in Ms. Roth's Schedule
5 ANR-4. It is marked highly confidential and it is attached
6 to Keri Roth's direct testimony. She will be up later if
7 you have any questions related to that.

8 We maintain that it is reasonable to include
9 a mean or average experience level used in MERIC to base
10 employees' salaries in this case. At the end of the update
11 period in this case of October 31st of 2015, Hillcrest
12 employees had less than one year of experience with
13 regulated water and sewer utilities. The employment cost
14 index inflation rates should not be applied to the MERIC
15 rates chosen by the Commission for each employee.
16 Inflation rates have not typically been applied to MERIC
17 rates in the past.

18 Finally, with regard to the allocation of
19 time to Hillcrest most appropriate to apply in this case,
20 OPC recommends using an allocation factor of 10.49 percent.
21 This figure is the most representative and accurate of how
22 much time each employee actually spends working on
23 Hillcrest as it is based on the actual timesheet
24 information provided by the utility to OPC, and based on
25 responses by the employees during their depositions about

1 the amount of time spent on regulated work for Hillcrest.

2 OPC would also recommend this Commission use
3 the 10.49 percent allocation factor for all
4 corporate-related expenses and charges that flow down to
5 regulated operations at Hillcrest.

6 The property tax, audited income expenses,
7 all share the common issue that amounts requested by the
8 company in the case are not known and measurable with a
9 high degree of accuracy. They are estimated amounts. In
10 fact, the audit and income tax expenses are not even based
11 on contracted amounts, but rather they are based on a quote
12 or a bid for services that may not actually be performed.

13 The property tax amount won't be known until
14 September 1st of 2016 at the absolute earliest. The
15 inclusion of these estimated amounts, as I have previously
16 said, are not known and measurable. The Commission
17 explained in its report and order in Case Number
18 ER-2014-0370 its position on the known and measurable
19 standard. In Paragraph 256 the Commission stated, "The
20 term 'known and measurable' relates to items or events
21 affecting a utility's cost of service that must have been
22 realized, known, and must be calculable with a high degree
23 of accuracy, measurable."

24 If you couldn't hear my emphasis, the
25 definition of a known and measurable standard is not an

1 either/or. It must be both. And even though these
2 requested expenses may satisfy one of the prongs of the
3 known and measurable test, they fail to satisfy both, and
4 so only those amounts that are based on historical data
5 provided during the test year and update period should be
6 included in the rates.

7 Finally, there is little disagreement
8 between the parties that the rate classes for the company
9 need to be expanded to include more than just a residential
10 rate class, but also to include an apartment class and a
11 commercial class of customer. Both Staff and the company
12 have stated they do not take issue with the creation of an
13 apartment and commercial class, and so OPC would ask the
14 Commission to adopt OPC's position and add the rate classes
15 of Hillcrest to include an apartment class and a commercial
16 class.

17 OPC has also taken a position on the proper
18 allocation percentages to be used to allocate expenses
19 between the fixed customer charge and the volumetric rate
20 that more appropriately align costs and expenses to the
21 appropriate cost causer and more appropriately responds
22 with average customer use. OPC witness James Russo will be
23 able to answer questions on that rate design structure
24 should the Commission have any questions related to it.

25 Now, back to the statements from the

1 beginning, there are reasons why Staff and OPC have
2 concerns about this case. There are reasons why the
3 company has been less than transparent about its
4 activities. Through our questions today and questions from
5 the Commission, a better understanding of these concerns
6 will be brought to light.

7 While it seems lately in life there's not a
8 whole lot that seems like we have control over, this
9 Commission does have control over managing extravagant
10 overhead costs, large salaries, arbitrary job titles not
11 connected with function, and the return provided to a
12 less-than-transparent company, all of which can have a real
13 and tangible impact on the approximately 240 customers of
14 this small water and sewer utility. Thank you.

15 CHAIRMAN HALL: Good morning.

16 MS. MAYFIELD: Good morning.

17 CHAIRMAN HALL: My understanding is that the
18 company, after purchase of the system, the water and sewer
19 systems, invested about \$1.2 million in capital
20 improvements; is that correct?

21 MS. MAYFIELD: That is my understanding.
22 Yes, that is correct.

23 CHAIRMAN HALL: Is there any question as to
24 the prudence of any of those expenditures?

25 MS. MAYFIELD: Office of Public Counsel has

1 not raised a prudency argument. No, sir.

2 CHAIRMAN HALL: And so there's no question
3 that that -- in OPC's -- from OPC's perspective, there is
4 no question that that money was well spent?

5 MS. MAYFIELD: That has not been brought up
6 in our testimony.

7 CHAIRMAN HALL: I see that Mr. Russo in his
8 direct testimony is supporting a phase-in, but my
9 understanding is that -- is that OPC's current position?

10 MS. MAYFIELD: OPC does support a phased-in
11 rate, but not the way that Staff has proposed a phase-in
12 rate. We are proposing it more of an automatic adjustment
13 versus having the company come in for a required rate case
14 in 12 months.

15 CHAIRMAN HALL: Okay. Who from -- your
16 perspective, who is the best witness to ask questions about
17 any potential conflict of interest and a lack of armslength
18 transactions?

19 MS. MAYFIELD: That would be Keri Roth, I
20 believe. She was present during the depositions, so she
21 would have knowledge about some of those questions.
22 Otherwise, I think the best witness probably would be
23 Mr. Cox himself.

24 CHAIRMAN HALL: Okay. Thank you.

25 MS. MAYFIELD: You're welcome.

1 COMMISSIONER KENNEY: Good morning.

2 MS. MAYFIELD: Good morning, Commissioner
3 Kenney.

4 COMMISSIONER KENNEY: I was -- I'm a -- I'm
5 just a little -- I'm trying to understand this. Now,
6 Mr. Russo recommends that \$108 increase on the customers,
7 but --

8 MS. MAYFIELD: Right. That's -- yeah,
9 that's utilizing Staff's EMS is my understanding.

10 COMMISSIONER KENNEY: That's not much
11 different than Staff, is it?

12 MS. MAYFIELD: Well, it's actually based on
13 the disposition agreement figures that Staff filed in the
14 case. So Mr. Russo can discuss that. I think he is
15 proposing a rate design structure that, once the Commission
16 sets the revenue requirement, we would ask that the way he
17 has set the volumetric weight -- the volumetric rate and
18 the customer charge be applied. So that number of 108
19 would change.

20 COMMISSIONER KENNEY: And obviously for far
21 too long these residents have not been paying what they
22 should've been paying, I mean, because it's been just in
23 disarray. So the system has collapsed. So, I mean, it's
24 unfortunate, but I -- OPC agrees that -- as the chairman
25 said, that that -- those improvements were needed?

1 MS. MAYFIELD: I would take a little
2 different -- I don't believe that OPC believes that these
3 customers weren't paying what they were supposed to be
4 paying. They were paying the rates that this Commission
5 set.

6 COMMISSIONER KENNEY: Okay. They were
7 paying the rate, but obviously it was under-served because
8 they had so many problems and things needed to be fixed.
9 So, essentially, they probably needed to be paying more
10 money at some point. That's why they're having such
11 tremendous rate shock now.

12 MS. MAYFIELD: And I would think that --
13 yes, the improvements were needed, but unfortunately these
14 improvements, perhaps under past owners, could've been
15 phased in over time --

16 COMMISSIONER KENNEY: Sure. I agree.

17 MS. MAYFIELD: -- by making small changes.

18 COMMISSIONER KENNEY: I agree with that.

19 MS. MAYFIELD: I -- yes. OPC does agree
20 that these improvements are needed.

21 COMMISSIONER KENNEY: Okay. Thank you.

22 MS. MAYFIELD: You're welcome.

23 JUDGE BUSHMANN: Since you're proposing a
24 phase-in, I'll ask you the same question I asked Staff
25 counsel. What's the legal authority for phase-in rates on

1 water and sewer?

2 MS. MAYFIELD: Well, I do recognize that
3 there is an electric utility statute that you cited that
4 cites to the authority for phased-in rates on the electric
5 side. I honestly do not know a specific authority off of
6 the top of my head that would permit the phasing in of
7 rates in water and sewer. I do believe that is in the
8 Commission's discretion, and it would be something I would
9 be addressing in my brief to provide the Commission with a
10 more full answer to.

11 JUDGE BUSHMANN: Thank you.

12 MS. MAYFIELD: You're welcome.

13 JUDGE BUSHMANN: Okay. Let's go ahead and
14 have Hillcrest bring their first witness, please.

15 MR. COOPER: We will call Mr. Josiah Cox.
16 (Witness sworn.)

17 JUDGE BUSHMANN: Please be seated.

18 JOSIAH COX testified as follows:

19 DIRECT EXAMINATIONS BY MR. COOPER:

20 Q. Please state your name.

21 A. My name is Josiah Cox.

22 Q. By whom are you employed, and in what
23 capacity?

24 A. I'm the president of First Round CSWR, LLC.

25 Q. Are you -- do you also have a position with

1 **Hillcrest Utility Operating Company, Inc.?**

2 A. I am the president.

3 **Q. Have you caused to be prepared for the**
4 **purposes of this proceeding certain direct and rebuttal**
5 **testimony in question and answer form?**

6 A. Yes, I have.

7 **Q. Is it your understanding that that testimony**
8 **has been marked as Hillcrest Exhibit Number 1 as to the**
9 **direct and Hillcrest Exhibit Number 2 as to the rebuttal**
10 **for identification?**

11 A. Yes.

12 **Q. Do you have any changes that you would like**
13 **to make to that testimony at this time?**

14 A. I do have a couple changes I'd like to make.

15 **Q. Where is the first of those changes?**

16 A. Give me one second here to go through my
17 book. So if you will go to my direct testimony, to Page
18 25, and go to Line 12, that should read -- instead of 9.88
19 percent it should read 8.88 percent.

20 **Q. So both at the beginning of that sentence,**
21 **the 9 should be replaced with the word eight and then near**
22 **the end of the sentence the number 9 should be replaced**
23 **with 8 as well?**

24 A. That is correct.

25 **Q. What's your next change?**

1 A. If you will go to -- staying with my direct
2 testimony -- Page 28. At the top of that page, again, at
3 Line 6, instead of 9.88, it should be 8.88.

4 **Q. Is there another change on that page as**
5 **well?**

6 A. There is. If you go to Line 15, instead of
7 9.88 it should be 8.88.

8 **Q. Are there any other changes to your direct**
9 **testimony?**

10 A. Not to my direct testimony.

11 **Q. Do you have changes to your rebuttal**
12 **testimony?**

13 A. I do. If you go to my rebuttal testimony,
14 Page 21, if you go to Line 12 -- actually Line 13. Line
15 13, instead of 89 percent debt, it should read 81 percent
16 debt.

17 **Q. Are there other changes in your rebuttal?**

18 A. Yes. If you will turn to Page 22, if you go
19 to Line 8, the cost of debt, instead of being 14.13 should
20 be 10.13. If you go down to Line 17, the rate case
21 expense, the number should be \$11,639.52. And if you go to
22 Line 20, it should -- instead of being 11,478.63, it should
23 be 9,122.50.

24 **Q. Do you have any other changes?**

25 A. I do not believe so. No.

1 **Q. If I were to ask you the questions which are**
2 **contained in Hillcrest Exhibits 1 and 2 today, would your**
3 **answers as amended be the same?**

4 A. Yes.

5 **Q. And are those answers as amended true and**
6 **correct to the best of your information, knowledge, and**
7 **belief?**

8 A. Yes, they are.

9 MR. COOPER: Your Honor, I would offer
10 Hillcrest Exhibit Number 1 and Hillcrest Exhibit Number 2
11 into evidence and tender the witness for cross-examination.

12 JUDGE BUSHMANN: Any objections to their
13 receipt? Hearing none, they're received into the record.

14 (Wherein, Company Exhibit Numbers 1 and 2
15 were offered and received into the record.)

16 JUDGE BUSHMANN: The first cross-examination
17 would be by OPC.

18 CROSS-EXAMINATION BY MS. MAYFIELD:

19 **Q. Mr. Cox, you are the president of Central**
20 **States Water Resource, Incorporated. Correct?**

21 A. Yes, ma'am.

22 **Q. And Central States Water Resource,**
23 **Incorporated is the manager of First Round CSWR, LLC.**
24 **Correct?**

25 A. Yes, ma'am.

1 **Q. First Round CSWR, LLC is the entity that**
2 **actually has employees that work on regulated utilities,**
3 **including Hillcrest. Correct?**

4 A. That is correct.

5 **Q. Can you explain the relationship between**
6 **First Round CSWR, LLC to Hillcrest Holding Company and**
7 **Hillcrest Utilities, LLC, please?**

8 A. Could you repeat the first entity? I'm
9 sorry, ma'am.

10 **Q. Can you explain the relationship between**
11 **First Round CSWR, LLC to Hillcrest Holding Company and**
12 **Hillcrest Utilities, LLC?**

13 A. First Round CSWR, LLC wholly owns Hillcrest
14 Utility Holding Company, Inc., which wholly owns Hillcrest
15 Utility Operating, Inc.

16 **Q. And both Central States Water Resources,**
17 **Incorporated and First Round CSWR, LLC were formed as legal**
18 **entities in January of 2014. Correct?**

19 A. I believe that is true.

20 **Q. And you own 51 percent of the shares in**
21 **Central States Water Resources, Incorporated. Correct?**

22 A. That is correct.

23 **Q. And you would've acquired those shares**
24 **during the initial public offering of January the 26th of**
25 **2014?**

1 MR. COOPER: Objection. I think that
2 assumes facts not in evidence. I'm not sure there was a
3 public offering.

4 BY MS. MAYFIELD:

5 Q. Was there a public offering that was placed
6 through the Securities and Exchange Commission? Or I guess
7 it would be a private placement. Was there a private
8 placement through the Securities and Exchange Commission?

9 A. I don't know the answer to that question.

10 Q. Did First Round CSWR file anything with the
11 Securities and Exchange Commission indicating that it would
12 be offering shares?

13 A. Ma'am, I'm not a lawyer. I don't know the
14 answer to that question.

15 Q. Do you know when you acquired your shares in
16 Central States Water Resources, Incorporated?

17 A. That was in the spring of -- late winter of
18 '14.

19 Q. Now, are you familiar with the general
20 ledger that was created for First Round CSWR, LLC?

21 A. I did not create the general ledger of First
22 Round CSWR, LLC.

23 Q. Are you responsible for the employee that
24 would create the general ledger for First Round?

25 A. I am the supervisor of the employee.

1 **Q. Are you knowledgeable about the general**
2 **ledger for First Round CSWR, LLC?**

3 A. I am somewhat knowledgeable of it.

4 **Q. Do you review the general ledger as part of**
5 **your routine business practice?**

6 A. I do not review the general ledger as part
7 of my routine business practice.

8 **Q. Does First Round CSWR, LLC create a general**
9 **ledger as part of its routine business practice?**

10 A. I believe we do create a general ledger as
11 part of our routine business practice.

12 **Q. And who would be the employee responsible**
13 **for creating that?**

14 A. The employee responsible would be Jack
15 Chal fant, who's my chief financial officer.

16 **Q. And do you manage and direct Mr. Chal fant?**

17 A. Mr. Chal fant is my employee, my -- and I
18 directly supervise him.

19 MS. MAYFIELD: May I approach the witness,
20 Your Honor?

21 JUDGE BUSHMANN: You may.

22 BY MS. MAYFIELD:

23 **Q. I would like this to be marked as OPC's**
24 **initial offering, OPC 007.**

25 **(Wherein, OPC 007 was marked for**

1 **i d e n t i f i c a t i o n .)**

2 JUDGE BUSHMANN: Do you have copies for the
3 Commi ssi on?

4 MS. MAYFIELD: I was going -- do you want me
5 to provide them ahead, before I actually move them into
6 evi dence?

7 JUDGE BUSHMANN: Yes.

8 MS. MAYFIELD: Sorry about that. I was
9 going to do that after I got done.

10 BY MS. MAYFIELD:

11 **Q. Mr. Cox, are you familiar with the document**
12 **that has been initially marked as OPC --**

13 MS. PAYNE: I'm sorry to interrupt, but can
14 we clari fy i f thi s HC or not?

15 MS. MAYFIELD: It's not marked HC. And as
16 far as I'm aware, this is not an HC document.

17 JUDGE BUSHMANN: Okay. Thank you.

18 BY MS. MAYFIELD:

19 **Q. Now, Mr. Cox, are you familiar with the**
20 **document that has been initially marked OPC 007?**

21 A. I am not.

22 **Q. Did you provide this document in response to**
23 **data request issued by the Office of the Public Counsel?**

24 A. I personally did not provide this.

25 **Q. Have you ever reviewed this document before?**

1 A. I do not believe I have.

2 Q. **But this document would be routinely created**
3 **as part of the routine business practices for First Round**
4 **CSWR, LLC?**

5 A. I do not believe a general ledger is
6 something that we routinely create. I believe we create
7 general ledgers for the purposes of rate cases.

8 Q. **Was this routine -- was this ledger created**
9 **for the purpose of this rate case?**

10 A. I'm not familiar with this document, so --

11 Q. **Okay.**

12 MS. MAYFIELD: Your Honor, I'm going to hold
13 on moving for this particular document into evidence until
14 later. If we could just keep it marked as OPC 007.

15 JUDGE BUSHMANN: That's fine.

16 BY MS. MAYFIELD:

17 Q. **All right. The other shareholders of**
18 **Central States Water Resources, Inc. are GSWD, LLC.**
19 **Correct?**

20 A. That is correct.

21 Q. **Who are the ultimate owners of GSWD, LLC?**

22 A. That is -- the ultimate owners are Robert
23 Glarner and David Glarner.

24 Q. **And you have a 14-percent ownership interest**
25 **in First Round CSWR. Correct?**

1 A. That is correct.

2 Q. **And you had obtained that ownership interest**
3 **when First Round CSWR was formed in January 2014. Correct?**

4 A. My original interest in First Round CSWR,
5 LLC was in -- was created in 2014.

6 Q. **In January of 2014?**

7 A. I do not remember if it was January or
8 February.

9 Q. **And you've indicated that you used these two**
10 **companies -- Central States Water Resources, Inc. and First**
11 **Round CSWR -- interchangeably; is that correct?**

12 A. Yes, ma'am. That is correct.

13 Q. **But prior to 2014, in 2013, you were trying**
14 **to raise money for capital projects in the names of Central**
15 **States Water Resources, Inc.; is that correct?**

16 A. Yes, ma'am. In 2013 that is correct.

17 Q. **And before Central States Water Resources,**
18 **Incorporated, you were operating under the name of Dynamic**
19 **Water Resources, LLC. Correct?**

20 A. Yes, ma'am. We started trying to raise
21 money towards small failing water and wastewater systems in
22 2011.

23 Q. **And during the time you were operating**
24 **Dynamic Water Resources, LLC, you were also the owner of a**
25 **company called Trumpet, LLC; is that correct?**

1 A. That is correct.

2 Q. You entered into a binding memorandum of
3 understanding between -- did you enter into a binding
4 memorandum of understanding between yourself and initial
5 investors Thomas Manz and Walter Kearsy to own and
6 construct utility assets in Missouri in 2013?

7 A. I believe we had a memorandum in '13.

8 Q. In 2013, Central States Water Resources,
9 Inc. also had a lease with the Regis Group for office
10 space. Correct?

11 A. That is correct, ma'am.

12 Q. And the amount of that lease would've been
13 \$1,200 per month?

14 A. I do not remember the exact lease terms. It
15 was a 400 square foot office.

16 Q. Do you believe that the rent would've been
17 approximately \$1,200 per month? Does that sound reasonable
18 to what you recall?

19 A. That sounds reasonable.

20 Q. Now, Mr. Cox, you selected your title as
21 president. Correct?

22 A. I spoke with my original investors about
23 what my title should be, and we came to agreement that that
24 was the correct title.

25 Q. I believe you indicated previously that

1 **there was no argument; they accepted the title of**
2 **president; is that correct?**

3 A. Yes, ma'am, based on the fact that I was
4 raising money; I had the engineering and construction
5 experience; I had the operation experience. They agreed
6 that that was the correct title.

7 **Q. And you've also set your own yearly salary**
8 **of \$220,000 per year. Correct?**

9 A. I -- that is not correct. That was in
10 negotiation with multiple investor groups over the course
11 of two years.

12 **Q. I believe during your deposition you**
13 **indicated that your current salary was arrived after**
14 **discussion with your two -- with the other two current**
15 **shareholders, the two owners; is that correct?**

16 A. Yes, ma'am. I believe I indicated it was
17 part of my LLC agreement.

18 **Q. But it is still something that was set**
19 **between you and the two other investors within Central**
20 **States Water Resources?**

21 A. Yes, ma'am.

22 **Q. And the other members were David and Robert**
23 **Glarnner, and they are also the owners of GSWD, LLC.**
24 **Correct?**

25 A. Yes, ma'am.

1 **Q. And GSWD, LLC is managed by a company called**
2 **Swiss, LLC. Correct?**

3 A. I believe that is true.

4 **Q. And the Swiss, LLC also manages Gadwall,**
5 **LLC. Correct?**

6 A. Ma'am, I don't know the answer to that
7 question.

8 **Q. I believe during your deposition I showed**
9 **you a copy of the lease agreement that CSWR, Inc. currently**
10 **has, and I asked you at that time if Swiss, LLC indicated**
11 **Gadwall, LLC, and you indicated that that looks correct.**
12 **So does that refresh your recollection?**

13 A. Yes, ma'am.

14 **Q. All right. And Gadwall, LLC is the landlord**
15 **for your current lease. Correct?**

16 A. That is correct.

17 **Q. So the board members, David and Robert**
18 **Glarner, also have an interest in Central States Water**
19 **Resources to the extent they are also the landlord for you.**
20 **Correct?**

21 A. That is correct, ma'am.

22 **Q. And the entities they have an interest in,**
23 **Gadwall, LLC, would be receiving the rent payments.**
24 **Correct?**

25 A. That is correct, ma'am.

1 **Q. You approved the lease agreement with**
2 **Gadwall I, LLC. Correct?**

3 A. Yes, ma'am, after I reviewed it with a
4 commercial real estate agent and my attorney.

5 **Q. You approved the lease agreement with**
6 **Gadwall I, LLC. Correct?**

7 A. Yes, ma'am. That was based on looking at
8 what market rate would be and being a less than market rate
9 lease, correct.

10 **Q. A lease that also benefits the two other**
11 **shareholders of Central States Water Resources. Correct?**

12 A. That is correct.

13 **Q. The two other shareholders who have also**
14 **provided the financing for the upgrades to the utility**
15 **plant hillcrest. Correct?**

16 A. Yes, ma'am. That is correct.

17 **Q. So the Glarners benefit from the receipt of**
18 **rental payments from Central States Water Resources,**
19 **Incorporated and they also stand to benefit as shareholders**
20 **who receive a return on their investment; is that correct?**

21 MR. COOPER: Again, I think I'd object to
22 that. I don't -- I'm not sure a limited liability company
23 has shareholders. It assumes facts that aren't in
24 evidence.

25 MS. MAYFIELD: I asked him about Central

1 States Water Resources, Incorporated, which is the
2 corporation.

3 JUDGE BUSHMANN: Overruled.

4 WITNESS: Yes, ma'am. I believe that is
5 correct.

6 BY MS. MAYFIELD:

7 **Q. And you selected the title for your employee**
8 **Jack Chalfant as the chief financial officer. Correct?**

9 A. He has been the chief financial officer at a
10 number of different companies, so that is the title that I
11 went with when I went about hiring him. Correct.

12 **Q. And prior to hiring Mr. Chalfant, you**
13 **utilized management companies Nacoma, Daytona, and TMN**
14 **Associates to perform the functions of the chief financial**
15 **officer; is that correct?**

16 A. I used those entities for general management
17 accounting functions.

18 **Q. And you've described those functions that**
19 **the management companies were doing as bookkeeping,**
20 **accounting, and business administrative functions; is that**
21 **correct?**

22 A. I believe that is correct.

23 **Q. And then you hired Mr. Chalfant to take over**
24 **those previously described functions. Correct?**

25 A. I hired him to take that over and to create

1 a whole new system of accounts as we became a regulated
2 utility. We had to -- we had to comply with NARUC
3 accounting to establish a GAP to NARUC accounting system,
4 to establish depreciation in terms of standard utility
5 operating requirements as a regulated utility.

6 **Q. So you hired him to do accounting functions.**
7 **Correct?**

8 A. It was much more than accounting functions,
9 ma'am.

10 **Q. I'll let your previous answer stand. You**
11 **set and accepted the salary for Mr. Chalfant. Correct?**

12 A. I negotiated the salary with Mr. Chalfant.
13 That is correct.

14 **Q. And his yearly annual salary is \$155,000; is**
15 **that correct?**

16 A. That is correct, ma'am.

17 **Q. And you were present during Mr. Chalfant's**
18 **deposition; is that correct?**

19 A. Yes, ma'am. That is correct.

20 **Q. Mr. Chalfant does perform work on**
21 **non-regulated activities, doesn't he?**

22 A. No, ma'am. He does not.

23 **Q. So he does not perform any work in terms of**
24 **examining what sort of capital the company needs to obtain**
25 **for acquisitions?**

1 A. He is not currently performing that
2 function.

3 **Q. Does he perform any function related to**
4 **determining whether or not CSWR, Incorporated continues to**
5 **be a financially viable entity?**

6 A. Can you rephrase that question --

7 **Q. Sure.**

8 A. -- for me?

9 **Q. Viable may have been a word that kind of --**
10 **does he have any involvement with determining whether or**
11 **not Central States Water Resources is a business that's in**
12 **I guess in good shape, that it's meeting its bills, that**
13 **it's paying its bills on time?**

14 A. Mr. Chalfant definitely provides services to
15 make sure I pay my bills on time. Correct.

16 **Q. Yeah. And does Mr. Chalfant prepare the**
17 **checks that you signed?**

18 A. Mr. Chalfant prepares the checks that I
19 sign.

20 **Q. And Mr. Chalfant prepares those checks based**
21 **on bills that are received for the entity; is that correct?**

22 A. That is correct, ma'am.

23 **Q. But it is your testimony today that**
24 **Mr. Chalfant does not perform any work that is**
25 **non-regulated?**

1 A. Currently, Mr. Chalfant does not perform any
2 unregulated work. That is correct.

3 **Q. Now, Nitor Billing, it provides the customer**
4 **billing for Hillcrest. Correct?**

5 A. Yes, ma'am.

6 **Q. And Hillcrest pays a fee per customer for**
7 **Nitor Billing to send out customer bills; is that correct?**

8 A. That is correct.

9 **Q. And Nitor uses a third party company,**
10 **MuniBilling, for software purposes. Correct?**

11 A. MuniBilling is the actual utility billing
12 software that generates all the bills. That is correct.

13 **Q. And to your knowledge, Nitor utilizes**
14 **MuniBilling?**

15 A. Yes, ma'am. That's correct.

16 **Q. And Hillcrest also utilizes MuniBilling.**
17 **Correct?**

18 A. Yes, ma'am. We actually own the consumer
19 records that are associated with MuniBilling, because we're
20 responsible for those finally as a regulated utility.

21 **Q. Hillcrest pays a quarterly fee for the use**
22 **of MuniBilling. Correct?**

23 A. Yes, ma'am. Since MuniBilling is -- serves
24 as a software, we pay a quarterly bill. That is correct.

25 **Q. And this is because at Hillcrest I think you**

1 **stated wants to own the records that are generated in**
2 **MuniBilling; is that correct?**

3 A. Yes, ma'am. As a regulated utility, it's
4 our responsibility to control all the consumer records.

5 **Q. So Hillcrest owns those records and not**
6 **Nitor. Correct?**

7 A. Yes, ma'am. That is correct.

8 **Q. Hillcrest has the same access to information**
9 **in MuniBilling as Nitor. Correct?**

10 A. Yes, ma'am. We both have the exact same
11 access to the records, with the caveat that Hillcrest has
12 the ability to delete or keep those files. That's the only
13 -- we're the only ones that are -- that have the ability to
14 do that.

15 **Q. And Nitor Billing is owned by a Mr. Mark**
16 **Peterman. Correct?**

17 A. Yes, ma'am.

18 **Q. And you and Mark Peterman were once business**
19 **partners in Dynamic Water Resources, LLC. Correct?**

20 A. Yes, ma'am. When I originally went to
21 capital markets to try and raise money towards small
22 failing water resource systems, Mr. Peterman was originally
23 part of that endeavor.

24 **Q. And you're friends with Mr. Peterman.**
25 **Correct?**

1 A. I would consider Mr. Peterman a friend.
2 Yes, ma'am.

3 **Q. Do you know when Nitor Billing was formed?**

4 A. When I was bidding services for operations
5 and maintenance and customer service -- third-party
6 services, I went to five or six different firms. After I
7 received bids I felt like were extraordinarily expensive, I
8 went to Mr. Peterman, asked him if he thinks -- if he
9 thought he could provide these services cheaper than
10 another outside group. And I believe he formed the company
11 after that. He made a business analysis and was able to
12 form something that was more cost-effective.

13 **Q. So Nitor Billing was formed after you**
14 **approached Mr. Peterman about this potential opportunity?**

15 A. I don't know exactly when Nitor was formed,
16 ma'am.

17 **Q. Do you know if it was formed before or after**
18 **Central States Water Resources, Incorporated was formed?**

19 A. I do not know, ma'am.

20 **Q. If you would turn with me to your rebuttal**
21 **testimony in this case, please.**

22 A. Yes, ma'am. What page?

23 **Q. If you'll go to Page 8, Lines 8 through 10.**

24 A. Could I get my water off my desk? I'm
25 sorry.

1 MR. COOPER: May I approach, Your Honor?

2 JUDGE BUSHMANN: You may.

3 WITNESS: Thank you, sir. Yes, ma'am. I'm
4 on Page 8.

5 BY MS. MAYFIELD:

6 Q. You state that, "In order to obtain
7 financing to make improvements on troubled small water and
8 sewer systems, the utilities have to be able to show an
9 ability to make the payments required by financing
10 arrangements." Do you see that?

11 A. Yes, ma'am.

12 Q. Does Hillcrest still need improvements to
13 the system?

14 A. Hillcrest no longer -- Hillcrest has some
15 ongoing maintenance issues that will continue to be part of
16 this system, since it is an old system, but there are no
17 longer major capital improvement projects that are
18 necessary.

19 Q. So the obtaining financing that you're
20 referencing here is not in relation to Hillcrest?

21 A. What I'm referencing here is that when I
22 came in to the Hillcrest subdivision that this system
23 services, it was completely failed and there was no proof
24 that we could -- that, you know, future cash payments would
25 be possible. See, you've got to remember, when I come in

1 to look at a system that's failing, we have a system that
2 has a huge amount of environmental liabilities associated
3 with it. We have a huge amount of capital improvements
4 that are required. And they have an uncertain regulatory
5 environment in terms of what future cash flows will be. So
6 that's what I'm mentioning there.

7 **Q. So it's not just specific to Hillcrest?**

8 A. That's correct. It's not just specific to
9 Hillcrest. It's failing utilities across the state of
10 Missouri.

11 **Q. And before the Glarners became involved with
12 Central States Water Resources, did you attempt to
13 renegotiate the financing agreement that's in place for
14 Hillcrest?**

15 A. I don't remember, ma'am.

16 **Q. Have you -- since the Glarners have become
17 involved with Central States Water Resources, have you
18 since tried to renegotiate the loan agreement that's in
19 place at Hillcrest?**

20 A. No, ma'am. I've continued to look for
21 outside financing since the Glarners became involved. So I
22 met with multiple capital groups. I've met with McQuarry
23 Capital. I've met with American Infrastructure Holdings.
24 I've met with Sohitiz Capital. So I continue to go out to
25 capital markets to find cheaper financing.

1 **Q. But have you specifically attempted to**
2 **negotiate with the Glarners a renegotiation of the finance**
3 **agreement for Hillcrest?**

4 A. I've definitely spoke to the Glarners in
5 terms of new acquisitions about cheaper financing. So in
6 reference to Indian Hills, I sought to lower that.

7 **Q. But for Hillcrest the answer is no?**

8 A. I don't -- like I said, ma'am, I don't
9 remember.

10 **Q. Is it possible that you would've approached**
11 **them to try to renegotiate the financing agreement for**
12 **Hillcrest?**

13 A. Yes, ma'am. I'm continually trying to
14 negotiate this down, but I can't remember.

15 **Q. All right. Staying on Page 8 of your**
16 **rebuttal testimony, the question starting at Line 13, "What**
17 **is it specifically that Hillcrest would not recover with a**
18 **phased-in rates under OPC's proposal?"**

19 A. So Hillcrest is a small utility. We're a
20 cash business. So with the Office of Public Counsel's
21 proposal we would not be able to make our debt payment and
22 run the operations required to keep this system going.

23 **Q. So debt payment and operations, those are**
24 **the specific items that you would not recover under the**
25 **OPC's phased-in rate proposal?**

1 A. Well, I wouldn't recover a lot of my costs,
2 but those are two of the costs I'm mentioning there.

3 **Q. When you say a lot of your costs, do you**
4 **have any further specific examples?**

5 A. Yes, ma'am. There would be no management as
6 required from the holding operating company down to the
7 individual utility company.

8 **Q. If you would turn to Page 9 of your**
9 **rebuttal, Lines 17 through 19. You indicate that a**
10 **phase-in with the partial stipulated operational costs**
11 **would cause Hillcrest to default in the first year of**
12 **operations. Now, what happens if Hillcrest does default?**

13 A. Well, ma'am, then the lender would perfect
14 their lien against the utility and would take over the
15 utility. That's part of the loan documents.

16 **Q. When you say lender, are we talking about**
17 **the Glarners?**

18 A. We're talking about Fresh Start Ventures,
19 ma'am.

20 **Q. Fresh Start Ventures. Do you know if -- are**
21 **Fresh Start Ventures and the Glarners, are they connected?**

22 A. Yes, ma'am. They are.

23 **Q. Do you know if anybody within Fresh Start**
24 **Venture has experience regulating small water and sewer**
25 **companies in Missouri?**

1 A. I do not know, ma'am.

2 Q. **Staying on Page 9 of your rebuttal**
3 **testimony, Line 20. "What do you mean by money for**
4 **corporate management for Hillcrest?"**

5 A. I am talking about the allocation from the
6 holding company down to the operating company level.

7 Q. **If you would turn to Page 11 of your**
8 **rebuttal testimony. I'd like you to look at Lines 16**
9 **through 19. You state that small regulated utilities in**
10 **Missouri currently had issues like lead contamination in**
11 **the drinking water. To which regulated systems are you**
12 **referring?**

13 A. Yes, ma'am. So at Line 18, lead in drinking
14 water, I'm referring to Road Creek Utilities receivership
15 regulated system right now. Radio nucleates in the
16 drinking water, I'm referring to Terre Du Lac Utilities,
17 which is a regulated utility. And then plants discharging
18 waste that have not been disinfected, that's too many
19 plants to be -- it's too numerous to be able to recall.

20 Q. **And where did you receive this information**
21 **about these particular issues?**

22 A. All this information is public record. It's
23 part of Missouri Department of Natural Resources'
24 enforcement list.

25 Q. **And according to your response, these are**

1 **all regulated systems here at the Missouri Public Service**
2 **Commission?**

3 A. Ma'am, the systems I am mentioning in those
4 lines of testimony are all regulated utilities. That is
5 correct.

6 Q. I'd like you to turn to Page 19 of your
7 rebuttal testimony, please. And I would like you to look
8 at Lines 8 through 13.

9 A. Yes, ma'am.

10 Q. There you state that, "Members of the Staff
11 before I ever became part of a regulated utility counseled
12 me in regard to this issue." Who at Staff provided you
13 with counseling about your outward profile in life?

14 A. Yes, ma'am. Jim Bush called me.

15 Q. And why would Jim Bush have to call you
16 about your outward profile in life?

17 A. Jim Bush called me and said that I had a
18 private social media account that could be deemed offensive
19 to potential future customers.

20 Q. So did you disclose to Staff that you had a
21 Twitter page?

22 A. I agreed with them; that was mine.

23 Q. Okay. And did you disclose to Staff that
24 your Twitter page contained offensive comments about state
25 regulators and the customers you served?

1 A. I don't think I acknowledged there was
2 offensive comments. I acknowledged that some of the things
3 that I said could be deemed offensive, and I realized that
4 that was not something I wanted so I shut that down.

5 **Q. After Mr. Bush contacted you?**

6 A. That is correct, ma'am.

7 **Q. Do you know when Mr. Bush would've contacted**
8 **you regarding that?**

9 A. If I recollect, that would be the late
10 summer or early fall 2014. I don't remember the exact
11 date.

12 **Q. And that would've after -- I guess that's**
13 **after you would've looked to acquire Brandco?**

14 A. Yes, ma'am.

15 **Q. Could you please turn to Page 2 of your**
16 **rebuttal? Sorry to make you go backwards. And if you**
17 **could look at Lines 13 through 14.**

18 A. Yes, ma'am.

19 **Q. What was the test year that you used to**
20 **arrive at the average of 37 -- or 3,744 gallons per month**
21 **per customer?**

22 A. Ma'am, I include that as a work paper and
23 gave the time -- the exact timeframes that was used.

24 **Q. Okay. And would that have been in Schedule**
25 **CJ1 attached to your rebuttal testimony?**

1 A. Ma'am, it was attached to my rebuttal
2 testimony. I don't know what schedule it is.

3 Q. **If you would turn to Schedule CJ1 of your**
4 **rebuttal testimony, I would appreciate it.**

5 A. Ma'am, are you referring to the page that
6 says Hillcrest Water Usage By Month Per Customer?

7 Q. **I am.**

8 A. Thank you.

9 Q. **And I think that is labeled Schedule JC-1,**
10 **is it not, down at the bottom?**

11 A. Oh, I see it at the top. Thank you.

12 Q. **Or at the top. I'm sorry. At the top.**
13 **Now, you used the time period, according to that schedule,**
14 **of May 1st of 2015 through April 1st of 2016. Correct?**

15 A. Ma'am, I believe it reads April 1st -- or
16 May 1st -- yes. I'm reading it upside down. Correct.
17 Yes, ma'am.

18 Q. **So those dates are not within the update**
19 **period in this case. Correct?**

20 A. I guess that's true, ma'am. I'm using
21 real time data. The update period is kind of outside of --
22 I'm just trying to give real data here, ma'am.

23 Q. **Okay. So your figure would potentially**
24 **differ from both Staff's and the Office of the Public**
25 **Counsel because you would've used a different time period**

1 **for usage. Correct?**

2 A. Ma'am, I don't know how they came up with
3 their numbers. I would say that my numbers are much closer
4 to the OPC's actual usage numbers.

5 **Q. But it's possible that we're using different**
6 **timeframes?**

7 A. Absolutely, that's possible.

8 **Q. And are these numbers provided on JC-1 --**
9 **are these unaudited usage numbers?**

10 A. I don't know what you -- how do you audit
11 usage numbers? So I don't know -- I don't understand the
12 question, so I'm sorry.

13 **Q. Well, has anyone gone -- are these just**
14 **numbers that have been provided from you from your -- I**
15 **think you used Strickland Engineering. Would that -- those**
16 **be numbers provided to you from Strickland Engineering**
17 **about the water usage out at Hillcrest?**

18 A. Yes, ma'am. These are actual metered usage
19 numbers. Correct.

20 **Q. And no one has -- I guess what I mean by**
21 **unaudited, did anyone go back out there and verify that the**
22 **numbers that the readers were reading are actually the**
23 **usage that customers are using?**

24 A. Well, we check the meters every month,
25 ma'am, so if there's some type of outlier figure out there

1 that gets thrown out, we go back and look at it.

2 Q. Now, on Page 3 of your rebuttal, if you
3 would please turn there, we're looking at Lines 4 through
4 6. You state that both Staff and OPC have provided a
5 phased-in rate proposal; is that correct? Or, actually, I
6 don't think you -- I don't think you state that. Let me
7 rephrase my own question.

8 It is your understanding that both Staff and
9 the Office of Public Counsel are proposing a phased-in rate
10 proposal. Correct?

11 A. I think the OPC is providing a phased-in
12 rate proposal. I look at the Staff's proposal, and they're
13 just trying to get me to do another rate case, is the way I
14 view that.

15 Q. I don't know if I disagree with that. What
16 is your understanding of what would be carried over in your
17 statement on Line 5?

18 A. It would -- my understanding of it would be
19 the return on equity, some of the AFUDC costs, some of my
20 -- the original one that's provided by Russo, I believe,
21 carryover cost that also include management that is not
22 brought in for the first rate.

23 Q. Now, is it your understanding that OPC is
24 not proposing another rate case. Correct?

25 A. That is correct, ma'am.

1 **Q. If you would please turn to Page 6 of your**
2 **rebuttal. In Question 5 you state that you have compared**
3 **the proposed rates with rates of other water and sewer**
4 **providers. Do you see that?**

5 A. Yes, ma'am.

6 **Q. And in your question below it says, "What**
7 **did you find?" Do you see that?**

8 A. Yes, ma'am.

9 **Q. You said you compared the proposed rates**
10 **with rates of other water and sewer providers. Is the City**
11 **of Gordonville a regulated water and sewer provider?**

12 A. No, ma'am. It's not a regulated water and
13 sewer provider. It's a supervider (sic) that's two miles
14 down the road, I think on the same road that Hillcrest is
15 located.

16 **Q. Do you know how the City of Gordonville sets**
17 **its rates?**

18 A. No, ma'am. I just know what the rates are
19 and how much money they spent on their improvements and
20 that they're a utility of a similar size to Hillcrest.

21 **Q. Do you know if their rates are paid 100**
22 **percent by the ratepayers, or are the rates subsidized by**
23 **the city's general fund?**

24 A. I do not know the answer to that.

25 **Q. Please turn to Page 7 of your rebuttal. If**

1 you'd take a look at Lines 16 through 20, specifically 16.
2 You state that Mr. Russo's comparison does not properly
3 account for the reality that Hillcrest is a small utility.
4 Do you know what systems Mr. Russo used for comparisons
5 with Hillcrest?

6 A. No, ma'am. I think I assumed he used all
7 the other small regulated utilities in the state of
8 Missouri, which is what I went on to go on to explain where
9 I came up with that number.

10 Q. So you can't know if Mr. Russo's comparisons
11 did or did not account for the reality of Hillcrest as a
12 small utility, can you?

13 A. Yes, ma'am. I agree.

14 Q. How many regulated sewer utilities service
15 over 8,000 customers?

16 A. I do not know the answer, ma'am. That's not
17 my business. I'm focused on the small guys.

18 Q. On Page 17, Line 6 of your rebuttal
19 testimony, if you'd please turn there. Now, you state on
20 Line 6 of your rebuttal testimony that you declared a
21 personal bankruptcy. Correct?

22 A. Yes, ma'am. That is correct.

23 Q. Mr. Cox, you and your wife filed for relief
24 under Chapter 7 of the United States Bankruptcy Code on
25 February the 7th, 2014; isn't that correct?

1 A. That sounds correct, ma'am.

2 Q. **And you filed that petition in St. Louis,**
3 **Missouri; isn't that correct?**

4 A. Yes, ma'am. That sounds correct.

5 Q. **And you understood that a Chapter 7**
6 **bankruptcy proceeding is also known as a liquidation**
7 **proceeding; isn't that right?**

8 A. Yes, ma'am. I believe it is.

9 Q. **And when you filed you sought to discharge**
10 **primarily business debts. Correct?**

11 A. Yes, ma'am. That is correct.

12 Q. **And you sought to discharge over \$2.3**
13 **million worth of unsecured debt; isn't that correct?**

14 A. That sounds correct. I don't remember the
15 exact number, ma'am.

16 Q. **And you and your wife would've filled out**
17 **the schedules together. Correct?**

18 A. Yes, ma'am. I believe that is correct.

19 Q. **And you retained Danielle Subari as your**
20 **attorney in the bankruptcy matter; is that correct?**

21 A. Yes, ma'am. That sounds correct.

22 MS. MAYFIELD: Your Honor, I would like to
23 approach the witness, please.

24 JUDGE BUSHMANN: You may.

25 MS. MAYFIELD: Who wants a certified copy?

1 MS. MAYFIELD: You guys can both have a
2 certified copy. We're going to be working off of -- we may
3 have not have enough certified copies to go around.
4 They're the same thing. One is just certified; the other
5 is not.

6 CHAIRMAN HALL: Okay. Thank you.
7 (Wherein, Exhibits OPC 008 and OPC 009 were
8 marked for identification.)

9 MS. MAYFIELD: I would like to tentatively
10 mark these exhibits as OPC 008, and that would be for the
11 certified copy received by the United States Bankruptcy
12 Court for the Eastern District. And I would like to mark
13 the other exhibit OPC 009. That is the PACER-filed United
14 States Bankruptcy Court, Eastern District of Missouri
15 petition. So before the Commission you have a certified
16 copy from the Eastern District and then you have a copy
17 that was printed off of PACER.

18 BY MS. MAYFIELD:

19 Q. Mr. Cox, do you recognize the document that
20 I have handed to you that has been labeled OPC Exhibit 008
21 and OPC Exhibit 009?

22 A. Ma'am, I don't recognize this specific
23 document, but I understand what it is.

24 Q. Is this your bankruptcy petition that you
25 filed in the Eastern District of Missouri?

1 A. Ma'am, I'm not qualified to answer to that
2 question. It looks like what we did, but it's been a while
3 and it's a very detailed --

4 **Q. If you need time, we can take a small break**
5 **for you to examine this to determine if this is indeed your**
6 **bankruptcy petition in the Eastern District of Missouri.**

7 A. Okay. I will say that's my bankruptcy --

8 MS. MAYFIELD: Your Honor, I would move for
9 the admission of OPC Exhibit 008 and OPC Exhibit 009 into
10 evidence.

11 JUDGE BUSHMANN: Any objections?

12 MR. COOPER: I would object on relevance. I
13 don't think it's relevant to the case.

14 MS. MAYFIELD: Your Honor, I think it is
15 exactly relevant. I think that the line of questioning is
16 going to show that this particular document is going to go
17 to the veracity of this witness, will go to his character.
18 It will also go to the weight of his statements that he was
19 unable to procure any additional financing for Hillcrest
20 Utilities. And so it puts the actual assets of the utility
21 in direct question. I think it is directly relevant.

22 JUDGE BUSHMANN: Am I correct, this was also
23 mentioned in rebuttal?

24 MS. MAYFIELD: Yes. It was brought up in
25 his rebuttal testimony, so the witness has opened up this

1 argument.

2 JUDGE BUSHMANN: Objection overruled. It
3 will be received into evidence.

4 (Wherein, OPC Exhibit Numbers 008 and 009
5 were received into the record.)

6 BY MS. MAYFIELD:

7 Q. If you would turn to Page 64 of your
8 bankruptcy petition, please, and -- I would ask you to do
9 that by utilizing the document that has the page numbers at
10 the top. This is what I referred to as the PACER version
11 that was accepted as 009.

12 JUDGE BUSHMANN: Could you repeat that page
13 number, please?

14 MS. MAYFIELD: Page 64.

15 BY MS. MAYFIELD:

16 Q. If you'd take a look at Section 1, Income
17 from Employment or Operation of Business. Do you see that?

18 A. Yes, ma'am.

19 Q. On that page, for the prior four years
20 preceding your bankruptcy, you never made, according to
21 this document, more than \$75,135; is that correct?

22 A. Yes, ma'am.

23 Q. And that is in 2011 with Trumpet, LLC?

24 A. Yes, ma'am.

25 Q. During this time period covered by the

1 preceding four years were you the chief operating officer
2 and chief financial officer at Trumpet, LLC?

3 A. I was the chief operating officer.

4 Q. Chief operating officer. Were you ever the
5 chief financial officer for Trumpet?

6 A. No, ma'am.

7 Q. If you turn to Page 10 of your schedules --
8 okay. So go ahead and go back to Page 10 of this petition.
9 This schedule shows the amount of the debts that you seek
10 to discharge. Correct?

11 A. Yes, ma'am.

12 Q. And you and your wife did receive a
13 discharge of debt, didn't you?

14 A. Yes, ma'am. We did.

15 Q. If you go with me to Page 69 of your
16 schedules, please -- so flip back to Page 70 -- or to Page
17 69, do you see Question 18 there?

18 A. Yes, ma'am.

19 Q. And that question asked for the nature,
20 location, and names of your businesses. Correct?

21 A. Yes, ma'am.

22 Q. And if you flip to the next page, you will
23 see that your response was Trumpet and -- I don't know if
24 I'm pronouncing this correctly -- but Cohane, LLC?

25 A. Yes, ma'am.

1 **Q. Is that right?**

2 A. Can you show me where that is again, ma'am?
3 Sorry.

4 **Q. Sure. On the top of Page 70.**

5 A. Oh, yes, ma'am. I see it.

6 **Q. But I believe you previously testified in**
7 **this Commission this morning that you had an interest in a**
8 **company called Dynamic Water Resources, LLC. Correct?**

9 A. Yes, ma'am. I was part of that company. I
10 didn't actually own interest in that. I was part of that
11 company.

12 **Q. But you were one of the original formation**
13 **and organizers for Dynamic Water Resources?**

14 A. I was part of the company. Correct, ma'am.
15 I didn't own any actual shares in it.

16 **Q. But you were one of the organizers for the**
17 **company?**

18 A. Ma'am, I don't know the term organizer.

19 **Q. How many different members were there within**
20 **Dynamic Water Resources, LLC?**

21 A. There was only one member, ma'am.

22 **Q. And that was?**

23 A. Mark Peterman.

24 **Q. And then you would've been an employee for**
25 **Dynamic Water Resources?**

1 A. I was never an employee for them.

2 **Q. What was your relationship with Dynamic**
3 **Water Resources?**

4 A. I was trying to raise money towards small
5 failing water and wastewater systems with him.

6 **Q. Okay. In 2013 you were attempting to secure**
7 **financing for Dynamic Water Resources, LLC. Correct?**

8 A. Yes, ma'am.

9 **Q. And according to your deposition taken on**
10 **April 20th, 2016, that was the first company that you tried**
11 **to raise money before Central States Water Resources.**
12 **Correct?**

13 A. Yes, ma'am.

14 **Q. Now, this portion may go into highly**
15 **confidential. There is a document that I'm going to be**
16 **talking about that was labeled by the company as highly**
17 **confidential, so I would ask at this time if we go into a**
18 **highly confidential portion of the hearing, please.**

19 JUDGE BUSHMANN: Hold on a minute. We'll go
20 in camera.

21 (The following proceedings were held in
22 camera and can be found in Volume 2, Page 81, Line 23.)

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(Wherein, return to public session.)

JUDGE BUSHMANN: Back in public session.

BY MS. MAYFIELD:

Q. Now, Mr. Cox, what was your involvement with Central States Water Resources in January of 2014?

A. I believe in January '14 is when we started looking at forming the company.

Q. And the company formally formed at the end of January 2014. Correct?

A. I believe it was February, ma'am.

JUDGE BUSHMANN: Do you have copies for the bench?

MS. MAYFIELD: I think I'm just going to see

1 if this -- perhaps by looking at this document if this
2 helped to refresh Mr. Cox's recollection of the formation
3 date.

4 BY MS. MAYFIELD:

5 **Q. By looking at this document, is your**
6 **recollection refreshed as to the formation date of Central**
7 **States Water Resources, Incorporated?**

8 A. Yes, ma'am. It was the end of January. I
9 see here on the document.

10 **Q. So January the 27th of 2014; is that**
11 **correct?**

12 A. That is correct, ma'am.

13 **Q. And had you done any work to solicit capital**
14 **contributions from investors on or around that date?**

15 A. Yes, ma'am.

16 **Q. And that would've been the initial**
17 **contributions that would've come in totaling the amount of**
18 **\$864,000; is that correct?**

19 A. Yes. Those contributions did not come in
20 until February.

21 **Q. You have a copy of the general ledger, I**
22 **believe.**

23 A. I do.

24 **Q. If you would turn to Page 3 of that general**
25 **ledger, at the bottom, I understand that you previously**

1 testified that this general ledger was prepared as part of
2 this rate case. At the bottom do you see that the initial
3 capital contributions came in on January the 26th of 2014?

4 A. I do, ma'am.

5 Q. All right.

6 A. Sorry. One month off.

7 Q. And as president of Central States Water
8 Resources you control and direct everything within Central
9 States Water Resources. Correct?

10 A. Yes, ma'am.

11 Q. Mr. Cox, what was your involvement with
12 First Round CSWR, LLC in January of 2014?

13 A. I didn't personally own any shares in First
14 Round CSWR, LLC.

15 Q. That's not the question I asked. I asked
16 you what was your involvement with First Round CSWR, LLC?

17 A. I was the president of First Round, LLC.

18 Q. And First Round CSWR, LLC, it was formed at
19 the end of January; is that correct?

20 A. Ma'am -- yes, ma'am. I believe that's true
21 based on the documents you're putting in front of me. So
22 yes.

23 Q. Based on the document that I've placed in
24 front of you, does this refresh your recollection as to the
25 formation date for First Round CSWR, LLC?

1 A. Yes, ma'am. It does.

2 Q. **And is that January the 23rd of 2014?**

3 A. Yes, ma'am. It is.

4 Q. **And that was 15 days before your bankruptcy.**
5 **Correct?**

6 A. Yes, ma'am. It is.

7 Q. **So you would've been filling out your**
8 **bankruptcy schedules at the same time that you were forming**
9 **First Round and Central States Water Resources,**
10 **Incorporated. Correct?**

11 A. Yes, ma'am. I shut my original company down
12 in the summer of 2013.

13 Q. **On Page 6 -- if you would turn to Page 6 of**
14 **your bankruptcy schedules.**

15 A. Yes, ma'am.

16 Q. **This shows that you took a credit counseling**
17 **course on December 18th of 2013; isn't that correct?**

18 A. Yes, ma'am.

19 Q. **So you knew you were going to be filing a**
20 **bankruptcy as early as December 18th of 2013; isn't that**
21 **right?**

22 A. Yes, ma'am.

23 Q. **Did you advise your bankruptcy counsel that**
24 **you were working with First Round CSWR and with Central**
25 **States?**

1 A. Yes, ma'am.

2 Q. You didn't list either one of those
3 companies on your schedules, did you?

4 A. No, ma'am. I didn't personally own them.

5 Q. Did you alert anyone that CSWR would be
6 paying you a six-figure salary during 2014?

7 A. I don't remember, ma'am.

8 Q. If you turn to Page 59 and 60 of your
9 bankruptcy petition, please, there's a question they're
10 asking you for information about your income. Correct?

11 A. Yes, ma'am.

12 Q. And if you take a look specifically at
13 Question 13 at the bottom of Page 60, it says, "Do you
14 expect an increase or decrease within the year after you
15 file this form?" And you marked no; is that correct?

16 A. Yes, ma'am. That's correct.

17 Q. Yet within 30 days after the filing of your
18 bankruptcy you started making a salary of \$16,197.26 per
19 month; is that correct?

20 A. Yes, ma'am.

21 Q. So you knew you had investors lined up to
22 make capital contributions for CSWR prior to your
23 bankruptcy, didn't you -- well, based on the capital
24 contributions in January?

25 A. Ma'am, I did not have everything lined up at

1 that point. It was still in flux. So I was trying very
2 hard to make everything work.

3 **Q. But in January of 2016 -- January 26 of**
4 **2014, I believe you've indicated that you have acknowledged**
5 **that that is when the initial capital contributions came in**
6 **funding First Round CSWR. Correct?**

7 A. Yes, ma'am. Our corporate documents were
8 not done yet, so we were still very much in the negotiation
9 phase.

10 **Q. Now, Mr. Cox, when the CSWR bank account was**
11 **created -- or the CSWR bank account is created at**
12 **Enterprise Bank, MM; is that correct?**

13 A. Yes, ma'am.

14 **Q. Do you know when that CSWR bank account was**
15 **created at Enterprise Bank, MM?**

16 A. No, ma'am. I don't remember the exact date.

17 **Q. Would it have been sometime during January**
18 **of 2014?**

19 A. That sounds correct.

20 **Q. Do you know who has signature authority on**
21 **that account?**

22 A. Myself.

23 **Q. Did you have a debit card for the company?**

24 A. I believe I did.

25 **Q. Would you have gotten that at the same time**

1 or about the same time you would've opened up the bank
2 account?

3 A. Possibly. I don't remember exactly.

4 Q. All right. And you do have the general
5 ledger in front of you. I would ask you to just turn to
6 that real quickly, back to Page 3.

7 A. Yes, ma'am.

8 Q. Can you see there that on January 26th of
9 2014 at the bottom that the bank account went up by over
10 \$800,000? Is that correct?

11 A. Yes, ma'am. I see that.

12 Q. And did you indicate on your bankruptcy
13 schedules that you were going to be a part of these
14 companies in the future?

15 A. No, ma'am.

16 Q. The meeting making you the president of
17 Central States Water Resources was held on February the
18 13th of 2014; wasn't that right?

19 A. I don't remember the exact date, ma'am.

20 Q. Would it have been February of 2014?

21 A. That sounds correct, ma'am.

22 Q. All right. I've handed you a document
23 titled Consent of the Board of Directors of Central States
24 Water Resources, Incorporated. After having taken a look
25 at this document, does this refresh your recollection of

1 **the time you became the president of Central States Water**
2 **Resources?**

3 A. Yes, ma'am. It does.

4 Q. **And was that date February the 13th of 2014?**

5 A. Yes, ma'am.

6 Q. **Now, your first meeting of creditors for**
7 **your bankruptcy was held on March 4th of 2014, wasn't it?**

8 A. That is correct, ma'am.

9 Q. **Did you report to Mr. Radlof, the trustee in**
10 **your bankruptcy, that you had become the president of**
11 **Central States Water Resources at your 341 bankruptcy**
12 **meeting?**

13 A. I do not recall that.

14 Q. **Did you advise Mr. Radlof on March 4th, 2014**
15 **that your income was changing?**

16 A. My attorney was in charge of all that.

17 Q. **Sir, you did sign your bankruptcy petition**
18 **under oath. Correct?**

19 A. Yes, ma'am.

20 Q. **Your schedules do not contain any reference**
21 **to CSWR or Central States; isn't that correct?**

22 A. Sure. I acknowledge that, ma'am.

23 Q. **Both were formed and you knew as of the date**
24 **of filing that you would be affiliated with both of them;**
25 **isn't that correct?**

1 A. Ma'am, I had a ton of legal counsel in this
2 whole thing, so I don't --

3 **Q. I am asking you, you knew as of the date of**
4 **filing that you were affiliated with both of those**
5 **companies. Correct?**

6 A. Yes, ma'am.

7 **Q. And you never put those on your bankruptcy**
8 **schedules, did you?**

9 A. Ma'am, I used counsel on that whole thing.

10 **Q. You never put -- these entities do not show**
11 **up anywhere on your bankruptcy petition, do they?**

12 A. No, ma'am.

13 **Q. And these same schedules were the ones that**
14 **allowed you to discharge on June 6th of 2014 over \$2.3**
15 **million in debt; isn't that true?**

16 A. Yeah. These petitions were responsible for
17 that. That is correct.

18 MS. MAYFIELD: Your Honor, I have no further
19 questions of this witness at this time.

20 JUDGE BUSHMANN: We've been going for a
21 while. Why don't we take a short break and recess until
22 eleven o'clock.

23 (Off the record.)

24 JUDGE BUSHMANN: Back on the record. Now,
25 we're ready for cross-examination by Staff. Mr. Cox,

1 you're still under oath.

2 WITNESS: Yes, sir.

3 MS. PAYNE: Thank you.

4 CROSS-EXAMINATION BY MS. PAYNE:

5 Q. Good morning, Mr. Cox. Now, as OPC stated
6 in its opening earlier, the company is unopposed to
7 creating new classes as part of rate design; is that
8 correct?

9 A. That is correct.

10 Q. Okay. If you can pull out your rebuttal
11 testimony, at Page 4.

12 A. Yes, ma'am.

13 Q. All right. At Line Number 9 you mention
14 what the current rates are for Hillcrest. Can you tell me
15 what the average bill is currently, according to your
16 rebuttal?

17 A. Yes, ma'am. The average -- well, the sewer
18 bill is a flat bill, so the sewer bill is 14.63 per month
19 for single family homes, and 11.70 per month for
20 apartments.

21 Q. Okay. And can you clarify what the water
22 is?

23 A. The water currently is \$3.58 as a service
24 charge, and \$1.84 per 1,000 gallons. The average bill -- I
25 just calculated using the average usage. I didn't actually

1 do a division of the bills that have been charged by
2 customer, so just to be clear on that.

3 **Q. Okay. Thank you. Can you tell me what the**
4 **anticipated average bill is under the requested increase?**

5 A. Ma'am, I don't have that right in front of
6 me, but I have it somewhere else.

7 **Q. Okay. That's fine.**

8 A. So I don't know what that would be. I
9 don't --

10 **Q. You don't have it with you on the stand**
11 **right now?**

12 A. I don't have it with me right here.
13 Correct. Sorry, ma'am.

14 **Q. Okay. But it's safe to say that it is --**
15 **the average anticipated bill is expected to be over \$100**
16 **for the two -- for water and sewer combined; is that**
17 **correct?**

18 A. Yes, ma'am. Between both services, correct.

19 **Q. Thank you. How many companies does -- well,**
20 **first of all, I'm sorry, let's take a step back. Can you**
21 **explain to me the relationship between First Round, Central**
22 **States Water Resources, and Central States Water Resources,**
23 **Incorporated?**

24 A. Yes, ma'am. Central States Water Resources,
25 Incorporated is the manager of First Round CSWR, LLC, which

1 is an LLC, so it needs an appointment manager.

2 **Q. Okay. Thank you. But First Round is the**
3 **company that is actually doing acquisitions in this matter;**
4 **is that correct?**

5 A. First Round, Central States Water Resources,
6 LLC is the operating company, so it's the company where the
7 economic activity happens.

8 **Q. Fair enough. Okay. Thank you. Can you**
9 **clarify for me how many companies you hope to acquire --**
10 **how many utility companies you hope to acquire before all**
11 **is said and done?**

12 A. Ma'am, that's just depending on the
13 regulatory environment, so -- I know that there are a
14 number of small failing water and wastewater systems, both
15 regulated and unregulated, in the state of Missouri.

16 **Q. Okay. You had used a number previously of**
17 **32. Does that sound correct?**

18 A. Yes, ma'am.

19 **Q. Okay. Thank you. Now, have you established**
20 **a time table for those acquisitions?**

21 A. No, ma'am. I've not established a final
22 time table. It's just dependent on how much work we can
23 get done inside the current company, you know, how the rate
24 cases go, et cetera.

25 **Q. Okay. Thank you. Now, each time that a new**

1 **utility is acquired, the corporate costs would maintain a**
2 **pretty stable rate; is that correct? Or do those**
3 **fluctuate?**

4 A. I think those -- they may fluctuate in the
5 future. I don't -- I don't know the answer to that. Is
6 that -- can you ask the question a different way? I'm
7 sorry.

8 **Q. No. That's fine. It's safe to say that**
9 **each time that a new utility is acquired that the corporate**
10 **costs are spread over a wider berth; is that correct?**

11 A. Yes, ma'am. That's even why -- the logic
12 behind why I chose 14 percent as a corporate allocation
13 factor down to the individual utilities. Currently, we
14 spend more time than 14 percent. We have more costs than
15 14 percent. But we believe as we expand over more
16 utilities, that will be a more appropriate corporate
17 allocation.

18 **Q. Okay. That's fine. Would you say that**
19 **there's a significant learning curve in understanding the**
20 **NARUC uniform system of accounts associated with managing a**
21 **utility?**

22 A. I would say NARUC system accounts is
23 radically different than GAP.

24 **Q. Thank you. And understanding the tariffs**
25 **that are associated with a regulated utility takes a**

1 **certain specialized level of understanding; is that true?**

2 A. Yes, ma'am.

3 **Q. Have you ever worked for a regulated utility**
4 **prior to the acquisition of Hillcrest?**

5 A. No, ma'am. I have not.

6 **Q. In your direct testimony at Page 17 --**

7 A. Yes, ma'am.

8 **Q. -- all right -- you state that the office**
9 **manager and the chief financial officer for your company's**
10 **payroll should be considered an experienced level; is that**
11 **correct?**

12 A. Yes, ma'am. I do.

13 **Q. All right. And how long has -- they are**
14 **employees of First Round; is that correct?**

15 A. Yes, ma'am.

16 **Q. And how long has First Round been in**
17 **existence?**

18 A. Since 2014.

19 **Q. Okay. Now, you state that the -- for the**
20 **office manager and the chief financial officer, their work**
21 **with First Round is their only experience in working for a**
22 **regulated utility; is that correct?**

23 A. Yes, ma'am.

24 **Q. All right. Can you tell me who specifically**
25 **decided the salary amounts for the office manager and the**

1 **chief financial officer for your company?**

2 A. Yes, ma'am. I negotiated those salaries
3 with both those employees.

4 **Q. Okay. Was there a vote by the Board of**
5 **Directors to approve those amounts?**

6 A. No, ma'am. As the manager, I have the full
7 authority to determine those.

8 **Q. Okay. Thank you. Did you consult with**
9 **anyone before you approved those amounts, after**
10 **negotiations?**

11 A. Well, ma'am, I interviewed a number of
12 people and it became a salary negotiation with those
13 individuals.

14 **Q. Okay. Thank you. Are you familiar with the**
15 **test year in this case?**

16 A. Yes, ma'am.

17 **Q. Can you tell me what the test year and the**
18 **update period are for this case?**

19 A. I believe the test year ends in October of
20 '15.

21 **Q. Okay. Technically, the update period ends**
22 **in October of 2015. Would you agree with that?**

23 A. Yes, ma'am.

24 **Q. Okay. Can you tell me what your definition**
25 **of a test year is?**

1 A. My definition of a test year?

2 Q. Yes.

3 A. I would define test year as a year that the
4 auditors are looking at in order to determine costs for the
5 utility.

6 Q. Thank you. Now, Hillcrest is requesting
7 certain property tax and accounting costs for this -- in
8 this request increase -- in this requested increase; is
9 that correct?

10 A. Yes, ma'am.

11 Q. Now, those amounts have not been paid yet,
12 have they?

13 A. No, ma'am. They have not.

14 Q. Can you tell me, what is the earliest you
15 would expect to pay those costs?

16 A. I will pay the tax and audit fees in the
17 next two months, and I will pay the property tax by
18 September, October of this year.

19 Q. Okay. Are you familiar with the matching
20 principle?

21 A. I have heard that term thrown around. Yes,
22 ma'am.

23 Q. If I said that the matching principle is a
24 rate-making technique that states all elements attributed
25 to cost of service must be accounted for for the same time

1 **period, would you accept that definition?**

2 A. I don't really know that definition, ma'am,
3 but I assume you're -- you know the definition.

4 **Q. Thank you. Now, if Staff permits the**
5 **company to include the property tax and accounting fees for**
6 **this rate increase, would the company be amenable to Staff**
7 **also updating the other elements of the cost of service**
8 **under that matching principle?**

9 A. I don't know the answer to that question,
10 ma'am.

11 **Q. Okay. Now, as part of a partial disposition**
12 **agreement with Staff, the company agreed to either permit**
13 **Staff to have another rate review -- to have a rate review**
14 **or to -- that the company would file another rate case**
15 **approximately 12 months following the effective date of**
16 **rates in this case; is that correct?**

17 A. Yes, ma'am. That was part of the joint
18 stip.

19 **Q. Okay. Now, if property tax fees are paid**
20 **later this year, and the accounting fees are paid within**
21 **two months, would those amounts be included in a test year**
22 **for that next rate case or rate review?**

23 A. Yes, ma'am. I assume they would.

24 **Q. Okay. Thank you. All right. Now, in your**
25 **rebuttal testimony at Page 8 --**

1 A. Yes, ma'am.

2 Q. -- you state that a phase-in rate design
3 would not permit Hillcrest to meet its financial
4 commitments to Fresh Start; is that correct?

5 A. Yes, ma'am. It is.

6 Q. All right. Has Hillcrest previously
7 violated any of its financial commitments under that
8 agreement with Fresh Start?

9 A. No, ma'am.

10 Q. Is that due to the fact that Hillcrest has
11 already obtained an extension of the due date for payments
12 with that financing agreement?

13 A. Yes, ma'am.

14 Q. All right. Now, the -- okay. Fresh Start
15 is the loan -- provides the loan for Hillcrest; is that
16 correct?

17 A. Yes, ma'am.

18 Q. Okay. And at the time that you negotiated
19 that agreement, who were the investors in Fresh Start?

20 A. The original investors were Ross Kearsy and
21 Tom Manz, the primary investors.

22 Q. Okay. And those investors have changed?

23 A. Excuse me, ma'am. I'm sorry. You said
24 Fresh Start. My original investors in Central States Water
25 Resources were Tom Manz and Ross Kearsy. I didn't

1 knowledge who the Fresh Start investors were. They were
2 represented by an attorney -- I can't remember whose name
3 -- but who came to multiple staff hearings.

4 **Q. Okay. Thank you. Is it safe to say,**
5 **though, that the original investors in Fresh Start have**
6 **changed since the agreement was originally negotiated?**

7 A. Yes, ma'am.

8 **Q. Okay. Can you tell me the compensation of**
9 **the original -- the original members received when those**
10 **new investors purchased their membership units?**

11 A. What entity are you talking about, ma'am?

12 **Q. Within Fresh Start.**

13 A. No. I have no idea.

14 **Q. With Central States Water Resources?**

15 A. No, ma'am. I don't have that.

16 **Q. Okay. Were there amendments made to the**
17 **First Round operating agreement in relation to the change?**

18 A. We had a holding operating agreement with
19 the change of ownership, ma'am.

20 **Q. Okay. Did you retain a copy of that**
21 **original operating agreement?**

22 A. No, ma'am. I did not.

23 **Q. Okay. Do you know if anyone retained a copy**
24 **of that agreement?**

25 A. No, ma'am. I don't know.

1 **Q. Okay.**

2 MS. PAYNE: Permission to approach?

3 JUDGE BUSHMANN: You may.

4 BY MS. PAYNE:

5 **Q. Do you recognize the document that I've just**
6 **handed you, Mr. Cox?**

7 A. Yes, ma'am.

8 **Q. All right. And could you flip to Section 10**
9 **-- can you tell me what this document is?**

10 A. Yes, ma'am. This is the amended and
11 restated operating agreement for First Round CSWR, LLC.

12 **Q. Okay. And you recognize this?**

13 A. Yes, ma'am. I provided it to Staff.

14 **Q. You did, as a matter of fact, as part of**
15 **data request response 0006. Could you flip to Section 10.2**
16 **of the agreement? It should be on Page 19.**

17 A. Yes, ma'am.

18 **Q. Okay. And if you look at Section B and flip**
19 **over to Page 20, Roman Numeral IV, could you read that for**
20 **me?**

21 A. "Copies of this agreement and all amendments
22 hereto and copies of any written operating agreements no
23 longer in effect."

24 **Q. And do you understand what that's in**
25 **reference to?**

1 A. I do now. Yes, ma'am.

2 **Q. And so it would be correct to state that the**
3 **company is supposed to maintain the books and records**
4 **associated with the itemized things listed under those**
5 **Roman Numerals; is that correct?**

6 A. Yes, ma'am.

7 **Q. But you stand on the answer that you did not**
8 **retain a copy of the original agreement; is that correct?**

9 A. Yes, ma'am. I missed this section in this
10 agreement.

11 **Q. Okay.**

12 MS. PAYNE: The operating agreement is
13 already part of the record as the response to data request
14 0006, but would the Commission like me to admit it at this
15 time?

16 JUDGE BUSHMANN: In what record? Where in
17 the record does it appear?

18 MS. PAYNE: It appears as a response to data
19 request 6, the Staff's data request.

20 JUDGE BUSHMANN: Then it's in the file, but
21 it's not --

22 MS. PAYNE: It's not officially in the
23 record, so --

24 JUDGE BUSHMANN: So we'll mark this as Staff
25 Exhibit 13.

1 MS. PAYNE: That would be correct.

2 (Wherein, Staff Exhibit 13 was marked for
3 identification.)

4 JUDGE BUSHMANN: Is there any objections to
5 the introduction of Staff Exhibit 13? Hearing none, it's
6 received into the record.

7 (Wherein, Staff Exhibit 13 was received into
8 the record.)

9 BY MS. PAYNE:

10 Q. All right. Can you tell me, what is your
11 equity interest in Central States Water Resources? It's
12 First Round?

13 A. First -- I have two equity interests. I
14 have an equity interest in First Round CSWR, LLC, and I
15 have an equity interest in Central States Water Resources,
16 Inc.

17 Q. Okay. Can you clarify what your equity
18 interest is in First Round?

19 A. 14 percent.

20 Q. Okay. And who holds the remaining equity in
21 First Round?

22 A. GWSD, LLC.

23 Q. Okay. And we established earlier that GWSD
24 is wholly owned by the -- Mr. Glarner and Mr. Glarner; is
25 that correct -- Robert Glarner and David Glarner?

1 A. Yes, ma'am. The final ownership behind
2 that, yes, I agree.

3 **Q. They own GWSD, which is -- which holds the**
4 **equity interest in First Round. Correct?**

5 A. Yes, ma'am.

6 **Q. Thank you. You had previously communicated**
7 **to Staff that you offered the original Fresh Start**
8 **investors a 33-percent equity interest to get a lower rate**
9 **on the financing agreement; is that correct?**

10 A. I do remember that, ma'am. Yes, ma'am.

11 **Q. Can you tell me what the current equity**
12 **interest is as -- of GWSD?**

13 A. Of First Round?

14 **Q. In First Round. Yes.**

15 A. Yes, ma'am. It's 84 percent.

16 **Q. Okay. Thank you. Now, with your interest**
17 **in First Round, do you receive a 14-percent preferred**
18 **return?**

19 A. No, ma'am. There's been no returns to be
20 had.

21 **Q. Should the -- returns be issued in the**
22 **future, you would be entitled to 14 percent of that as a**
23 **preferred return; is that correct?**

24 A. It's a little more complicated equation than
25 that, but yes, the final profits I would receive 14

1 percent. Correct.

2 **Q. Okay. Now, does GWSD, as part of their**
3 **interest, also receive a 14-percent preferred return?**

4 A. It's more than that. They're -- it's --
5 finally, they would receive 86 percent of a final return
6 calculation.

7 **Q. Of a final return. Okay.**

8 A. Which is defined inside this LLC agreement.

9 **Q. Now, GWSD would be entitled to that return**
10 **prior to your receipt of any return beyond your salary; is**
11 **that correct?**

12 A. Yes, ma'am.

13 **Q. Okay.**

14 A. Ma'am, just to clarify on that, you're
15 talking about the preferred return, not --

16 **Q. The preferred return. Correct.**

17 A. -- splits? Yes, ma'am. That's correct.

18 **Q. Now, when the investment owners in Fresh**
19 **Start changed, was there a reassessment of the risk of the**
20 **financing agreement?**

21 A. No, ma'am. It was the same. No improvement
22 has been made. It was still -- we hadn't closed on the
23 system or begun any work.

24 **Q. Okay. So the financing agreement has not**
25 **changed at all since the change in investors; is that**

1 **correct?**

2 A. That is correct, ma'am.

3 **Q. Thank you. Did you have any role in**
4 **approving the new investors in -- their acquisition of the**
5 **membership units in First Round when that happened?**

6 A. Yes, ma'am. That was my choice to get new
7 equity investors. Correct.

8 **Q. And it was your individual authorization to**
9 **approve that?**

10 A. Yeah. Yes, ma'am.

11 **Q. Okay. Now, in response to -- in response to**
12 **one of your questions earlier from Ms. Mayfield, you stated**
13 **that you were seeking -- that you were seeking additional**
14 **financing for Hillcrest, actively; is that true?**

15 A. Prior to closing the loan with Fresh Start?
16 Is that what you're asking, ma'am?

17 **Q. No. I'm asking currently.**

18 A. Currently, I'm not trying to get anymore
19 financing for Hillcrest.

20 **Q. Okay.**

21 A. I'm trying to get more financing for Central
22 States Water Resources, Inc. and First Round CSWR, LLC. So
23 as I continue to acquire more systems, every time I go out
24 to capital market. So I approach banks, I approach
25 mezzanine finance groups, I approach private equity

1 investors, and institutional investors on an ongoing basis.

2 Q. Okay.

3 MS. PAYNE: Permission to approach?

4 JUDGE BUSHMANN: You may.

5 WITNESS: Ma'am, just -- you want me to look
6 at this page. Correct?

7 MS. PAYNE: Yes.

8 WITNESS: Okay.

9 BY MS. PAYNE:

10 Q. Do you recognize the document I just handed
11 you, Mr. Cox?

12 A. Yes, ma'am. It is the loan agreement
13 between Hillcrest Utility Operating Company, Inc. and Fresh
14 Start.

15 Q. Okay. Thank you. And that is --

16 A. I believe I provided it to Staff.

17 Q. What?

18 A. I believe I provided this to --

19 Q. Yes. This was previously provided to Staff,
20 yes, but it's not part of the record. And I'd specifically
21 ask you to look at Page 21.

22 A. 21. Okay. Yes, ma'am.

23 Q. Do you agree that this is a fair and
24 accurate copy of the loan agreement that is currently in
25 effect for -- between Fresh Start and Hillcrest?

1 A. Yes, ma'am. I do.

2 Q. Thank you. And Section 6.15, could you
3 please read that for me?

4 A. Yes, ma'am. "Except for the obligations
5 borrower should not incur or become liable for any
6 indebtedness other than customary trade payables within 60
7 days after they are incurred."

8 Q. Okay. Now, this agreement is between Fresh
9 Start and Hillcrest; is that correct?

10 A. Yes, ma'am. This is Hillcrest Operating
11 Company and Fresh Start.

12 Q. Okay. But according to this, you're not
13 supposed to be seeking any outside financing for that
14 purpose; is that correct?

15 A. So once I close on a system and I have to go
16 with Fresh Start because there's no other financing
17 available, I'm not allowed to subordinate Fresh Start.
18 Correct.

19 Q. Okay. But -- so you stated you're seeking
20 out -- you're seeking additional financing through First
21 Start (sic) and Central States Water Resources, Inc.; is
22 that correct?

23 A. So, ma'am, yeah. Every time I go to look to
24 acquire a failing utility, I go out, I approach capital
25 markets, so I have an equity investors. So I go to

1 commercial banks first, and I say, "Hey, here is the" --
2 and I provided loan applications -- full loan
3 applications --

4 **Q. I understand.**

5 A. -- to Staff.

6 **Q. I'm strictly asking if you're -- if you're**
7 **seeking addition -- you stated you're not seeking**
8 **additional financing through Hillcrest?**

9 A. Right. I don't need more money in
10 Hillcrest. Correct.

11 **Q. Right. You're seeking additional money**
12 **through First Round and Central States Water Resources?**

13 A. Yes, ma'am, after I close a project.
14 Correct. I'm looking at new acquisitions.

15 **Q. Okay. And that is permitted under this loan**
16 **agreement?**

17 A. Yes, ma'am. This loan agreement doesn't
18 have anything to do with new acquisitions. This is
19 strictly tied to Hillcrest.

20 **Q. Okay.**

21 A. So this loan agreement is strictly Hillcrest
22 Utility Operating Company with Fresh Start, so there's no
23 attachment to the rest of the company.

24 **Q. Thank you. You've answered.**

25 MS. PAYNE: Your Honor, I would like to move

1 to admit this as an exhibit. It will be Staff's Exhibit
2 0014.

3 JUDGE BUSHMANN: Any objections? Hearing
4 none, Staff Exhibit 14 is received in the record.

5 (Wherein, Staff Exhibit 14 was marked and
6 received into the record.)

7 WITNESS: Ma'am, can I put this down?

8 MS. PAYNE: Yes. With that, Staff has no
9 further questions, Your Honor.

10 JUDGE BUSHMANN: Mr. Chairman?

11 QUESTIONS BY CHAIRMAN HALL:

12 Q. I have a few. Good morning.

13 A. Good morning, sir.

14 Q. What is the entity that owns Hillcrest
15 Utility?

16 A. Hillcrest Utility Operating Company owns the
17 actual utility assets. Is that --

18 Q. Okay. And Hillcrest Utility Operating
19 Company is a solely owned subsidiary of Hillcrest Holding?

20 A. Yes, sir.

21 Q. And Hillcrest Holding is a wholly owned
22 subsidiary of First Round CSW?

23 A. Yes, sir.

24 Q. Okay. So First Round CSW, how many other
25 water and sewer systems does First Round own?

1 A. So First Round owns three sewer systems.
2 They're inside Raccoon Creek Utility Operating Company.
3 And First Round owns a drinking water system in Indian
4 Hills Utility Operating Company.

5 **Q. What is your position with First Round?**

6 A. I am the president.

7 **Q. And my understanding is that the company is**
8 **seeking a 14-percent corporate allocation in this case for**
9 **Hillcrest Utility; is that correct?**

10 A. Yes, sir.

11 **Q. Do you have -- or has anyone on your behalf**
12 **done calculations indicating what the corporate allocation**
13 **is for the other four systems?**

14 A. So in the same way we provided in the case
15 of Raccoon Creek -- because we have a -- we've made a rate
16 raise application in that system -- we did a similar
17 corporate allocation to Raccoon Creek. And since we're
18 still in construction right now in Indian Hills, we've not
19 gone that far.

20 **Q. So does First Round CSW have any other**
21 **interests or business activities other than these five**
22 **systems?**

23 A. Yes, sir. We have two other utility
24 companies. So we've started: Smithview Utility Holding
25 and Operating Company, and that's to take over a failing

1 water system north of Columbia. It's a regulated system,
2 it cools H2O. We intervened in that. It was in a boil
3 order. And then we have Elm Hills Utility Holding and
4 Operating Company and that's to take over a -- we have a
5 contract and receivership system which is Missouri
6 Utilities, and then an unregulated system which is State
7 Park Village. And so we're moving towards an asset
8 acquisition and financing case with those two entities.

9 **Q. Okay. The -- why did you not list those two**
10 **-- and I'm not -- why did you not name those two systems**
11 **when you were including all of the other systems owned by**
12 **First Round?**

13 A. Because we don't own those systems yet.
14 They have contracts on them and we're going to file an
15 asset transfer application with the Commission.

16 **Q. Okay. So you don't have a corporate**
17 **allocation calculation where you would be able to identify**
18 **each system with a percentage and all the percentages**
19 **adding up to 100 percent?**

20 A. That is correct. We're not looking to have
21 100-percent allocation yet because we have more
22 acquisitions coming down the pipeline.

23 **Q. The construction loan and security agreement**
24 **between Hillcrest Utility Operating Company and Fresh Start**
25 **Venture, that was admitted into evidence?**

1 JUDGE BUSHMANN: Yes.

2 CHAIRMAN HALL: What's the --

3 JUDGE BUSHMANN: Staff Exhibit --

4 MS. PAYNE: 14.

5 BY CHAIRMAN HALL:

6 Q. So this is the agreement that allowed
7 Hillcrest Utility to get \$1 million towards the 1.2 million
8 capital investment after the purchase of the system; is
9 that correct?

10 A. That is correct.

11 Q. And do you know where in this document it
12 sets forth the rate of return or the interest rate?

13 A. I don't know exactly the page, sir. I could
14 find it. You know what, sir? It's actually on the first
15 page -- or the -- if you look at the bottom, definitions,
16 it has applicable rate.

17 Q. Okay. I believe your testimony was that you
18 went to a variety of potential sources for this capital,
19 and this was the best deal available?

20 A. Yes, sir. I have met with 52 individual
21 investors or institutional investors and numerous
22 commercial banks on top of that.

23 Q. And so this 14 percent was the best deal
24 available after that -- after those efforts?

25 A. Yes, sir. That is correct.

1 **Q. Is there a penalty for an early satisfaction**
2 **of the debt?**

3 A. Yes, sir. There is.

4 **Q. Where is that in this document?**

5 A. I don't know where it is, but I can find it
6 here if you'd like me to --

7 **Q. Sure.**

8 A. Well, sir, I might have to really read it in
9 detail. I can't -- it's not -- do you want me to take a
10 second here? I have no problem doing that.

11 **Q. Perhaps your counsel could help.**

12 MR. COOPER: I can try, although this wasn't
13 my document, so --

14 BY CHAIRMAN HALL:

15 **Q. Well, I'm looking at Page 11 --**

16 A. There you go. That's -- I think, sir,
17 that's it.

18 **Q. And "borrower may, in its discretion, prepay**
19 **the loan in full at any time after the date hereof by**
20 **paying the applicable prepayment amount." So what is the**
21 **applicable prepayment amount?**

22 A. I believe the prepayment amount is the
23 amount of outstanding interest that's due on the loan --
24 over the course of the loan.

25 MR. COOPER: Mr. Cox, would -- just to

1 direct your attention, Exhibit A-2 is the make-whole amount
2 schedule.

3 WITNESS: Yes.

4 MR. COOPER: Is that going to be applicable?

5 WITNESS: I believe that's correct. There's
6 no page number on there to refer to.

7 BY CHAIRMAN HALL:

8 **Q. So, essentially, under those terms,**
9 **prepayment is out of the question?**

10 A. Staff asked me this question. My idea to
11 prepay would be -- in future days I acquire traditional
12 financing and I get a large enough aggregate basis, that
13 would take out this loan in terms of being lower rates
14 across a much larger base.

15 **Q. But if you're -- why would it ever be in**
16 **your best interest to prepay the loan if you're going to**
17 **have to pay all of the outstanding, unpaid interest?**

18 A. Because at a future date I could roll up a
19 number of utilities and do a true security offering. So
20 imagine like a \$25 million debt offering that covers all my
21 utilities, and so it would lower rates across all the
22 customers.

23 **Q. I still don't understand why it would lower**
24 **-- it would make any sense to prepay here, but --**

25 A. Would you like me to --

1 **Q. Sure.**

2 A. -- go into that a little bit?

3 **Q. Okay.**

4 A. So, you know, debt security markets, you
5 can't rate a bond or sell a bond that's below, you know, 25
6 million for sure. I think it's really \$50 million. You
7 know, you can't do a true debt offering. So the idea is as
8 I aggregate more systems, we prove that the regulatory
9 environment is stable for investing small failing water and
10 wastewater systems. We get to a big enough size, we get
11 different financing than this, so different terms, as we
12 get bigger. Then we take all of that debt and wrap it
13 together and then go do a debt offering that's a much lower
14 rate, and then apply those costs to all the operating
15 utilities.

16 **Q. So your business plan would involve at some**
17 **point in time getting a lower cost of debt than you have**
18 **right now?**

19 A. Every time I get -- acquire a new utility I
20 look for a lower debt rate. So I apply to commercial
21 banks. I go to private equity groups, institutional
22 investors every time. So Indian Hills, every acquisition I
23 make, I go out to market.

24 **Q. Do you receive -- do you receive income for**
25 **anything unrelated to water or sewer?**

1 A. I do a little bit of consulting on the
2 outside, sir, that's unrelated to this company at all.

3 **Q. What kind of consulting?**

4 A. I -- a small private/public sewer district
5 in Jefferson County. Jefferson County -- Selma Village
6 Sewer District, I do some work for them.

7 **Q. Can you give a ballpark percentage of the**
8 **amount of time you spend doing that consulting?**

9 A. At most, 20 hours a year.

10 **Q. Okay. So the remainder of your time is**
11 **performing duties related to First Round CSW and Hillcrest**
12 **Utility?**

13 A. That is absolutely correct, sir. I gave
14 timesheets to that effect, as well, since 2014.

15 **Q. Who are the current investors in Fresh Start**
16 **Venture?**

17 A. They're Robert Glarner and David Glarner,
18 sir, through a number of operating utilities -- or
19 operating companies. Sorry.

20 **Q. And do they have other investments in --**
21 **related to water and sewer companies in Missouri, if you**
22 **know?**

23 A. I don't know, sir, but I don't believe so.

24 **Q. Okay. Are they located outside Missouri?**

25 A. They're -- they live in Missouri. I don't

1 know if they do investments outside Missouri.

2 **Q. Were you at the local public hearing -- was**
3 **there one or two in this case? Were you at the public**
4 **hearing in this case?**

5 A. Two. Yes, sir. I was at both the
6 acquisition hearing and the rate hearing. Yes, sir.

7 **Q. Any takeaway from what you heard from**
8 **customers?**

9 A. I mean, sir, I understand. This is a very
10 difficult predicament. I mean, this is not -- I don't do
11 this lightly. This is a big deal for the customers, and I
12 completely recognize that fact. And that came through in
13 the local public hearing -- in the rate hearing. I mean,
14 there was definitely -- people knew that this was going to
15 be a big impact to their families and I understood that.

16 I would say in the acquisition hearing, the
17 tone was exactly opposite. You know, people couldn't sell
18 their house because the sewer was so bad that lenders
19 weren't allowing them to sell their house. People were
20 afraid to drink the drinking water because there was -- we
21 all suspected it was bird species that was actually in the
22 drinking water. So, you know, during the acquisition
23 hearing, people were "Yes" and "Amen." Were very glad that
24 I'm here. And, of course, the raise is big, so that
25 affects families. So yeah, it was a meeting that a lot of

1 emotion came through.

2 **Q. And your long-term business plan is to**
3 **acquire as many troubled water and sewer companies in**
4 **Missouri as possible?**

5 A. Yes, sir, as many as I can do.

6 **Q. Are you -- and I don't want you to give me**
7 **any details, but are you currently in discussions with**
8 **owners of some of those troubled water and sewer systems in**
9 **Missouri?**

10 A. Yes, sir. Like I mentioned, I had -- I've
11 got contracts on two regulated utilities right now. I
12 have another contract with another receivership system, so
13 PCB, which is located in -- the operations are located in
14 Franklin County. And then I'm in conversations with a
15 number of other failing utilities across the state.

16 **Q. I have no further questions then.**

17 A. Yes, sir.

18 QUESTIONS BY COMMISSIONER KENNEY:

19 **Q. You having fun yet? Anyway, I just have a**
20 **few. Most of my questions were answered. On your direct**
21 **testimony -- that was already answered. On your -- I'm a**
22 **little confused on the property taxes, because you said on**
23 **your direct testimony at Page 19 that the -- working with**
24 **Cape Girardeau County, your estimated property taxes would**
25 **be approximately \$18,723 for 2016, yet I saw that you're**

1 **only asking for 2,972. Can you explain that?**

2 A. Yes, sir. So we originally approached the
3 assessor of Cape Girardeau County. They told us that they
4 wanted the total plant investment in the ground, and so
5 that's what we submitted to them. After more
6 conversations, they ascertained that, hey, you know, we
7 only need the equipment in the ground -- so not the
8 concrete basins, not the earth work, not the tower, not the
9 building, just the mechanical equipment for personal
10 property taxes.

11 **Q. They don't take into account the buildings?**

12 A. No, sir. Well, that's included in real
13 property, not personal property. So that's the difference
14 there.

15 **Q. Okay. All right. And on your rebuttal**
16 **testimony -- now, on Page 5, you stated that -- of your**
17 **rebuttal testimony, that during the acquisition agreement**
18 **that you put before this Commission that you had estimated**
19 **that the total rates would be over \$148 combined. Correct?**

20 A. Yes, sir. I gave an estimate to the
21 Commission and to the Staff as part of my acquisition.

22 **Q. And so this of no surprise. When we granted**
23 **you the right to buy this -- or your company the right to**
24 **acquire this company, we knew that that's what -- the**
25 **stated rates you thought would have to be?**

1 A. Yes, sir. I was open book about everything,
2 both my loan terms, percent it would be, and the large
3 amount of increase I believe to be associated with these
4 improvements. Correct.

5 **Q. And you came in just a little under budget**
6 **from what your expectations were?**

7 A. Yes, sir. The construction came in a little
8 under budget.

9 **Q. How did you come up with those numbers? Was**
10 **that through what DNR added up, or how did you come up with**
11 **those numbers?**

12 A. No. I estimated the construction costs so I
13 knew what the problems were in the system. And so went
14 through and did estimates. I did a ton of bid work with
15 contractors and worked with my engineering firm to develop
16 those.

17 **Q. Okay. On Page 9 of your rebuttal you**
18 **discuss the default of first year operations, and I thought**
19 **in your question that you said if you default that -- who**
20 **takes over the company?**

21 A. I'm just turning to it, sir.

22 **Q. That's all right. You just said that -- you**
23 **were talking about the cause of Hillcrest defaulting. But**
24 **then someone asked you a question, and I thought you said**
25 **if you default under your contract, what takes place?**

1 A. Yes, sir. So I have a loan between
2 Hillcrest Utility Operating Company and Fresh Start. And
3 if we default on a loan payment, then Fresh Start will take
4 over -- will perfect their lien against the property.

5 **Q. What do you mean they'll take over?**

6 A. Just that. I mean --

7 **Q. You mean they'll come ask us if we'll let**
8 **them take over?**

9 A. I believe so. I think that kind of, from
10 their perspective, looks like, hey, this doesn't work from
11 a business endeavor, so we need to perfect this thing and
12 then go sell it to another utility or something like that.
13 I'm assuming there, sir.

14 **Q. And then I just -- on Page 12 of your**
15 **rebuttal, it -- you're talking about the -- on Schedule JC**
16 **you -- have you and the company talked -- under payroll, it**
17 **says payroll, staff's proposal and your proposal, the net**
18 **amount is almost identical. They gave you about 6,000**
19 **extra and they take away 5,000 from the other guy and 1,000**
20 **from the other guy. But they're real close, total money.**
21 **Have you talked with Staff at all about going forward and**
22 **how they want you to keep track of the hours, or is it --**
23 **have you guys discussed that?**

24 A. Yes, sir. So we've continued -- we've
25 started submitting all of our hours. We're keeping

1 timesheets -- all the employees. And so the Staff and OPC
2 have both been provided all those timesheets from November
3 on.

4 **Q. On a moving forward basis, did they give you**
5 **the indication that in your next rate case which they**
6 **propose doing it that in -- in 12 months that they'd use**
7 **those as the basis for salaries?**

8 A. So I'm not going to speak for Staff, but I
9 would say that --

10 **Q. Is that your understanding?**

11 A. My understanding is they know that it's a
12 net benefit to the customer. I'm asking for less than my
13 actual time or my actual customers would be of the holding
14 company. So I'm saying, hey, I'm asking for less money
15 than what is totally required because I know I'm acquiring
16 more systems.

17 **Q. You know, it's quite humbling to have your**
18 **laundry played out, isn't it?**

19 A. Yes, sir. It is.

20 **Q. How did -- you started Trumpet in, what,**
21 **2005?**

22 A. Yes, sir.

23 **Q. And how did it perform during those first**
24 **couple years?**

25 A. The first couple years it did very well.

1 And then --

2 Q. Can you tell us what salary you made or what
3 compensation you were receiving during, say, the second
4 year, six, seven?

5 A. I believe I was making \$150,000 base salary,
6 and then there was, you know, profit sharing, K-1 revenue
7 beyond that.

8 Q. Would you be surprised to know that in the
9 United States during the years 2009 to 2013, that five-year
10 period, that exceeded the number of personally filing
11 bankruptcies in the previous 15 years?

12 A. No, sir. I would not be surprised at all.

13 Q. And you're talking to someone who lost a
14 huge amount of money. I was in real estate development,
15 and my assets -- and I have several personal friends that
16 during that time period lost everything. And so I feel for
17 you. It's a tough thing to go through.

18 A. Thank you, sir.

19 JUDGE BUSHMANN: We need to break for agenda
20 meeting at lunch, so we'll be in recess until one o'clock.

21 (Off the record.)

22 JUDGE BUSHMANN: All right. We're back on
23 the record. Where we left off was after Commissioner
24 questions. So this would be time for recross based on
25 Commissioner questions. OPC, any questions?

1 MS. MAYFIELD: Yes.

2 RECROSS EXAMINATION BY MS. MAYFIELD:

3 Q. Chairman Hall asked you about the
4 refinancing of the loan agreement under the security
5 agreement between Hillcrest Operating Company and Fresh
6 Start Venture, LLC. Would the prepayments or make-whole
7 provision in that agreement apply if someone offered to
8 purchase Hillcrest from CSWR?

9 A. So the loan is secured against the assets,
10 so no matter what that loan goes with the assets,
11 regardless of who owns it.

12 Q. But do you know if under this agreement that
13 make-whole provision would apply if a sale occurred?

14 A. I don't know the answer to that question.

15 MS. MAYFIELD: No further questions, Your
16 Honor.

17 JUDGE BUSHMANN: Staff?

18 MS. PAYNE: Just a few.

19 RECROSS EXAMINATION BY MS. PAYNE:

20 Q. Chairman Hall mentioned that -- asked you
21 about what other utilities First Round is presently seeking
22 to acquire. Correct?

23 A. Yes, ma'am.

24 Q. And you stated several utilities. You said
25 there's also some that you didn't name that you have -- or

1 **that you are -- have offers out there and that. When does**
2 **First Round hope to have these properties acquired?**

3 A. I hope to have acquisition cases for both
4 the Elm Hills and Smithview that I mentioned probably in
5 June, July this year in front of the Commission, and then
6 the other ones following that.

7 Q. Okay. And do you have a number of how many
8 property -- how many utilities you hope to acquire within
9 the next, say, five years?

10 A. You know, ma'am, I don't have an exact
11 number that's attached to that.

12 Q. Okay. And then, also, in reference to the
13 loan agreement that was admitted earlier, we were looking
14 at that Exhibit A-2 --

15 A. Yes, ma'am.

16 Q. -- and I just wanted to verify with you that
17 -- where it says Payment 1, is that the total amount of the
18 loan right now? Or --

19 A. No, ma'am. That's the penalty. That's the
20 interest -- the outstanding interest on the loan, ma'am.

21 Q. That's the outstanding interest. So that
22 would be the principal and the outstanding interest?

23 A. I believe so. I'd have to look at the two
24 schedules to get it, but I believe that's correct.

25 Q. Okay. Thank you very much.

1 MS. PAYNE: No further questions.

2 JUDGE BUSHMANN: Redirect by Hillcrest?

3 MR. COOPER: Thank you, Your Honor.

4 REDIRECT EXAMINATION BY MR. COOPER:

5 Q. Mr. Cox, you were asked some questions by
6 Ms. Mayfield about your current leasing arrangement. Could
7 you tell us how that lease was established?

8 A. Yes, sir. I got a commercial real estate
9 agent named Rocky Stinger involved, looked at a bunch of
10 different properties, trying to find the best option, and
11 went to my current investors and asked if I could get a
12 cheaper option with them.

13 Q. And was the option cheaper?

14 A. Yes, sir.

15 Q. And in terms of the rent that's paid, what
16 percentage of that have you proposed should be allocated to
17 Hillcrest?

18 A. 14 percent.

19 Q. There were questions about Mr. Chalfant's
20 title. Why is it appropriate for Mr. Chalfant to be known
21 as the chief financial officer?

22 A. Well, besides the fact that that's his
23 history -- he's got a track record with that -- so when we
24 became a regulated utility, obviously, we had to do
25 accounting according to NARUC. So we immediately went out

1 to try and find -- I'll give you an example of what
2 Mr. Chalfant does so you can see why I think he's a CFO.
3 Went out to try to find electronic copies of NARUC
4 accounting and, you know, called the officers in the
5 northeast and they said, "You know, we don't have any
6 electronic copies." So Mr. Chalfant immediately began to
7 develop an electronic file and a whole program to transfer,
8 kind of, you know, seamlessly between NARUC and GAP. So
9 it's -- we think we may be one of the first utilities in
10 this state for sure, possibly a greater amount of areas,
11 that has a -- has an electronic transfer between GAP and
12 NARUC accounting. We're not doing any journal entries now
13 that we have the thing fully implemented.

14 Beyond that, Jack set up a depreciation
15 program to, on an ongoing basis, translate NARUC
16 depreciation -- which is a way different animal than GAP
17 depreciation -- and monitor that in a real-time basis.
18 And, you know, dealing with these depreciation software
19 companies, they were not able to find another utility
20 company in the country that had done something like that.
21 So that's an example of why Jack fits the CFO position.
22 It's the kind of innovative transfer stuff he's been
23 working on since his hire.

24 **Q. You were asked questions about your billing**
25 **contract. Did you -- and I think you mentioned that you**

1 **bid out that activity before you entered into your contract**
2 **that you have today?**

3 A. That is correct. We bid it out to a number
4 of companies. We -- and we handed those bids to the Staff.
5 They have those in their possession. And, you know, in
6 fact, we went out for bids. A lot of companies just gave
7 us a no bid. It was too small for them. And the other
8 companies, we felt like it was a -- it was too -- it wasn't
9 cost-effective, and we took the lowest bid.

10 Q. **Could you turn in your rebuttal testimony to**
11 **Page 7?**

12 A. Give me a second here. It's going to take
13 me -- okay. I have it.

14 Q. **On Lines 16 to 17, you were asked some**
15 **questions about that sentence that says Mr. Russo's**
16 **comparison does not properly account for the reality that**
17 **Hillcrest is a small utility. Do you see that?**

18 A. Yes, I do.

19 Q. **What do you mean by that?**

20 A. Yeah. What I mean there is that Hillcrest
21 has an artificially low rate because they were not able to
22 provide safe and reliable service to their customers. So
23 as a small utility, that's not a good comparison.

24 Q. **So it's the idea that while a utility -- a**
25 **small failing utility's rate may be low, that may be**

1 **unrealistically low?**

2 A. That is correct, because it's not able to
3 provide safe and adequate service.

4 Q. You were -- there was some reference made to
5 a binding memo of understanding that you had entered into,
6 and a reference to NewCo. Do you remember that?

7 A. Yes, sir.

8 Q. Did NewCo exist at the time that binding
9 memo of understanding was executed?

10 A. No, sir. It did not exist yet.

11 Q. It was discussed that First Round was
12 created in 2014, but I thought at one point there were some
13 questions about Mr. Chalfant and Ms. Eves and maybe an
14 implication that they had been employees since 2014. When
15 did Mr. Chalfant and Ms. Eves become employees?

16 A. Mr. Chalfant was hired in February of '15,
17 and Ms. Eves was hired in March of '15.

18 Q. You had questions about the First Round
19 CSWR, LLC amended operating agreement. And I -- there was
20 a reference to a preferred return. Do you have a preferred
21 return?

22 A. No. I do not have a preferred return.

23 Q. You made a statement during questions from
24 the bench, I believe from Chairman Hall, that it would be
25 your hope to acquire as many small water and sewer

1 **companies as possible. Is there any parameter to that**
2 **desire?**

3 A. Yes. Absolutely. I've looked at a number
4 of small utilities. The situation -- the amount of
5 improvements required versus the amount of customers there
6 are just make it not feasible. So there's a practical
7 limit to what's even possible, just because of the state of
8 disrepair in a lot of these small systems.

9 **Q. So there are systems that you would and, in**
10 **fact, have passed on?**

11 A. Yes. I've passed on a number of systems. I
12 get called quite a bit, actually, on small utilities, and
13 they're just some that are just too small or have too many
14 issues that's just kind of beyond our ability to do.

15 MR. COOPER: Your Honor, I've got some
16 documents I'm going to pass out at this point.

17 WITNESS: Thank you.

18 JUDGE BUSHMANN: Do we need to go into in
19 camera?

20 MR. COOPER: I don't think we're going to,
21 Your Honor. I'll explain that. If we could, I'd like to
22 mark this document as Hillcrest Exhibit Number 3 for
23 identification.

24 (Wherein, Hillcrest Exhibit Number 3 HC was
25 marked for identification.)

1 MR. COOPER: And I think we would describe
2 it as Josiah Cox timesheets. And you're correct, while
3 it's identified as highly confidential, the only thing we
4 would view as confidential would be the names of the -- I
5 don't want to say targets, but the entities under
6 consideration that's listed on there. And so my questions
7 won't get into that information.

8 JUDGE BUSHMANN: Very good.

9 BY MR. COOPER:

10 Q. Mr. Cox, do you remember Chairman Hall had
11 asked you questions about the time you spent on Hillcrest
12 activities?

13 A. Yes, sir.

14 Q. Before you is what has been marked as
15 Hillcrest Exhibit Number 3 for identification. Do you
16 recognize that document?

17 A. I do.

18 Q. What is it?

19 A. This is my timesheets.

20 Q. For what time period? And I want you to
21 look at the first page and the last page in asking that --
22 answering that.

23 A. The first page is February 24th of 2014.
24 The last page looks here -- is October 31st of 2015.

25 Q. And across the top there are some

1 **categories. What are those categories meant to represent,**
2 **generally?**

3 A. They're meant to represent -- so admin is
4 ongoing operations of utilities. Research is both research
5 into possible engineering technology solutions and looking
6 for finance -- you know, future finance partners.

7 Engineering is actually working on the engineering of the
8 existing systems or future systems. Due diligence is
9 examining the state of systems. Due diligence may also
10 involve a little finance work, working with banks trying to
11 find traditional financing. Contractor procurement, that
12 is going out and finding the operations and maintenance
13 contractors, consumer contractors and then the actual
14 construction contractors that are going to work on all
15 these systems. That's also time bidding, negotiating, that
16 kind of work.

17 PSC is direct time meeting with Public
18 Service Commission on systems that we own, systems we're in
19 cases with. DNR is working with the Missouri Department of
20 Natural Resources on the systems we own -- or systems we're
21 working on. Construction is actual construction management
22 when we're, you know, in the field or directly dealing with
23 contractors. HC is Hillcrest. RC is Raccoon Creek, and
24 then on down the list.

25 **Q. Okay. And so when the question is -- well,**

1 **Let me back up. And then the numbers that are located in**
2 **the graphs or the tables below, what do they represent?**

3 A. Those are the numbers on that day of hours I
4 worked on each one of those categories.

5 **Q. And so if the question is what time you**
6 **spent working on Hillcrest, I assume the HC column would**
7 **pretty clearly fit?**

8 A. That is correct.

9 **Q. Are there other columns where the work**
10 **involved would be for the benefit of Hillcrest as well?**

11 A. Absolutely. Construction would be all
12 Hillcrest and Raccoon Creek from the -- from, you know,
13 here all the way until recently with Indian Hills. The
14 last couple years, the construction has all been associated
15 with Hillcrest and Raccoon Creek. DNR, especially in the
16 first year of operations, was almost all Hillcrest and
17 Raccoon Creek -- primarily Hillcrest because they had so
18 many DNR issues.

19 The PSC, obviously, with Hillcrest and
20 Raccoon Creek being my first acquisitions, almost all those
21 meetings revolved around those two systems, so almost all
22 that time. Contractor procurement, I was required, you
23 know, to find contractors, both O&M and customer service
24 contractors, before I could close, so that -- all that
25 work, especially early on, was Hillcrest and Raccoon Creek.

1 Engineering, because those are the two
2 utilities we bought at first, almost -- I mean, all that
3 time was pretty much spent on Hillcrest and Raccoon Creek.
4 Research, most of that time was spent on Raccoon Creek and
5 Hillcrest looking for traditional financing. Well, at that
6 point, we were looking at technologies, that kind of good
7 stuff. And admin is the ongoing operations, and that time
8 is almost all to -- I think it's all to regulated
9 utilities. That's cutting checks, all that kind of good
10 stuff, towards those actual utilities.

11 MR. COOPER: Your Honor, at this time I
12 would offer Hillcrest Exhibit Number 3.

13 JUDGE BUSHMANN: Any objections? Hearing
14 none it's received into the record.

15 (Wherein, Hillcrest Exhibit Number 3 was
16 received into the record.)

17 MR. COOPER: That's all the questions I
18 have.

19 JUDGE BUSHMANN: Mr. Cox, that completes
20 your testimony, sir. You may step down now.

21 We're ready for Staff's witnesses.

22 MS. PAYNE: At this time Staff calls witness
23 Kim Bolin to the stand.

24 (Witness sworn.)

25 JUDGE BUSHMANN: You may be seated.

1 KIMBERLY BOLIN testified as follows:

2 DIRECT EXAMINATION BY MS. PAYNE:

3 **Q. Would you please state and spell your name**
4 **for the court reporter.**

5 A. Kimberly Bolin, and the last name is
6 B-O-L-I-N.

7 **Q. And could you please state your position**
8 **with the Commission?**

9 A. I'm a regulatory utility auditor 5 with the
10 Missouri Public Service Commission.

11 **Q. Thank you. And did you prepare or cause to**
12 **be prepared direct testimony in this matter?**

13 A. Yes, I did.

14 **Q. Do you have any changes to make to that**
15 **testimony?**

16 A. No, I do not.

17 **Q. Have any updates occurred since that**
18 **testimony?**

19 A. Yes. We had some updates in the property
20 tax issue, in which we increased our property tax expense.

21 **Q. And did that cause any changes to Staff's**
22 **proposed revenue requirement?**

23 A. Yes, it did. It increased it.

24 **Q. And does Staff keep track of updates such as**
25 **that?**

1 A. Yes, we do. We have a track change document
2 where we track all of our changes from our EMS run -- our
3 accounting schedules.

4 **Q. All right.**

5 MS. PAYNE: Can I approach the witness?

6 JUDGE BUSHMANN: You may.

7 BY MS. PAYNE:

8 **Q. Ms. Bolin, do you recognize the document I**
9 **just handed you?**

10 A. Yes. It's our track change document for
11 water -- one is for water and one is for sewer.

12 **Q. Thank you. And you agree that that is a**
13 **fair and accurate copy of the track changes that you**
14 **referred to that Staff creates?**

15 A. Yes, it is.

16 **Q. Okay.**

17 MS. PAYNE: I would like to move to this
18 offer this into testimony at this time. It's up to the
19 judge whether you'd like to offer them separately or as one
20 exhibit.

21 JUDGE BUSHMANN: You said they're separate
22 documents?

23 MS. PAYNE: They are. One references the
24 water utility in this matter and one references the sewer.

25 JUDGE BUSHMANN: And I take it that the

1 differentiation is at the top left-hand corner where it has
2 the water file number, that's the water document?

3 MS. PAYNE: It is. And the other one is --
4 refers to SR 20160065 is the sewer case that was
5 consolidated.

6 JUDGE BUSHMANN: Well, we're going to have
7 to mark them first.

8 MS. PAYNE: Absolutely.

9 JUDGE BUSHMANN: So the water document is
10 going to be marked as Staff Exhibit 15.

11 MS. PAYNE: Yes. And the sewer would Staff
12 Exhibit 16.

13 JUDGE BUSHMANN: Yes.

14 (Wherein, Staff Exhibit Numbers 15 and 16
15 were marked for identification.)

16 BY MS. PAYNE:

17 **Q. All right. And in light of these updates,**
18 **if I asked you the same questions contained in your**
19 **testimony today, would your answers be the same?**

20 A. Yes, they would.

21 **Q. And the testimony that you provided is true**
22 **and accurate, to the best of your knowledge?**

23 A. Yes, it is.

24 MS. PAYNE: All right. I tender this
25 witness for cross.

1 JUDGE BUSHMANN: Okay. First of all, were
2 you wanting to offer Ms. Bolin's direct testimony, Staff
3 Exhibit 1?

4 MS. PAYNE: Yes, I was.

5 JUDGE BUSHMANN: When you were asking her
6 those questions, is that the document you were referring
7 to?

8 MS. PAYNE: I was referencing Staff Exhibit
9 1. Yes.

10 JUDGE BUSHMANN: Are there any objections to
11 Staff Exhibit 1? Hearing none, that is received into the
12 record.

13 (Wherein, Staff Exhibit Number 1 was marked
14 and received into the record.)

15 JUDGE BUSHMANN: Am I correct that you're
16 also offering Staff Exhibit 15 and 16?

17 MS. PAYNE: I am offering those, also.

18 JUDGE BUSHMANN: Are there any objections to
19 those two exhibits? Hearing none, Staff Exhibit 15 and
20 Staff Exhibit 16 are both received into the record.

21 (Wherein, Staff Exhibit Numbers 15 and 16
22 were received into the record.)

23 JUDGE BUSHMANN: All right. First cross
24 would be by Public Counsel.

25 MS. MAYFIELD: No questions for this

1 witness, Your Honor.

2 JUDGE BUSHMANN: Hillcrest?

3 MR. COOPER: No questions, Your Honor.

4 JUDGE BUSHMANN: Commissioner Kenney, any
5 questions?

6 COMMISSIONER KENNEY: No, sir.

7 JUDGE BUSHMANN: I have one question.

8 WITNESS: Yes.

9 QUESTIONS BY JUDGE BUSHMANN:

10 Q. In your direct testimony, you were
11 sponsoring a partial disposition agreement?

12 A. That's correct.

13 Q. And in your opinion, is the partial
14 disposition agreement a fair and reasonable resolution of
15 the issues other than the disputed issues that we've been
16 discussing in this case?

17 A. Yes, it is.

18 JUDGE BUSHMANN: That's all I have. Any
19 recross based on that question? Public Counsel?

20 MS. MAYFIELD: No, Your Honor.

21 JUDGE BUSHMANN: Staff, redirect?

22 MS. PAYNE: No, none, Your Honor. Thank
23 you.

24 JUDGE BUSHMANN: Ms. Bolin, that completes
25 your testimony.

1 MS. PAYNE: Staff would call witness Jarrod
2 Robertson to the stand.

3 (Witness sworn.)

4 JUDGE BUSHMANN: You may sit down.

5 JARROD ROBERTSON testified as follows:

6 DIRECT EXAMINATION BY MS. PAYNE:

7 Q. Can you please state and spell your name for
8 the court reporter.

9 A. Jarrod Robertson. First name J-A-R-R-O-D;
10 last name R-O-B-E-R-T-S-O-N.

11 Q. And can you please state your position?

12 A. Utility analyst -- utility policy analyst 1.

13 Q. Thank you. And did you prepare or cause to
14 be prepared direct and rebuttal testimony for this
15 proceeding?

16 A. Yes.

17 Q. And do you have any changes to make to that
18 testimony at this time?

19 A. No.

20 Q. And if I asked you the same questions
21 contained in that testimony, would your answers be the
22 same?

23 A. Yes.

24 Q. And is that testimony true and accurate to
25 the best of your knowledge?

1 A. Yes.

2 MS. PAYNE: I tender this witness for cross.

3 JUDGE BUSHMANN: Do you want to offer
4 those --

5 MS. PAYNE: And I would like to offer his
6 testimony.

7 JUDGE BUSHMANN: Staff Exhibit 2 --

8 MS. PAYNE: And Staff --

9 JUDGE BUSHMANN: -- Robertson direct and
10 Staff Exhibit 3, Robertson rebuttal have been offered. Are
11 there any objections? Hearing none, they're received into
12 the record.

13 (Wherein, Staff Exhibit Numbers 2 and 3 were
14 marked and received into the record.)

15 JUDGE BUSHMANN: And the first
16 cross-examination will be by Public Counsel.

17 CROSS-EXAMINATION BY MS. MAYFIELD:

18 Q. Good afternoon, Mr. Robertson. If you would
19 please look at your direct testimony, please. If you would
20 please turn to Page 6.

21 A. Okay.

22 Q. On Line 11 you state that the general
23 purpose of rate design is to set rates that are both fair
24 and just for the customer. Could you please explain your
25 understanding of the statement "fair and just"?

1 A. Fair and just would be related to rates that
2 are appropriate due to the system requirements as well as
3 -- excuse me. I may have to rephrase that. I'm sorry.

4 Fair and just would basically equate to
5 rates that are appropriate for the system that is in place
6 as well as the rates that pertain to the bills for said
7 customers in order to obtain said service.

8 **Q. If you go on down to Line 13 on Page 6 it**
9 **says a Commission-approved revenue requirement. Could you**
10 **please explain your understanding of this concept, a**
11 **Commission-approved revenue requirement?**

12 A. A Commission-approved revenue requirement
13 would basically be the revenue requirement that is approved
14 through the rate case by the Commission following the
15 hearing.

16 **Q. Staying on the same page, going down to Line**
17 **16 --**

18 A. Yes.

19 **Q. -- we're talking about the Staff's rate**
20 **design alternative and design rates. Did you provide the**
21 **Commission with a schedule that shows what dollars will go**
22 **to the customer charge versus what dollars will go to the**
23 **volumetric rate in your rate design?**

24 A. Yes.

25 **Q. And is that shown on Schedule JRR-D2 and**

1 **JRR-D3?**

2 A. I need to look those up, if you don't mind.

3 **Q. Sure.**

4 A. Could you repeat the two numbers, please?

5 **Q. Yes. JRR-D2 and JRR-D3.**

6 A. Okay. And repeat the question, please.

7 **Q. I asked if you provided the Commission with**
8 **a schedule showing what dollars go towards the customer**
9 **charge versus what will go to the volumetric rate?**

10 A. Okay. I did make an error in my statement
11 to you before. I did include that on the work papers
12 submitted but not on the schedules during my direct
13 testimony.

14 **Q. I guess since it is contained in your work**
15 **paper and it's not been admitted into evidence, then what**
16 **information does the Commission have before it as to what**
17 **part of your rate design will go to the customer charge**
18 **versus what part of your rate design goes to the volume**
19 **metric rate?**

20 A. Are you asking this as it pertains to direct
21 testimony?

22 **Q. Or do you have this information contained in**
23 **your rebuttal?**

24 A. It is in the rebuttal. Yes.

25 **Q. Would you turn -- or I guess since you've**

1 **located it, what page -- or what schedule are you looking**
2 **at? Is this where the bill comparison --**

3 A. Not a submitted schedule, no. That is still
4 just in the work papers. You're correct.

5 Q. **Looking at Line 16, it says "Collect the**
6 **appropriate levels of revenue from each customer class."**
7 **What is this?**

8 A. Are we back to direct? I'm sorry.

9 Q. **Yeah, we're back to direct, Page 6. I**
10 **apologize.**

11 A. It's all right. And, again, restate the
12 question and --

13 Q. **Yeah. If you -- if I could turn your**
14 **attention to Line 16 --**

15 A. Okay.

16 Q. **-- it says, "Collect the appropriate level**
17 **of revenues from each customer class." And I asked -- I**
18 **said, what is the appropriate level of revenue from each**
19 **customer class? What is this?**

20 A. The appropriate levels of revenue from each
21 customer class that would be set forth during the rate case
22 and designation of classes.

23 Q. **So how do you know -- how do you do that in**
24 **this case in particular, then?**

25 A. How do I -- I'm sorry?

1 **Q. For purposes of rate design, based on what**
2 **your answer was, then, how do you do that in this case?**

3 A. How do I calculate the appropriate levels of
4 revenue for each customer class?

5 **Q. Yes. That's correct.**

6 A. I do not know.

7 **Q. If we could turn to Page 7 of your direct**
8 **testimony, please.**

9 A. Yes.

10 **Q. And I'm taking a look at Lines 21, 22, and**
11 **23.**

12 A. Okay.

13 **Q. I see starting at Line 21 it says -- and I**
14 **believe this -- we're talking about an alternative to the**
15 **traditional manner of rate design. So is this Staff's**
16 **proposed phased-in rates? Is this what you're discussing**
17 **here?**

18 A. This would actually be on Lines 21 through
19 23 of Page 7. It looks like the traditional manner of rate
20 design.

21 **Q. Okay. So this is just that there were no**
22 **phased-in rates; this is what it would be absent phased-in**
23 **rates?**

24 A. Correct.

25 **Q. And on Line 22 it says -- well, it starts on**

1 **21 and goes to 22 and it says, "An increase of \$144,778 in**
2 **revenue requirement." Could you please -- did this --**
3 **where did this figure come from?**

4 A. This number was calculated from the
5 information provided by auditing department's cost of
6 service study. And once I obtained that information and
7 incorporated it into the income statement that I used for
8 rate design, this number mirrored the revenue requirement
9 for -- from the auditing department's cost of service
10 study, as well.

11 Q. And that number would've -- and that number
12 matches the schedule JRR-D8 that you have filed with your
13 direct?

14 A. I have to find it.

15 Q. Yes.

16 A. It does.

17 Q. But my understanding is the disposition
18 agreement amount that Staff and the company has arrived at
19 shows a revenue requirement of \$144,630. Where did that
20 number come from?

21 A. I am not aware of that number.

22 Q. So you did not have any involvement in the
23 revenue requirement number in Staff and the company's
24 disposition agreement?

25 A. Please ask that again.

1 **Q. Sure. I asked about the amount of the**
2 **revenue requirement that's in the partial disposition**
3 **agreement between the Staff and company. And that**
4 **disposition agreement amount is reflected at \$144,630. And**
5 **I asked where that figure came from.**

6 A. Are you referring to my income statement for
7 the rate design that's in the partial disposition?

8 **Q. Yes.**

9 A. That was -- I actually did use an incorrect
10 version of the cost of service study, and that has since
11 been corrected.

12 **Q. So that's why the number based in your**
13 **direct and the disposition agreement differ?**

14 A. My number from the direct to the partial
15 disposition?

16 **Q. Yes.**

17 A. Yes.

18 **Q. Was that based on -- or a reduction in the**
19 **allocation percentage, or do you know why that number**
20 **changed?**

21 A. I do not recall why the number changed.

22 **Q. Are you aware, did the auditors in this case**
23 **or any member of Staff do a cost of service study for this**
24 **case?**

25 A. Yes.

1 **Q. They did? And who -- were you a part of**
2 **that cost of service?**

3 A. That would've been performed by the auditing
4 department.

5 **Q. Continuing on Page 7 of your direct, if we**
6 **go down to Line 23, we're talking about an average monthly**
7 **water bill, and you indicate that it is based on 5,300**
8 **gallons of usage. Where did this number come from?**

9 A. On discussions within the water and sewer
10 department with my peers, it was an agreed upon
11 representation for a residential customer on a standard
12 system in the state.

13 **Q. So it was a discussion had within Staff.**
14 **Did that actually come from any information provided by the**
15 **company to Staff?**

16 A. No. Not that I know of.

17 **Q. Staying with your direct, if you would**
18 **please turn to Page 8. We're looking at Line Number 14.**

19 A. All right.

20 **Q. We're talking about -- that question refers**
21 **to Staff's alternative phase-in proposal. Would you please**
22 **describe your understanding of what this phase-in proposal**
23 **is for Staff?**

24 A. My understanding is that the non-cash flow
25 items were removed from the income statement. Do I --

1 let's see here. Those three items being uncollected
2 accounts, depreciation expense and return on rate base.
3 They would then be carried over to the partial disposition.
4 We had the stipulation or agreed upon that the company
5 could return for a rate case in 12 months. At that point
6 those costs would be added along with the carrying costs
7 associated with --

8 **Q. Okay. Just so that I understand, on Line**
9 **18, you do refer to the non-cash flow items. I think you**
10 **said that there were three items that can constitute the**
11 **non-cash flow items. Could you just please clarify what**
12 **those non-cash flow items are?**

13 A. Uncollectible accounts, depreciation
14 expense, and return on rate base.

15 **Q. Thank you. And it said "will not be carried**
16 **over." And you used carried over in quotes. What do you**
17 **mean by carried over on Line 18?**

18 A. I actually said "not calculated in this rate
19 but be carried over." Carried over would be that those
20 items would then be added to the new rate case when it came
21 in.

22 **Q. So when would the phase-in rates that Staff**
23 **is proposing take effect?**

24 A. In regards to things of that type of
25 implementation, I would have to defer to Staff witness Paul

1 Harri son.

2 Q. So is Staff witness Paul Harrison the best,
3 I guess, witness for Staff to describe the phase-in of
4 rates?

5 A. I'm not sure how to answer that question.

6 Q. Is it your understanding that the Staff's
7 phase-in of rates requires the company to come in and file
8 a rate case in 12 months?

9 A. I am not sure about the term "required."

10 Q. Is it your understanding that after 12
11 months that these carried over costs you just described
12 would be captured in a future rate case?

13 A. Yes.

14 Q. And that these carried costs would not be
15 reflected in rates unless the company came in and filed for
16 a rate case?

17 A. Yes.

18 Q. If you would please turn to Page 9 of your
19 direct testimony. I'm looking at Lines 21 and 22.

20 A. All right.

21 Q. It says starting on Line 21, "However, there
22 are three items for which Staff is waiting for
23 justification of the proposed changes" -- and it goes on to
24 the next page -- "from the company." What are the three
25 items that are referred to in that sentence?

1 A. It had to do with the schedule of rates
2 within the tariff. Do you need to know those items?

3 **Q. I would like to know, yes, what three items**
4 **that is.**

5 A. I would need to -- I don't have a tariff
6 with me. My apologies.

7 **Q. Has Staff received the justification for**
8 **these proposed changes to the tariff?**

9 A. We've received some justifications which we
10 agreed on some of the items, but we did not come to a
11 conclusion on a few of the items. Correct.

12 **Q. Has that tariff of those justifications been**
13 **filed in this case?**

14 A. In the partial disposition, yes.

15 **Q. So the -- those three items could be found**
16 **in the tariff that was attached to the partial disposition**
17 **agreement?**

18 A. I am not sure.

19 **Q. I would ask you to take a look at your**
20 **rebuttal testimony filed in this case, please.**

21 A. Okay.

22 **Q. Taking a look at Page 2.**

23 A. All right.

24 **Q. Under the first bullet point that starts on**
25 **Line 4 it says, "Staff adjusted the previous allocation of**

1 **property tax by correctly linking the proper allocation**
2 **formula." And if I note that term "linking the proper**
3 **allocation formula" also shows up at the second bullet**
4 **point, also shows up down at the third bullet point, the**
5 **fourth bullet point, and the fifth bullet point. Do you**
6 **see that?**

7 A. Yes.

8 **Q. What is the proper allocation formula?**

9 A. What I meant by that were the fact that I
10 did not properly input the formula into one of the cells to
11 calculate the proper multiplication formula in order to
12 multiply the commodity -- or, excuse me -- the customer
13 charge versus a particular factor I had chosen to obtain
14 the usage charge and commodity charge. So it was a
15 mathematical error.

16 **Q. And where would this allocation formula be**
17 **located?**

18 A. The allocation formula would be -- it would
19 be located within the cell. It's simply just a
20 mathematical --

21 **Q. So is that in one of the cells in your work**
22 **paper, then, filed in this case or --**

23 A. Yes.

24 **Q. -- filed --**

25 A. You could see it that way.

1 **Q. And turning to Page 4 of your rebuttal**
2 **testimony.**

3 A. All right.

4 **Q. The question that starts on Line 16. It**
5 **says that Staff does not oppose the proposal made by OPC to**
6 **create a commercial class for both water and sewer. Now,**
7 **do you also agree with OPC's weighting of the commercial**
8 **class at a 1.5 factor?**

9 A. I do not oppose.

10 **Q. And your proposal would create a new**
11 **commercial class and a residential class and an apartment**
12 **class; is that correct?**

13 A. That would be correct.

14 MS. MAYFIELD: No further questions for this
15 witness, Your Honor.

16 JUDGE BUSHMANN: Cross by Hillcrest?

17 MR. COOPER: Yes, Your Honor.

18 CROSS-EXAMINATION BY MR. COOPER:

19 **Q. Mr. Robertson, do you work for Mr. Bush in**
20 **the water and sewer department?**

21 A. Yes.

22 **Q. A few weeks ago, Mr. Bush testified at**
23 **length in a Missouri American Water Company hearing. Did**
24 **you listen to his testimony?**

25 A. No, I did not.

1 Q. Okay. You haven't read it or anything?

2 A. No, I have not.

3 Q. Okay. Let me ask you this question: Do you
4 have an opinion on what entities currently the water and
5 sewer department is aware of that are interested in buying
6 and addressing failing water and sewer systems in Missouri?

7 A. I do not.

8 Q. Your phase-in, or what's been called a
9 phase-in, in your testimony, it's not really a Staff
10 proposal, is it? Is it merely an alternative that you've
11 presented to the Commission?

12 A. That is correct.

13 Q. And I think you were talking to Ms. Mayfield
14 about this, but essentially you would create a regulatory
15 asset during the time period that the first rate was in
16 effect; is that correct?

17 A. Could you rephrase that? I'm sorry.

18 Q. Well, you talked about the non-cash items
19 that wouldn't be included in your first rate in your
20 phase-in. What happens to that -- to those items during
21 the -- or during the time that first rate is in effect?

22 A. Beyond what I've stated, I would have to
23 defer that to Staff witness Paul Harrison.

24 Q. Okay. So you don't have an opinion about
25 the accounting that would take place in regard to those?

1 A. Beyond how it affected rate design, no.

2 **Q. Okay.**

3 MR. COOPER: That's all the questions I
4 have, Your Honor.

5 JUDGE BUSHMANN: I have a question.

6 QUESTIONS BY JUDGE BUSHMANN:

7 **Q. Back on your rebuttal, on Page 4, you were**
8 **talking with Ms. Mayfield about a statement on Lines 16 and**
9 **17 about creating a commercial class -- OPC's proposal to**
10 **do that, and you said you didn't oppose it. Did you ever**
11 **calculate what the appropriate customer charge or volume**
12 **metric rate would be on a commercial class? Does that**
13 **appear anywhere in your testimony?**

14 A. I did not submit anything, but, yes, I have
15 run those numbers.

16 JUDGE BUSHMANN: Recross, Public Counsel?

17 MS. MAYFIELD: No questions, Your Honor.

18 JUDGE BUSHMANN: Hillcrest?

19 MR. COOPER: No questions, Your Honor.

20 JUDGE BUSHMANN: Redirect by Staff?

21 REDIRECT EXAMINATION BY MS. PAYNE:

22 **Q. Mr. Robertson, Ms. Mayfield referred to the**
23 **work papers that were filed in conjunction with your**
24 **testimony regarding the volumetric and the customer charge.**
25 **Could you please tell me what dollars actually do go to the**

1 **volumetric and customer charge within those work papers?**

2 A. What stage -- disposition, rebuttal?

3 **Q. It was in reference to your -- I believe it**
4 **was your direct.**

5 A. And then could you rephrase the question,
6 please?

7 **Q. Could you --**

8 A. Or restate it. Excuse me.

9 **Q. No. Absolutely. Could you please tell me**
10 **-- she was inquiring to you if you calculated what dollar**
11 **amounts would go to the volumetric and what dollar amounts**
12 **would go to the customer charge. Can you tell me what's**
13 **contained in your work papers regarding those?**

14 A. I would have to use -- I have not submitted
15 anything that shows that. I have no schedules. I do have
16 my work papers with me, but they're not in evidence.

17 **Q. Okay. That's fine. We'll leave it be.**
18 **Now, Ms. Mayfield also was asking about your rate design**
19 **proposal. She asked you how you determined the revenue for**
20 **each customer class. Can you tell me what your process is**
21 **for rate design once you've received the revenue**
22 **requirement from the auditing department?**

23 A. Restate the question, please.

24 **Q. When you sit down to determine rate design,**
25 **you receive the revenue requirement from the auditing**

1 **department; is that correct?**

2 A. Correct.

3 Q. **And then do you use that -- do you apply**
4 **that into your rate design formula to determine the proper**
5 **amount that would go to each customer class?**

6 A. Yes.

7 Q. **Thank you. Now, we were discussing with**
8 **Ms. Bolin a exhibit filed as Staff Exhibit 15.**

9 MS. PAYNE: May I approach the witness?

10 JUDGE BUSHMANN: You may.

11 BY MS. PAYNE:

12 Q. **Do you recognize that document?**

13 A. I am unfamiliar with this document.

14 Q. **Would you believe me if I said that it's a**
15 **document that's created by our auditing department to**
16 **recognize adjustments throughout the course of the -- of**
17 **the rate increase process?**

18 A. Yes.

19 Q. **And can you look down -- the**
20 **second-to-the-last entry on there is February 8th of 2016.**

21 A. All right.

22 Q. **And if you look over under the heading for**
23 **Ending Revenue Requirement Balance EMS, is that the same**
24 **\$144,630 that Ms. Mayfield asked you about?**

25 A. The -- so you're looking at the last --

1 February 8th, '16?

2 Q. Yes. The second from the bottom.

3 A. It would appear to be the same number.

4 Q. And is it possible that that's the number
5 that you used when you were calculating in your direct
6 testimony?

7 A. Yes.

8 Q. And do you see the entry below that --

9 A. Yes.

10 Q. -- for April 1st? And where it says
11 adjustment description, can you please read why it says
12 that that was adjusted?

13 A. To update property tax paid as of December
14 31st, 2015.

15 Q. Thank you. And, finally, Ms. Mayfield asked
16 you about Page 2 of your rebuttal testimony. I'll give you
17 time to flip to that.

18 A. All right.

19 Q. And can you please explain -- you referenced
20 a math error that occurred that resulted in those changes.
21 Can you please explain what that error was?

22 A. When calculating -- let me find the
23 schedule.

24 Q. That's fine. Take your time.

25 A. And if you could restate your question, it

1 would be great.

2 **Q. Absolutely. If you could just explain what**
3 **that math error was and what the corrections were for me.**

4 A. Basically what needed to happen was once you
5 want to divide your amount with any column that had to do
6 with your items that you want to break down between your
7 customer and commodity charge, you use a factor. Once
8 you've used that factor, you can multiply that by one cell
9 in order to equate what the sum would be for the other
10 cell, those cells being customer, commodity.

11 I had just not aligned them correctly with
12 the proper multiplication versus the factor, so it was
13 putting it in the wrong cell, I do believe, from memory. I
14 would have to go back and look at the direct testimony to
15 see what actually changed, but I don't have that broken
16 down. I have it in the narrative.

17 **Q. No, that's fine. So you might say it was a**
18 **formatting error that resulted in a mathematical error?**

19 A. Yes.

20 **Q. Okay.**

21 MS. PAYNE: No further questions, Your
22 Honor. Thank you.

23 JUDGE BUSHMANN: You may step down,
24 Mr. Robertson.

25 MS. PAYNE: Staff would call its witness

1 Shana Griffin to the stand.

2 (Witness sworn.)

3 SHANA GRIFFIN testified as follows:

4 DIRECT EXAMINATION BY MS. PAYNE:

5 **Q. Can you please state and spell your name for**
6 **the court reporter.**

7 A. My name is Shana Griffin, G-R-I-F-F-I-N.

8 **Q. And your position?**

9 A. I'm a utility regulatory auditor 3 with the
10 Commission staff.

11 **Q. And did you prepare or cause to be prepared**
12 **testimony in this matter, including direct testimony, both**
13 **HC and NP, and rebuttal testimony, both HC and NP?**

14 A. Yes.

15 **Q. And do you have any changes to make to that**
16 **testimony at this time?**

17 A. I do to my rebuttal testimony.

18 **Q. And what are those changes?**

19 A. On the cover page it says "auditing
20 department" and it should say "financial analysis unit."
21 And on Page 1, Line 3, it says Shana Atkinson, which was my
22 maiden name, and it should be Griffin.

23 **Q. And with those changes, do you admit that --**
24 **if I asked you the same questions today, the answers would**
25 **be the same?**

1 A. Yes.

2 Q. **And that testimony is true and accurate to**
3 **the best of your knowledge, including those changes?**

4 A. Yes.

5 MS. PAYNE: I tender this witness -- or I
6 would like to offer at this time both the direct HC and NP
7 testimony of Shana Griffin labeled as Staff's Exhibit 4 and
8 5; as well as the rebuttal testimony HC and NP labeled
9 Staff Exhibits 6 and 7.

10 JUDGE BUSHMANN: Any objections? Hearing
11 none, those exhibits are received into the record.

12 (Wherein, Staff Exhibit Numbers 4, 5, 6, and
13 7 were marked and received into the record.)

14 MS. PAYNE: At this time, I would tender
15 this witness for cross.

16 JUDGE BUSHMANN: The first cross will be
17 Public Counsel.

18 CROSS-EXAMINATION BY MS. MAYFIELD:

19 Q. **Ms. Griffin, if you could please turn to**
20 **Page 3 of your rebuttal testimony. And I'm looking at**
21 **Lines -- I'm going to be looking at Lines 7 through 10.**
22 **There it says -- you used the term "extreme amount of**
23 **leverage." Do you see that on Line 8?**

24 A. Yes.

25 Q. **What is an extreme amount of leverage?**

1 A. So as -- so our methodology, as a guide, we
2 use S&P's rating methodology to guide us as far as
3 estimating the risk of a small water and sewer company.
4 And we use debt to capital to estimate the financial risk.
5 And the -- when you get to 60 percent -- greater than 60
6 percent, highly leveraged their financial risk profile. So
7 as you get higher and higher in leverage, the risk
8 increases, therefore the return increases as you get higher
9 and higher.

10 **Q. Continuing on down into Lines 9 and 10, it**
11 **says, "Extreme amount of leverage will have so much**
12 **financial risk that the equity investors' required return**
13 **will be exponentially higher than what would be expected**
14 **under a more prudent capital structure." So is it Staff's**
15 **opinion that the capital structure for Hillcrest is**
16 **imprudent?**

17 A. Staff views Hillcrest's actual capital
18 structure to be 100 percent equity; however, we recommended
19 a 75-percent debt capital structure because it was
20 presented to us in the certificate and financing case that
21 if they could get third-party commercial bank financing
22 they would use a highly leveraged capital structure.

23 **Q. Turning to Page 4 of your rebuttal**
24 **testimony, please. I'm looking at Lines 12 and 13. Do you**
25 **see there it says, "Due to the complexity of the investment**

1 **structure -- for investment in Hillcrest" -- we'll stop**
2 **there. Complexity of the investment structure, is the way**
3 **Hillcrest is set up and the way that money flows, is that a**
4 **complex structure in your opinion?**

5 A. Yes.

6 **Q. Is it overly complex?**

7 A. It is very hard to understand what has
8 happened originally with the investment structure that was
9 presented to Staff in the certificate and financing case up
10 to now.

11 **Q. And is that because as you state in Line 13**
12 **that there is a lack of transparency and access to**
13 **information?**

14 A. Yes.

15 **Q. Going down to Line 16 it says, "Staff does**
16 **not trust that the 14 percent rate resulted from good faith**
17 **negotiations." What do you mean by that?**

18 A. So the investment structure of Hillcrest now
19 is that the equity -- debt and equity investors are the
20 same people -- the Glarners. And originally when Mr. Cox
21 negotiated Fresh Start down with the original Fresh Start
22 investors from 15 to 14 percent, Fresh Start was offered a
23 33-percent ownership in Fresh Start. So it went down by 1
24 percent. Now, the Glarners that own Fresh Start have 87
25 percent ownership in First Round, and that 14-percent rate

1 never went down.

2 **Q. So what you had expected in your experience**
3 **that rate to have gone down given the amount of equity**
4 **position the Glarners hold?**

5 A. Based off of risk return concept, yes, that
6 percentage should've gone down.

7 **Q. Continuing on, on Page 4, it says,**
8 **"Traditionally, most traditional debt rates are determined**
9 **by applying the margin to sum index." And then it says,**
10 **"Based on the credit worthiness of the borrower." What do**
11 **you mean by the credit worthiness of the borrower?**

12 A. So a bank would usually look at the credit
13 worthiness of the borrower, being a company, a person. And
14 then usually that rate that they set, you would know if
15 it's the bank's commercial rate or if they applied a margin
16 to some set index, say the prime rate that you can easily
17 and verifiably look up.

18 **Q. So you said that it could be impacted by the**
19 **credit worthiness of a person. So could a person who had**
20 **filed for a personal bankruptcy -- could their credit**
21 **worthiness impact the rate they received if they went to**
22 **borrow?**

23 A. For them personally, yes.

24 **Q. Could it potentially affect the business's**
25 **rate as well?**

1 A. I don't know for sure.

2 **Q. If you'd turn to Page 5 of your rebuttal**
3 **testimony, Line 14 through 17. You talk about Hillcrest's**
4 **default, or I guess potentially if Hillcrest were to**
5 **default. Do you see that starting on Line 14?**

6 A. Yes.

7 **Q. You make the statement that, "If Hillcrest**
8 **were to default on the 14-percent financing agreement, then**
9 **the investors that own the debt and 87-percent equity**
10 **interest in Hillcrest through First Round would simply**
11 **become a wholly owned investors due to the most likely**
12 **scenario that Mr. Cox's equity interest would be deemed**
13 **worthless." In this scenario, why would Mr. Cox's equity**
14 **be deemed worthless if Hillcrest were to default?**

15 A. Because the Glarners would virtually own all
16 of the assets because they own Fresh Start, and they own 87
17 percent of First Round.

18 **Q. Turning to Page 7 of your rebuttal, I'm**
19 **looking at Lines 14 through 18. Staff was aware that**
20 **Hillcrest had to make significant increases in its**
21 **investment; is that correct?**

22 A. Yes.

23 **Q. And as stated here, Staff took that matter**
24 **very seriously. Correct?**

25 A. Yes.

1 **Q. And you state at Line 17 that, "Considering**
2 **the significance of Staff's concerns, Staff was certainly**
3 **surprised when Mr. Cox failed to reach out to Staff in a**
4 **timely manner to specifically discuss the significant**
5 **change, even if after the fact." How did you find out that**
6 **there was a change? How did this come to Staff's**
7 **attention?**

8 A. Mr. Cox sent Staff and OPC an e-mail and
9 letter attached stating the change.

10 **Q. And was that after certain prompting or**
11 **questioning?**

12 A. No.

13 **Q. You state that Mr. Cox failed to reach out**
14 **in a timely manner. How long was the time between that**
15 **e-mail was sent out and the time the change occurred? Do**
16 **you know?**

17 A. So from Staff's understanding, the final
18 executed loan document between Hillcrest and Fresh Start
19 was in March of 2015. Sorry. Excuse me. Let me look for
20 a minute. And Staff received the e-mail on September 9th,
21 2015.

22 **Q. So that was after the fact, then?**

23 A. Yes.

24 **Q. Turning to Page 11 of your rebuttal. I'm**
25 **looking at Lines 8, 9, and 10. It reads that, "Josiah Cox**

1 **invests and manages the capital with potential upside if he**
2 **is successful in generating significant returns." Do you**
3 **see that?**

4 A. Yes.

5 Q. Does this create a potential conflict of
6 interest for Mr. Cox, in your opinion?

7 A. What do you mean by conflict of interest?

8 Q. Sure. Would Mr. Cox maybe be motivated for
9 personal reasons versus what's in the best interests of the
10 utility since he could have a potential upside if he is
11 successful in generating significant returns?

12 A. I guess there could be.

13 Q. And then turning to Page 14 of your
14 rebuttal, looking at the question that starts at Line 10
15 with the answer that completes itself at Line 16, it states
16 that, "For Staff's ROR recommendation, Staff compared
17 Hillcrest to other ROR recommendations made by Staff for
18 small water and sewer companies in the state of Missouri."
19 And I believe your response was that you did look at other
20 small water and sewer companies in the state for the
21 purposes of calculating ROR; is that correct? Am I
22 reading that correct?

23 A. No. I was just comparising (sic) the fact
24 that this is the highest rate of return recommendation that
25 Staff has made for small water and sewer utilities in the

1 state. It had no bearing on our recommendation.

2 **Q. But this comparison did take into**
3 **consideration all the small water and sewer companies,**
4 **including companies in receivership, that filed for a rate**
5 **increase from September 2010 to present. Correct?**

6 A. Yes.

7 **Q. So you used those small water and sewer**
8 **systems as a yardstick?**

9 A. We were just comparing. It had no bearing
10 on our recommendation.

11 **Q. Is it typical for I guess your division to**
12 **compare -- I guess make comparisons amongst other small**
13 **water and sewer utilities in the state?**

14 A. Can you repeat that?

15 **Q. Sure. I guess, is it a typical method for**
16 **Staff to utilize comparing small water and sewer utilities**
17 **across the state for various reasons, like in this case for**
18 **the ROR recommendation?**

19 A. The comparison had no bearing on our rate of
20 return recommendation; however, we usually don't go through
21 all of our recommendations to see what we recommended.

22 **Q. I believe this is going to be my last**
23 **question. Page 15 of your rebuttal.**

24 A. Okay.

25 **Q. At the top of the page, it's Lines 1 through**

1 **3. It starts that, "Although owners are not necessarily**
2 **legally required to provide personal guarantees, many do so**
3 **in order to secure reasonably priced financing for the**
4 **benefit of their customers." Is that an accurate**
5 **statement?**

6 A. Yes.

7 **Q. So some owners do provide personal**
8 **guarantees in order to secure financing?**

9 A. Yes.

10 **Q. And an owner that had a personal bankruptcy**
11 **may not be able to provide a personal guarantee in order to**
12 **secure reasonably priced financing; is that correct?**

13 A. It's possible.

14 **Q. Thank you.**

15 MS. PAYNE: No further questions from this
16 witness, Your Honor.

17 JUDGE BUSHMANN: Cross by Hillcrest?

18 MR. COOPER: Yes, Your Honor.

19 CROSS-EXAMINATION BY MR. COOPER:

20 **Q. Starting with that question, I think you**
21 **acknowledge it in the text of your testimony, anyway,**
22 **owners are not required to provide personal guarantees.**
23 **Correct?**

24 A. Correct.

25 **Q. And in some small water and sewer**

1 **situations, the individual owner even will get the**
2 **financing. It's not truly company financing in that**
3 **situation at all, is it?**

4 A. Correct. Yeah. They will put up their
5 personal assets.

6 **Q. If you were advising one of these owners,**
7 **would you advise them to obtain -- or to provide a personal**
8 **guarantee on a small water and sewer system?**

9 A. I would not -- I would not advise them in
10 any matter as far as that goes. That's their own decision.

11 **Q. How about, does it get worse if you're**
12 **talking about a utility that's already in violation of**
13 **environmental rules and statutes and has environmental**
14 **liability from day one?**

15 MS. PAYNE: Objection, Your Honor. I'm
16 going to say that that question calls for a legal
17 conclusion with this -- this witness is not qualified to
18 answer.

19 JUDGE BUSHMANN: Why is it a legal
20 conclusion?

21 MS. PAYNE: He's asking her about the
22 violations of rules and statutes, and as far as I'm aware
23 that has not been brought up for this witness to be able to
24 opine on.

25 MR. COOPER: I'm providing her a

1 hypothetical. She doesn't have to make any determination
2 about the existence of violations of rules or statutes.

3 JUDGE BUSHMANN: I'll overrule it and the
4 witness can answer to the extent that you feel comfortable.

5 WITNESS: Can you repeat the question?

6 BY MR. COOPER:

7 **Q. Do you think a person -- let's try it a**
8 **different way here. But do you think an owner would be**
9 **even less likely to provide a personal guarantee if the**
10 **subject utility was already in violation of statutes and**
11 **rules concerning environmental problems, already had**
12 **environmental liability?**

13 MS. PAYNE: Now, I'm going to object based
14 on speculation.

15 JUDGE BUSHMANN: Overruled.

16 WITNESS: I don't know.

17 BY MR. COOPER:

18 **Q. So your expertise doesn't extend to whether**
19 **that would be a good idea for an individual owner to do**
20 **that?**

21 A. It's up to the individual to decide those
22 things.

23 **Q. So, really, your testimony in regard to**
24 **personal guarantees is just that it's possible, right, not**
25 **that it's a good idea, not that it's likely in any**

1 particular situation, but just that it's possible?

2 A. Correct.

3 Q. And I think you also told me that in some of
4 the small utility situations that you're familiar with that
5 the debt even if not utility debt, correct, that it's
6 actually personal, individual debt sometimes?

7 A. Sometimes.

8 Q. Is that a good idea for the customer?

9 A. What is a good idea?

10 Q. Well, would you agree with me that if debt
11 is held by the individual owner that, then, the stability
12 of the utility itself is actually subject to the individual
13 owner's personal financial situation and decisions that he
14 or she may make in their personal side that could affect
15 the utility?

16 A. Can you repeat that?

17 Q. Well, let's go at it this way. Let's say
18 that the utility -- and it's in the business of providing
19 service and that it needs financing to replace a pump
20 that's gone out. Okay? And the utility is not able itself
21 to go borrow the money to get -- to replace that pump, so
22 the individual owner goes to the bank and borrows the money
23 and provides, I assume, a security interest in that
24 utility's pump, arguably. Doesn't that put the owner's
25 personal financial situation -- doesn't that make that

1 **owner's personal financial situation important now to the**
2 **utility itself?**

3 A. We would probably look at that in a finance
4 case because any owner, before they have -- get to secure
5 those assets would have to come to us and ask for
6 permission.

7 **Q. Do you -- in all the small water/sewer debt**
8 **that you're aware of, do all those folks come to you for**
9 **permission before they obtain that debt?**

10 A. I mean, I guess it's possible that a small
11 water and sewer company did not come to the Commission, but
12 I don't know.

13 **Q. Okay. But you don't have any personal**
14 **knowledge of -- one way or the other?**

15 A. No.

16 **Q. There was a reference to some testimony you**
17 **had about an extreme amount of leverage. You have seen**
18 **multiple situations where there is an extreme amount of**
19 **leverage with utilities in the State of Missouri, haven't**
20 **you?**

21 A. With small water and sewer utilities, yes.

22 **Q. There were some questions you got about**
23 **notification of the ownership change. Would you agree with**
24 **me that there was no requirement to provide you with that**
25 **notification?**

1 A. Correct.

2 Q. And no permission from the Commission needed
3 as well. Correct?

4 A. I don't believe so.

5 Q. Were you here during my opening statement?

6 A. I did not hear all of your opening
7 statement.

8 Q. You truly missed out. One of the things I
9 did during the opening statement was read a provision from
10 the -- or a paragraph from the Staff recommendation in
11 WO-2014-0340, which was the acquisition case for Brandco --
12 or for Hillcrest to acquire Brandco. And, now, you were
13 involved in that case, weren't you?

14 A. Yes.

15 Q. And participated in the Staff
16 recommendation?

17 A. Yes.

18 Q. Okay. And in one of the provisions from the
19 Staff recommendation that I wanted to bring out was the one
20 that said -- and I'm going to read it for you here --
21 "Staff is quite familiar with Brandco, having spent a
22 considerable amount of time assisting the utility with its
23 operations issues and shortcomings, customer billing and
24 financial reporting. Although the owner of Brandco has
25 been running the utility for a number of years, he no

1 longer has adequate ability to accomplish operations tasks,
2 and also has limited financial resources. Staff takes the
3 position that without question the owner of Brandco needs
4 to be able to exit the responsibilities associated with
5 owning and operating a utility company."

6 Now, keeping that in mind, was the prior
7 owner obtaining his own financing and option for correcting
8 the problems that existed in these systems?

9 A. I don't know.

10 Q. Now, do I understand correctly that using
11 your hypothetical capital structure you recommend a debt
12 cost range of, what, 8.88 percent to 10.13 percent?

13 A. Correct.

14 Q. And, similarly, in using your hypothetical
15 capital structure, you recommend a return on equity range
16 of 12.88 percent to 14.13 percent. Correct?

17 A. Correct.

18 Q. Okay. And that's truly a range -- that's a
19 range that you think would be appropriate that the
20 Commission could pick an amount within that range, and it
21 would be consistent with your research and your work?

22 A. The 8.88 and 12.88 were calculated together.
23 The 10.13 and 14.13 were calculated together. But yes.

24 Q. Now, in a large company rate case, does
25 Staff generally come up with a hypothetical debt number, or

1 **does it normally use the actual cost to debt?**

2 A. I'm sorry. Can you repeat that?

3 Q. **In a large company rate case -- for example,**
4 **I think you're going to testify in a couple of weeks in the**
5 **Empire rate case. Correct?**

6 A. Correct.

7 Q. **Will you use a hypothetical cost of debt or**
8 **will you use the actual cost of debt?**

9 A. Well, in that case we actually disallow for
10 certain things in the cost of debt, but usually, yes, we
11 use the actual embedded cost of debt.

12 Q. **And one of the things you allege is that**
13 **Hillcrest debt is not true debt capital. Correct? That's**
14 **a quote from your testimony?**

15 A. Correct.

16 Q. **But -- and this is close to a question that**
17 **Ms. Mayfield asked -- you haven't alleged that Hillcrest**
18 **debt is imprudent, have you?**

19 A. The 14-percent rate is not consistent with
20 the rate that would be attained from a third-party pass of
21 debt investor, but I have not stated that it's imprudent.

22 Q. **All right. And, in fact, it would be**
23 **difficult to say that it's imprudent given that the**
24 **Commission approved the company's entry into that agreement**
25 **in the acquisition case. Correct?**

1 A. No. We approved that they could encumber
2 the assets. We did not agree to certain terms. We
3 specifically said --

4 **Q. But these are -- let me try this. These are**
5 **Missouri utilities. Correct?**

6 A. Correct.

7 **Q. So do Missouri utilities have to come to you**
8 **to -- not only for the permission to encumber their assets**
9 **but also to enter into evidence of indebtedness?**

10 A. We specifically stated conditions in that
11 case that no terms were for rate-making purposes.

12 **Q. True. But in terms of the execution of the**
13 **documents, entry into the agreements, that was approved.**
14 **Correct?**

15 A. To encumber the assets, yes.

16 **Q. Now, you would be very familiar with both**
17 **the Hope and Bluefield cases. Correct?**

18 A. Correct.

19 **Q. And would you agree with me that in the Hope**
20 **case one of the objectives of this process is to set a**
21 **sufficient return to attract capital?**

22 A. Correct.

23 **Q. And I think you state in your rebuttal**
24 **testimony that if Hillcrest were treated as having**
25 **100-percent equity, you would suggest a rate of return of**

1 **8.18 percent; is that correct?**

2 A. Correct.

3 Q. **And going back to that Empire case, you're**
4 **currently recommending a 9.75 return on equity in the**
5 **Empire case. Correct?**

6 A. Correct.

7 Q. **And -- now, that's a little different**
8 **capital structure because it's equity of, what, 48.9**
9 **percent? Is that about right?**

10 A. Subject to check.

11 Q. **I think I got it out of your testimony,**
12 **so --**

13 A. Okay.

14 Q. **Maybe you're going to correct it on the**
15 **stand.**

16 A. Yeah.

17 Q. **Do you think -- given that situation in the**
18 **world, do you think 8.18 percent return on equity would**
19 **really be sufficient to attract capital to Hillcrest, a**
20 **company that has environmental liability, has limited cash**
21 **flow, limited assets?**

22 A. They're two different cases.

23 Q. **But, presumably, an investor is looking at**
24 **different places that they could put their money. Correct?**

25 A. Correct.

1 **Q. So they would weigh one against the other,**
2 **even though they're separate cases. Correct?**

3 A. I don't think an investor of a public
4 utility is looking at a smaller water and sewer system.

5 **Q. Because it would be too risky?**

6 A. No.

7 **Q. Why then?**

8 MS. PAYNE: Objection to this entire line of
9 questioning, calls for speculation.

10 JUDGE BUSHMANN: Overruled.

11 WITNESS: Can you repeat that?

12 BY MR. COOPER:

13 **Q. Yeah. I think you told me that an investor**
14 **that would invest in a publicly traded utility would not**
15 **consider investing in a small water and sewer company. I'm**
16 **just curious why.**

17 A. Hillcrest is not publicly traded, so --

18 **Q. So it's riskier than our publicly traded**
19 **companies. Is that what you're saying?**

20 A. I don't know.

21 MR. COOPER: That's all the questions I
22 have. Your Honor.

23 COMMISSIONER KENNEY: No questions.

24 JUDGE BUSHMANN: Redirect by Staff?

25 MS. PAYNE: Thank you, Your Honor.

1 REDIRECT EXAMINATION BY MS. PAYNE:

2 Q. Ms. Griffin, Ms. Mayfield asked you about
3 the capital structure behind Hillcrest, and you stated that
4 Staff actually views it as 100 percent equity. Can you
5 tell me why that would be significant?

6 A. 100-percent equity capital structure is less
7 risky and the debt and equity investors are the same, so
8 therefore they have less risk.

9 Q. Thank you. Now, you said you don't normally
10 compare a utility to other utilities within the state in
11 answer to one of Ms. Mayfield's questions. Is there a
12 reason in this case that you decided to compare the
13 recommended rate of return to Staff's other
14 recommendations?

15 A. Well, we just wanted to show how fair and
16 reasonable our recommendation is.

17 Q. Okay. Now, when you were asked by
18 Mr. Cooper about a small water or sewer utility owner
19 obtaining personal financing, you mentioned something about
20 getting Commission authorization. Should a utility owner
21 get Commission authorization if they seek personal
22 financing in relation to their utility?

23 A. If they're going to be putting the assets up
24 collateral, yes.

25 Q. Mr. Cooper also asked you whether you

1 **usually create a hypothetical structure. What reason did**
2 **you have for creating a hypothetical structure in this**
3 **case?**

4 A. Staff views the capital structure as
5 100-percent equity, but since Hillcrest represented to us
6 that they plan on having a highly leveraged capital
7 structure if they could get commercial bank financing,
8 that's why we made that recommendation.

9 Q. All right. Now, Mr. Cooper also mentioned
10 the acquisition case and that the 14-percent rate was
11 approved in that case for those purposes. Did Staff learn
12 that there was a change in the investors since the
13 acquisition?

14 A. Yes.

15 Q. And did Staff also learn of an additional
16 affiliate in the structure of the Hillcrest --

17 A. Yes. The structure changed between the
18 original certificate and financing application until now.
19 Now, it's verified that the 14 percent is not a rate that
20 is consistent with third-party debt investors.

21 Q. All right. Is it true that there's
22 technically only one financial investor in the Hillcrest
23 capital structure?

24 A. Yes, the Glarners.

25 Q. And did they provide any testimony in this

1 **proceeding?**

2 A. No.

3 MS. PAYNE: That's all the questions I have.

4 JUDGE BUSHMANN: Thank you, Ms. Griffin.

5 You may step down.

6 WITNESS: Thanks.

7 MR. WESTEN: At this time Staff would like
8 to call Mr. Paul Harrison to the stand.

9 (Witness sworn.)

10 PAUL HARRISON testified as follows:

11 DIRECT EXAMINATION BY MR. WESTEN:

12 Q. **Good afternoon, Mr. Harrison.**

13 A. Good afternoon.

14 Q. **Could you please state your full name for
15 the record.**

16 A. It's Paul R. Harrison.

17 Q. **And how do you spell your last name, sir?**

18 A. H-A-R-R-I-S-O-N.

19 Q. **And are you employed with the Missouri
20 Public Service Commission?**

21 A. Am I what?

22 Q. **Employed with the Missouri --**

23 A. Yes, I am.

24 Q. **And what's your position with the
25 Commission?**

1 A. I am a regulatory audit -- utility
2 regulatory auditor level -4.

3 **Q. And are you the same Paul Harrison that**
4 **prepared or caused to be prepared some direct and rebuttal**
5 **testimony in this case?**

6 A. I did.

7 **Q. And do you have any corrections to that**
8 **testimony?**

9 A. I do not.

10 **Q. If I were to ask those same questions of you**
11 **again today, would your answers be the same?**

12 A. They would.

13 **Q. And are the answers in your testimony true**
14 **and accurate, to the best of your belief and knowledge?**

15 A. They are.

16 **Q. And just real quick, in your rebuttal**
17 **testimony, there's actually a highly confidential version**
18 **of that as well?**

19 A. There is. And we have got payroll work
20 papers from the company. And any time we use the employee
21 name instead of the employee number, and we tie payroll to
22 that, it has been identified as HC, so -- and I know that
23 it has already been discussed here today by name and by
24 salary, so it needs to be determined whether that's HC or
25 not.

1 **Q. To the extent that -- if I ask you any**
2 **questions and those -- that information is identified, I'll**
3 **treat it as HC.**

4 A. I will.

5 **Q. All right.**

6 MR. WESTEN: At this time, Staff would move
7 for the admission of Staff's Exhibit 8, Staff's Exhibit 9
8 HC, and Staff's Exhibit 10 -- move to --

9 JUDGE BUSHMANN: Any objections? Hearing
10 none, they are received.

11 (Wherein, Staff's Exhibit Numbers 8, 9 HC,
12 and 10 were marked and received into the record.)

13 MR. WESTEN: At this time Staff tenders the
14 witness for cross-examine.

15 JUDGE BUSHMANN: Cross-examination by Public
16 Counsel?

17 CROSS-EXAMINATION BY MS. MAYFIELD:

18 **Q. He think he thought I knew I was going to**
19 **question him. Mr. Harrison, good afternoon. I believe --**
20 **were you present when Mr. Robertson was testifying here a**
21 **moment ago?**

22 A. I was.

23 **Q. I think he indicated that you would be the**
24 **best person to ask about the revenue requirement as direct**
25 **-- or as -- I guess connected with rate design. So are you**

1 **the person that does rate design?**

2 A. Actually, Ashley Sarver and myself, we
3 develop the cost of service, which the cost of service was
4 used and the revenue requirement was used to develop that
5 phase-in rates.

6 JUDGE BUSHMANN: Mr. Harrison, can you use
7 the microphone, please, sir?

8 WITNESS: Any question --

9 JUDGE BUSHMANN: Can you talk into the
10 microphone?

11 WITNESS: I'm sorry. So any questions
12 dealing with how the revenue requirement cost of service
13 was put together, then that would be my area.

14 BY MS. MAYFIELD:

15 **Q. Okay. Were -- did you prepare a rate design**
16 **that shows the revenue requirement going to the volume**
17 **metric rate versus the customer charge?**

18 A. I did not.

19 **Q. What is your recommendation with regard to**
20 **when the phase-in rates would take effect?**

21 A. What we're recommending in this case is that
22 we would remove the depreciation expense, rate of return,
23 and bad debt, and then that would be included in rate base;
24 and then it would be amortized over five years.

25 **Q. And is it your understanding that Staff's**

1 **proposal on the phased-in rates would require the company**
2 **to come in and file a rate case within 12 months?**

3 A. No.

4 **Q. What is your understanding of Staff's**
5 **proposed phased-in --**

6 A. The reason that is included in our
7 disposition agreement is because this company only had
8 seven and a half months of actual data. They were acquired
9 in March of 2015. Our update period ended December -- or,
10 excuse me -- October 31st, 2015. We had seven and a half
11 months of data.

12 All of the revenues, all of the expenses had
13 to be annualized based upon that seven and a half months of
14 data. OPC and Staff, in meetings and discussions with the
15 company, had said that we needed to do either a rate review
16 or a rate case in 12 to 18 months, and that's how the 12 to
17 18 months come up and that's how it wound up in the
18 disposition agreement.

19 **Q. But in order for this proposed -- I guess**
20 **I'm calling it phased-in rates because that's the term**
21 **used, but in order for Staff's phased-in rate design**
22 **proposal it would require the company to come in and file a**
23 **new rate case in order to pick up those -- I think they're**
24 **called non-cash items?**

25 A. Staff's recommendation to this Commission is

1 for this company to either file a rate case or Staff do a
2 rate review in 12 to 18 months, no matter whether it's
3 phase-in rates or not.

4 **Q. So Staff will be doing a rate review**
5 **regardless of this Commission orders traditional rates or a**
6 **phrased-in rate?**

7 A. The company and Staff has agreed upon that
8 in the disposition agreement. Yes.

9 **Q. All right. If you would turn to your**
10 **rebuttal testimony, please, Page 3.**

11 MR. WESTEN: Counsel, is this the
12 confidential or public?

13 MS. MAYFIELD: I'm looking at the HC
14 version, but I'm not going to be asking him any questions
15 related to the HC materials.

16 MR. WESTEN: Thank you.

17 MS. MAYFIELD: You're welcome.

18 BY MS. MAYFIELD:

19 **Q. Are you there?**

20 A. I'm at Page 3. Which line?

21 **Q. We're looking at the answer located on Lines**
22 **4, 5, and 6. Were you here and present for Ms. Griffin's**
23 **testimony just momentarily ago?**

24 A. I was.

25 **Q. And I asked her some questions about**

1 comparing other small water and sewer systems. Did you
2 hear me ask those questions of Ms. Griffin?

3 A. I did. I did.

4 Q. And I believe in regards to a question
5 directed by Ms. Payne, Ms. Griffin stated that they used
6 the comparison for a fair and reasonable -- to show that
7 their recommendation was fair and reasonable. Did you hear
8 that response?

9 A. I heard that.

10 Q. Now, OPC has compared Hillcrest to other
11 small water and sewer utility companies. That's your
12 understanding. Correct?

13 A. That is correct.

14 Q. And --

15 A. She attached a schedule to her testimony.

16 Q. And it sounds like Ms. Griffin had also done
17 the same thing. She had compared, at least in determining
18 -- for fair and reasonable, their rate with other small
19 water and sewer companies within the state of Missouri?

20 A. I do not know what work papers she put
21 together or what she relied upon or whether she used her
22 own experience to determine if what she came up with was
23 compatible with other water and sewer companies.

24 Q. And you say that the small water and sewer
25 systems that OPC refers to in Schedule KNR-3 marked highly

1 **confidential are all standalone utilities and they are not**
2 **comparable to Hillcrest and CSWR?**

3 A. That is correct.

4 **Q. But Hillcrest is a standalone utility within**
5 **its own right; is that not correct?**

6 A. It is, but CSWR is not. It's got multiple
7 systems -- that it's purchasing actually multiple troubled
8 systems, that is -- or it's already acquired three. It's
9 in the process of acquiring three more. It's got two
10 others after that. And this corporation, in my opinion, is
11 putting this structure together to be a lot larger company.

12 **Q. But the focus of this rate case is on**
13 **Hillcrest Utilities. Correct?**

14 A. It is, but also we're pulling additional
15 data into this case on corporate allocations of other
16 things on the projected allocate -- other properties that
17 this company is acquiring.

18 **Q. If we take a look at the bottom of Page 3 of**
19 **your rebuttal, we're looking at Lines 22, 23, and 24.**

20 A. I'm there.

21 **Q. It says that Staff believes that all of the**
22 **costs -- well, actually, let's just back up.**

23 A. Excuse me. Are you on Page 3?

24 **Q. Yep. I'm on Page 3 at the bottom.**

25 A. What line item?

1 **Q. I guess let's just look at the answer that**
2 **starts on Line 20 and goes to Line 24.**

3 A. Okay.

4 **Q. It says that no, not entirely. Staff agrees**
5 **that the costs associated with --**

6 A. Just a second. You're in my rebuttal or
7 direct?

8 **Q. Your rebuttal.**

9 A. I'm on Page 3 on Line 20 and I've got a
10 question. You said you had an answer.

11 **Q. Are you looking at the HC version of your**
12 **rebuttal?**

13 A. No. It's not marked as HC.

14 MS. PAYNE: Line 20, Page 3. That's what I
15 have too.

16 MS. MAYFIELD: Just a moment.

17 WITNESS: Thank you.

18 MR. WESTEN: Mr. Harrison, are you --

19 WITNESS: She gave it to me. Okay. I'm
20 looking at Line 20.

21 MR. WESTEN: Before you continue,
22 Mr. Harrison, would you mind adjusting your mic so it's a
23 little bit closer to where you're talking? Thank you.

24 WITNESS: Okay.

25 BY MS. MAYFIELD:

1 **Q. Okay. So I think now we're on the right**
2 **Page 3 of your rebuttal testimony. We're looking at Line**
3 **20 through 24. And I was starting to read there.**
4 **Actually, I will just -- would you please read your answer**
5 **from Lines 20 to 24, please?**

6 A. "No, not entirely. Staff agrees that the
7 costs associated with all hours worked prior to March 13th,
8 2015 should not be included in Mr. Cox's annualized payroll
9 expense. However, Staff believes that all the costs
10 associated with the hours worked prior to acquisition date
11 of Hillcrest should be capitalized to plant and service and
12 included as part of Hillcrest's rate base."

13 **Q. So Staff is capturing the time that Mr. Cox**
14 **spent prior to the acquisition?**

15 A. Most all of the cost -- well, no, we're not.
16 Most all of the cost and the payroll prior to March was
17 being capitalized as part of the -- all the acquisition
18 stuff is being capitalized included in rate base right now.

19 **Q. And is this typical for Staff to capitalize**
20 **acquisition costs into rate base?**

21 A. Yes, it is.

22 MS. MAYFIELD: No further questions for this
23 witness, Your Honor.

24 JUDGE BUSHMANN: Cross by Hillcrest?

25 MR. COOPER: No questions, Your Honor.

1 JUDGE BUSHMANN: Redirect by Staff?

2 MR. WESTEN: No questions, Your Honor.

3 JUDGE BUSHMANN: Thank you, Mr. Harrison.
4 You may step down.

5 WITNESS: Thank you.

6 MR. WESTEN: Staff, at this time, would like
7 to call Ms. Ashley Sarver to the stand.

8 (Witness sworn.)

9 ASHLEY SARVER testified as follows:

10 DIRECT EXAMINATION BY MR. WESTEN:

11 Q. Good afternoon. Could you please state your
12 name for the record.

13 A. I'm Ashley Sarver, S-A-R-V-E-R.

14 Q. And can you please state your title?

15 A. Utility regulatory auditor 3.

16 Q. Are you the same Ashley Sarver that prepared
17 or caused to be prepared in this case direct and rebuttal
18 testimony?

19 A. Yes.

20 Q. And do you have any corrections to that
21 testimony at this time?

22 A. No, I do not.

23 Q. If I were to ask you those same questions
24 again that are in your direct and rebuttal, would your
25 answers be the same today?

1 A. Yes.

2 Q. **And are your answers in that testimony true**
3 **and accurate, to the best of your belief and knowledge?**

4 A. Yes.

5 MR. WESTEN: At this time, Staff would like
6 move for the admission of Staff's Exhibits 11 and 12 into
7 the record.

8 JUDGE BUSHMANN: Any objections? Hearing
9 none, they are received.

10 (Wherein, Staff's Exhibit Numbers 11 and 12
11 were marked and received into the record.)

12 MR. WESTEN: Staff tenders this witness for
13 cross-examination.

14 JUDGE BUSHMANN: The first cross will be by
15 Public Counsel.

16 MS. MAYFIELD: No questions, Your Honor.

17 COMMISSIONER KENNEY: No questions.

18 MR. COOPER: No questions.

19 JUDGE BUSHMANN: No need for recross; no
20 need for redirect. Thank you, Ms. Sarver. You may step
21 down.

22 MR. WESTEN: Judge, would the Commission be
23 amenable to a brief recess for a few minutes?

24 JUDGE BUSHMANN: Sure. Why don't we just
25 take a short break. We'll be in recess until 2:45.

1 (Off the record.)

2 JUDGE BUSHMANN: Back on the record. Ready
3 for Public Counsel witnesses.

4 MS. MAYFIELD: Your Honor, I would call Keri
5 Roth to the stand, please.

6 (Witness sworn.)

7 KERI ROTH testified as follows:

8 DIRECT EXAMINATION BY MS. MAYFIELD:

9 Q. **Would you please state your name for the**
10 **record.**

11 A. Keri Roth.

12 Q. **And, Ms. Roth, where are you currently**
13 **employed?**

14 A. I am employed by the Missouri Office of the
15 Public Counsel.

16 Q. **And in what capacity are you employed there?**

17 A. As a public utility accountant.

18 Q. **Now, Ms. Roth, did you prepare direct**
19 **testimony, which has been marked both public and HC; and**
20 **did you prepare rebuttal testimony, which has been labeled**
21 **public with a highly confidential Schedule KNR-1 in this**
22 **case?**

23 A. I did.

24 Q. **Are there any changes or corrections that**
25 **need to be made to those direct or rebuttal testimonies?**

1 A. Not that I'm aware of.

2 Q. **If I'd ask you the same questions today that**
3 **are contained in your direct and rebuttal, would your**
4 **answers be the same?**

5 A. They would.

6 MS. MAYFIELD: Your Honor, I would move for
7 the admission of pre-marked Exhibits OPC 001, OPC 002,
8 OPC003, and OPC004 into evidence.

9 JUDGE BUSHMANN: Any objections? Hearing
10 none, OPC Exhibit 1, which is Roth direct NP; OPC Exhibit
11 2, which is Roth direct HC; OPC Exhibit 3, which is Roth
12 rebuttal, NP; and OPC Exhibit 4, which is Roth rebuttal HC
13 are all received into the record.

14 (Wherein, OPC Exhibit Numbers 1, 2, 3, and 4
15 were marked and received into the record.)

16 MS. MAYFIELD: Thank you, Your Honor. I
17 would then tender this witness for cross-examination.

18 JUDGE BUSHMANN: The first cross would be
19 Hillcrest.

20 CROSS-EXAMINATION BY MR. COOPER:

21 Q. **Ms. Roth, in your rebuttal testimony -- or**
22 **in your direct testimony, you make a statement that the**
23 **14-percent allocation factor was determined by CSWR based**
24 **on the ratio of Hillcrest customers to total company**
25 **customers. Do you still believe that to be the case?**

1 A. Based on a work paper that I've seen from
2 Staff, that's the way it looks that it's calculated.

3 **Q. So let's look further at your testimony. I**
4 **think in your testimony you identify that Raccoon Creek has**
5 **approximately 500 customers -- or sewer customers.**
6 **Correct?**

7 A. Correct.

8 **Q. And you state that Indian Hills has**
9 **approximately 700 water customers. Correct?**

10 A. Correct.

11 **Q. And I think you also state that Hillcrest**
12 **has approximately 242 water customers and 240 sewer**
13 **customers. Would you agree with that?**

14 A. Yes.

15 **Q. And if I were to take that 1,682 total**
16 **customers and divide that into Hillcrest what I believe are**
17 **482 customers, I believe I get 28.6 percent. Would you**
18 **agree with that math?**

19 A. Without calculating it, I would agree, but
20 that's not what the work paper I've seen shows.

21 **Q. But just looking at your own numbers and**
22 **your own testimony, it looks like it's between 28 and 29**
23 **percent of the total customers. Correct?**

24 A. I could see how you could calculate that.
25 Yes.

1 **Q. And you propose a lower allocation of 10.49**
2 **percent. Correct?**

3 A. Correct.

4 **Q. And I think you did that -- you state in**
5 **your testimony that you did that based upon the timesheets**
6 **-- or Mr. Cox's timesheets. Correct?**

7 A. Correct.

8 **Q. And those would be the timesheets that were**
9 **admitted earlier today as Hillcrest Exhibit Number 3?**

10 A. Yes.

11 **Q. And I believe in your rebuttal testimony you**
12 **state that Mr. Chalfant and Ms. Eves did not begin**
13 **reporting their time until after October of 2015 -- and**
14 **here's the part I think is from your testimony directly --**
15 **so OPC can only rely on Mr. Cox's timesheets to calculate**
16 **an allocation. That would be a correct statement of your**
17 **testimony?**

18 A. That's correct.

19 **Q. Now, Mr. Chalfant and Ms. Eves do have**
20 **timesheets beginning in November of 2015 to the current**
21 **date, don't they?**

22 A. Yes.

23 **Q. And you have seen those timesheets, haven't**
24 **you?**

25 A. I have looked at them vaguely, yes.

1 **Q. Now, in your direct testimony, you make a**
2 **statement that you disagree with the use of the title**
3 **president for Mr. Cox, and instead suggest that he should**
4 **be identified as general manager; is that correct?**

5 **A. That's correct.**

6 **Q. And you would agree with me, wouldn't you,**
7 **that Mr. Cox is currently responsible for at least three**
8 **utility companies, that between them operate four sewer**
9 **systems and two water systems?**

10 **A. Yes.**

11 **Q. Now, I believe you also attempt to compare**
12 **Mr. Cox to persons that provide services to other regulated**
13 **entities. Correct?**

14 **A. Can you restate that? I'm sorry.**

15 **Q. And I -- you compare Mr. Cox's position to**
16 **positions held by persons with other regulated entities in**
17 **Missouri. Correct?**

18 **A. Correct.**

19 **Q. And one of those is Mr. Calish (ph) of**
20 **Lincoln County Sewer and Water; is that right?**

21 **A. Yes.**

22 **Q. And would you agree with me that the only**
23 **regulated entity to which Mr. Calish provides service is**
24 **Lincoln County Sewer and Water?**

25 **A. As far as I'm aware, yes.**

1 **Q. So 100-percent of his cost is being**
2 **allocated to Lincoln County; isn't that right?**

3 A. Correct.

4 **Q. Now, I believe on Schedule KNR-3 to your**
5 **direct testimony you provide a list of other entities that**
6 **you used for comparison; is that right?**

7 A. Yes.

8 **Q. And the first of those would be Ozark**
9 **International. Correct?**

10 A. Correct.

11 **Q. And that is the parent for several regulated**
12 **utilities. Correct?**

13 A. Correct.

14 **Q. Now, Ozark International Moore Bend property**
15 **is currently the subject of an OPC complaint before this**
16 **Commission, isn't it?**

17 A. I believe so.

18 **Q. And would you also agree with me that in**
19 **2015 the Staff submitted a recommendation in regard to a**
20 **proposed acquisition by Ozark International stating that it**
21 **was unable to submit a positive recommendation based upon**
22 **concerns about customer complaints, inadequate responses,**
23 **issues involving DNR regulations, oil orders, notices of**
24 **violation, noncompliance with DNR statutes? Do you have**
25 **any knowledge of that?**

1 A. I am aware of that.

2 Q. Now, you also list Lake Region as one of
3 your comparisons, I believe. And would you agree that 100
4 percent of the general manager's time there would also be
5 allocated to that utility?

6 A. Yes.

7 Q. And same thing for Terre Du Lac, that's one
8 of the entities that you utilized?

9 A. Yes.

10 Q. And, again, 100 percent of that manager's
11 time would be allocated to that utility. Correct?

12 A. Yes.

13 Q. And would it surprise you that as of March
14 of this year DNR had enforcement actions listed concerning
15 Terre Du Lac that had been referred to the Attorney
16 General?

17 A. I was not aware of that.

18 Q. Now, Raytown Water is another entity that
19 you have listed. Correct?

20 A. Correct.

21 Q. And, again, would you agree that 100-percent
22 of that manager's time would be allocated to Raytown Water?

23 A. Yes.

24 Q. And then Village Greens, that's the last one
25 that you looked at. Correct?

1 A. Correct.

2 Q. **And, again, 100 percent of that manager's**
3 **time would be allocated to Village Greens?**

4 A. Yes.

5 Q. **And Village Greens is fairly small.**
6 **Correct? Around 71 customers?**

7 A. Yes.

8 Q. **To your knowledge, now many of those**
9 **entities that we just discussed are actively raising**
10 **capital and building water or sewer plants?**

11 A. I don't personally have knowledge.

12 MR. COOPER: That's all the questions I
13 have, Your Honor.

14 JUDGE BUSHMANN: Cross by Staff?

15 MR. WESTEN: Thank you, Your Honor.

16 CROSS-EXAMINATION BY MR. WESTEN:

17 Q. **Ms. Roth, good afternoon.**

18 A. Good afternoon.

19 Q. **Are you familiar with any prior cases before**
20 **the Commission where OPC or Staff has reclassified the job**
21 **titles of utility employees?**

22 A. Yes.

23 Q. **And do you know what case numbers those are?**

24 A. I don't have the case number. I know which
25 company.

1 **Q. Which company would that be?**

2 A. Raytown Water Company. And if I can
3 clarify, they did not change their title. The general
4 manager, he titles himself as president, but in Staff's
5 work paper for the last case for that company, they
6 compared the salaries of a general and operations manager
7 to the -- his salary titled as a president.

8 **Q. So, now, in that scenario, his title was**
9 **self-titled, but he was using an operation manager's**
10 **salary?**

11 A. Staff compared his salary amount to a
12 general and operations manager. It was in line with that
13 title in MERIC, so they accepted his salary that he had
14 stated.

15 **Q. So his salary at that point in time was**
16 **already at the level of a general operations manager?**

17 A. Yes.

18 **Q. Okay. So there wasn't a change from an**
19 **identified salary that was then questioned and lowered by**
20 **OPC or Staff?**

21 A. No.

22 **Q. Okay. Do you know how much of a difference**
23 **OPC's reclassification makes on OPC's recommended revenue**
24 **requirement in this case?**

25 A. I don't have the dollar amount in front of

1 me.

2 **Q. Okay. What is OPC's recommended allocation**
3 **rate for First Round -- that company -- their corporate**
4 **costs in this case? I think that number's been mentioned**
5 **couple times.**

6 A. Are you referring to the 10.49 percent that
7 I'm recommending for Hillcrest?

8 **Q. Yes. That's the allocation rate that is**
9 **being identified --**

10 A. The corporate allocation cost down to
11 Hillcrest. Yes.

12 **Q. And Mr. Cooper just asked questions about**
13 **this, but can you just explain how OPC arrived at this**
14 **allocation rate?**

15 A. The way I arrived at the allocation rate,
16 based on the deposition that I sat in on, Mr. Cox had went
17 over the titles -- the categories on his timesheet. And
18 based on that discussion, I was only able to determine --
19 to be able to pull hours from the Hillcrest category to
20 determine the amount of time going to Hillcrest, because
21 the other categories, such as engineering or research or
22 whatever, it's difficult to pull out, you know, how much of
23 the time went to Hillcrest or Raccoon Creek.

24 **Q. So in looking at those timesheets that --**
25 **I'm sorry. Let me start over.**

1 **You said that you reached this -- you**
2 **reached the 10.49 percent by both looking at those**
3 **timesheets and having a discussion with Mr. Cox?**

4 A. Yes.

5 **Q. And I'm just trying to make sure I'm clear,**
6 **and I hate if I'm repeating myself. You looked at what's**
7 **Hillcrest Exhibit Number 3?**

8 A. Yes.

9 **Q. And the challenge that you faced was**
10 **identifying whether the numbers in some of the columns**
11 **corresponded with time spent on Hillcrest compared to one**
12 **of any of the other --**

13 A. Correct. So I only looked at hours under
14 Hillcrest category.

15 **Q. So you essentially disallowed all of those**
16 **other hours? There was no way to make any kind of**
17 **decision?**

18 A. I just treated them as non-regulated
19 activities.

20 **Q. Okay. You also mentioned that -- in your**
21 **answer originally here that you -- this is also based on**
22 **the deposition?**

23 A. Uh-huh.

24 **Q. What specifically in the deposition -- and**
25 **if you happen to have a copy of the deposition and need to**

1 **point to that, that's fine. What exactly in the deposition**
2 **made you change your calculation?**

3 A. Based on him describing the categories.

4 **Q. Okay. So he described the categories in his**
5 **deposition?**

6 A. Yes.

7 **Q. Do you happen to recall at what point that**
8 **happened in the depo?**

9 A. I don't. He also went over them again
10 earlier.

11 **Q. So -- you mean today --**

12 A. Yes.

13 **Q. -- through testimony today?**

14 A. Yes.

15 **Q. You've not identified any time whatsoever**
16 **for Mr. Chalfant and Ms. Eves. Correct?**

17 A. As far as specific hours, no. I allocated
18 10.49 percent of the overall salary that I determined to
19 Hillcrest.

20 **Q. And that 10 -- that -- again, that 10.49 was**
21 **based on Mr. Cox's hours?**

22 A. Correct, since I did not have timesheets
23 through the test year or for the update period for the
24 other two during this case.

25 **Q. And it doesn't -- that number does not -- it**

1 **does not suggest that Mr. Chalfant or Ms. Eves are working**
2 **the same number of hours as Mr. Cox. Right?**

3 A. I don't have the evidence to show otherwise.

4 **Q. Do you know if Mr. Cox works on**
5 **acquisitions?**

6 A. If Mr. Cox works on acquisitions?

7 **Q. Correct.**

8 A. Yes, he does.

9 **Q. And how is that reflected in the number?**

10 A. I don't include acquisition hours into the
11 payroll.

12 **Q. And do you have any numbers for Mr. Chalfant**
13 **or Ms. Eves on whether or not they're working on**
14 **acquisitions?**

15 A. I don't include those. I exclude
16 acquisition hours.

17 **Q. Is it still reasonable to assume, knowing**
18 **that Mr. Cox works on acquisitions but -- that you have no**
19 **information for Mr. Chalfant or Mr. Eves (sic) to use that**
20 **same 10.49 percent for their salaries?**

21 A. Can you repeat that one more time, please?

22 **Q. If you know that there is a difference --**
23 **Mr. Cox works on acquisitions. It's not in that number.**
24 **You don't know what they do. Is it fair and reasonable to**
25 **use that same number for Mr. Chalfant and Ms. Eves as**

1 **you're using for Mr. Cox?**

2 A. If I don't have evidence to show otherwise,
3 then, yes, I do believe that's reasonable.

4 **Q. So it's reasonable to use a different**
5 **person's time spent that you've estimated for assuming the**
6 **time spent by other people?**

7 A. If that's the only evidence that I have to
8 show, then yes.

9 **Q. Does that 10.49 percent allocation factor**
10 **increase or decrease OPC's recommended cost of service in**
11 **this case?**

12 A. Compared to?

13 **Q. What the number was before in the direct**
14 **testimony.**

15 A. It would lower it.

16 **Q. It would lower it?**

17 A. Yes.

18 **Q. Do you know by how much, total dollars?**

19 A. I don't have total dollars. No.

20 MR. WESTEN: I have no further questions.

21 Thank you.

22 MS. ROTH: Thank you.

23 JUDGE BUSHMANN: Questions by the

24 commi ssi oners?

25 QUESTIONS BY CHAIRMAN HALL:

1 Q. Good afternoon.

2 A. Good afternoon.

3 Q. You may have said this and I just missed it,
4 but could you -- the company is seeking a 14-percent
5 corporate allocation. OPC is suggesting 10.49 is more
6 appropriate. What are the categories that account for that
7 difference?

8 A. I don't -- I can't say specific categories.
9 I can tell you that I specifically looked at the Hillcrest
10 category only. I'm not --

11 Q. Well, I mean, one example would be hours
12 spent on acquisitions.

13 A. Correct.

14 Q. Okay. So were there specific time entries
15 that you believe constituted time spent on acquisition?

16 A. It's hard to determine how many hours were
17 spent on Hillcrest based on the way his timesheet is set
18 up. Does that answer your question?

19 Q. Try again.

20 A. Okay. I'll try to go into it. His
21 timesheet has the category Hillcrest, and he says that that
22 is specific time related to Hillcrest. But then he also
23 has titles, categories for like engineering. And he stated
24 that that could be for Hillcrest, Raccoon Creek, or Indian
25 Hills. The problem that I'm running into is that it

1 doesn't specify the time for each utility. So I can't
2 accurately pull the amount of hours out of those categories
3 to allocate more time to Hillcrest.

4 **Q. Okay. And so when you were talking about**
5 **acquisition, were you talking specifically about**
6 **acquisition of Hillcrest or acquisition of other utilities?**

7 A. In this case, it would be acquisition to
8 Hillcrest.

9 **Q. Okay. Were there any time entries related**
10 **to acquisition of other utilities in that 14-percent**
11 **asserted by the company?**

12 A. I'm not sure I understand the question.

13 **Q. That's probably because it was poorly**
14 **worded. When you described certain hours that should be**
15 **excluded, you described them as related to acquisition.**
16 **And you just now said that that was related to acquisition**
17 **of Hillcrest. And so my question is: Are there other time**
18 **entries where there was an entry for acquisition of other**
19 **systems that the company is asserting should be in the 14**
20 **percent?**

21 A. I don't think that they're asserting any
22 other time to acquisition should be in the 14.

23 **Q. Okay. So the only acquisition that you're**
24 **trying to exclude is acquisition for Hillcrest?**

25 A. Correct.

1 **Q. Okay. Can you describe for me any other**
2 **types of time entries that you're -- that you've excluded?**

3 MS. MAYFIELD: Chairman, can I hand her a
4 copy of Staff Exhibit 3, which is the timesheets, so that
5 perhaps she could reference it, so that she could better
6 answer your question?

7 CHAIRMAN HALL: If it would aid the witness,
8 sure.

9 WITNESS: I'll take a shot at it. Like I
10 mentioned before, since -- like -- for example of the
11 column PSC, he said that his time related specifically to
12 work performed with the PSC. It doesn't break it down on
13 his timesheet between the regulated utilities, so I could
14 have disallowed or excluded time under that category, too,
15 because I don't have the evidence to show how much time
16 went to Hillcrest.

17 And for engineering, you know, construction,
18 on Hillcrest, time could've been excluded out of
19 engineering as well because I don't have the evidence to
20 show how many hours were excluded because his timesheet is
21 not detailed enough to explain what projects were going on,
22 what exactly he was working on under that category.

23 QUESTIONS BY CHAIRMAN HALL:

24 **Q. Now, my understanding from Mr. Cox's written**
25 **testimony is that if it -- if the company were to seek the**

1 **actual percentage allocation based upon the actual hours**
2 **spent, they would actually be seeking a 21-percent**
3 **allocation; is that correct?**

4 A. I'm -- I think that's what he stated
5 earlier. I'm not sure how he determined the 21 percent.

6 **Q. So you didn't look at that 21 percent?**

7 A. I have not. I have not seen that.

8 **Q. Okay. Concerning the property taxes, is it**
9 **OPC's position that the amount of personal property tax**
10 **that the company will have to pay I guess it's at the end**
11 **of this year, beginning of next year --**

12 COMMISSIONER KENNEY: December.

13 CHAIRMAN HALL: Thank you.

14 BY CHAIRMAN HALL:

15 **Q. -- December 31st -- or that will be due**
16 **December 31st is known that it will be more than they're --**
17 **than they paid last year, but it -- you don't know how much**
18 **more?**

19 A. Correct.

20 **Q. Is there not any process that could be used**
21 **to estimate it with some amount of certainty? I mean,**
22 **certainly, there are statutes in place that dictate how**
23 **those numbers are to be calculated.**

24 A. I think it could be calculated and come up
25 with some kind of an estimate like the company has done,

1 but then I think that goes against the matching principal.
2 You know, you're going outside of the test year and update
3 period and not keeping the same general point in time for
4 all the other elements of the revenue requirement.

5 **Q. Well, it's a fairly common thing for us to**
6 **do when it's known and measurable. And so if -- and so we**
7 **know that it will be more. So then the question is: Is it**
8 **measurable? And so my question is: Aren't there statutes**
9 **in place that would allow us to determine that number with**
10 **some degree of certainty?**

11 A. I don't know how to answer that question.

12 **Q. Okay. That's fine. I have no further**
13 **questions.**

14 A. Okay. Thanks.

15 CHAIRMAN HALL: Okay.

16 QUESTIONS BY COMMISSIONER KENNEY:

17 **Q. I'll just follow-up on that question, then.**
18 **Can you just -- from the company's books and what we know**
19 **are those personal property? We can use the middle rate of**
20 **Cape County and figure out what it is?**

21 A. Are you saying --

22 **Q. -- level levy, what the levy is.**

23 A. What the current rate is right now?

24 **Q. What the current revenue is for 2016.**

25 A. The current rate for 2016 --

1 **Q. No. I know, but the current levy and use it**
2 **against their personal property and figure out what that**
3 **number exactly is so it's known and measurable?**

4 A. You could use the rate from last year, but
5 the current one won't be available until September of this
6 year.

7 **Q. The current levy doesn't go into effect**
8 **until September?**

9 A. That's my understanding.

10 **Q. All right. Good answer. Thank you.**

11 A. Uh-huh.

12 JUDGE BUSHMANN: Recross based on questions
13 from the bench? Hillcrest?

14 MR. COOPER: No questions.

15 JUDGE BUSHMANN: Staff?

16 MR. WESTEN: No questions. Thank you.

17 JUDGE BUSHMANN: Redirect by OPC?

18 REDIRECT EXAMINATION BY MS. MAYFIELD:

19 **Q. And to kind of build on the property tax**
20 **question that Chairman Hall just asked you, is the amount**
21 **of property taxes known with a high degree of accuracy?**

22 A. No.

23 **Q. And on to the questions regarding the**
24 **timesheet, you've indicated that you were not able to**
25 **determine how many hours under some of these categories,**

1 such as admin, engineering, and research actually went
2 towards work performed for Hillcrest; is that correct?

3 A. That's correct.

4 Q. And you're not currently using, for purposes
5 of the allocation, the total number of customers that the
6 utility has as compared to the total number of customers
7 that Hillcrest has, are you?

8 A. Repeat that one.

9 Q. Yeah. I believe that someone had asked
10 previously -- you were comparing the total number of
11 customers in -- within CSWR with the total number of
12 customers of Hillcrest. And I believe Mr. Cooper said that
13 that would be 28 to 29 percent of the customers. But
14 you're not using the amount of customers to determine the
15 allocation factor?

16 A. No, I am not.

17 Q. And you're not asking this Commission to
18 actually change the job title for Mr. Cox or Mr. Chalfant
19 or Ms. Eves, are you?

20 A. No.

21 Q. You're just asking this Commission to line
22 up their job function as according to MERIC with an
23 appropriate salary; is that correct?

24 A. Correct.

25 MS. MAYFIELD: I have no further questions.

1 JUDGE BUSHMANN: Thank you, Ms. Roth. You
2 may step down.

3 WITNESS: Thank you.

4 MS. MAYFIELD: Your Honor, I would call my
5 next witness, James Russo, to the stand, please.

6 (Witness sworn.)

7 JAMES RUSSO testified as follows:

8 DIRECT EXAMINATION BY MS. MAYFIELD:

9 Q. **Would you please state your name for the**
10 **record.**

11 A. James M. Russo, R-U-S-S-O.

12 Q. **Mr. Russo, where are you currently employed?**

13 A. I'm self-employed.

14 Q. **And so would you be the owner of that**
15 **self-employed business?**

16 A. Yes.

17 Q. **And could you please provide the address of**
18 **that business location, please?**

19 A. 2215 Minnow -- M-I-N-N-O-W -- Branch --
20 B-R-A-N-C-H -- Road, Stover, Missouri.

21 Q. **Now, are you the same James M. Russo who**
22 **prepared a direct testimony and rebuttal testimony in this**
23 **case?**

24 A. Yes.

25 Q. **Do you have any changes to those direct**

1 **testimony or rebuttal testimony in this case?**

2 A. Yes; one.

3 **Q. Could you please point out that correction?**

4 A. In my direct testimony, on Page 14, on Line
5 18, I'm not sure how the word "yes" appeared there, but
6 what the answer should be is OPC is recommending the
7 Commission consider the option of -- excuse me -- of
8 utility rates being phased-in.

9 **Q. Besides that correction, are there any other**
10 **corrections to your direct or rebuttal testimony?**

11 A. No, not that I'm aware of.

12 **Q. If I were to ask you the same questions as**
13 **contained in your direct and rebuttal, would your answers**
14 **be the same?**

15 A. Yes.

16 MS. MAYFIELD: Your Honor, I would move for
17 the admission of OPC Exhibit 005, which is -- has been
18 marked public, and OPC 006, which is the rebuttal testimony
19 of Mr. Russo, which is also marked public. I would move
20 those into evidence now.

21 JUDGE BUSHMANN: Any objections to their
22 receipt? Hearing none, they are received.

23 (Wherein, OPC Exhibit Numbers 5 and 6 were
24 marked and received into the record.)

25 MS. MAYFIELD: I would tender this witness

1 for cross-examination.

2 JUDGE BUSHMANN: The first cross will be
3 Hillcrest.

4 MR. COOPER: No questions, Your Honor.

5 JUDGE BUSHMANN: Commission Staff?

6 MS. PAYNE: Thank you.

7 CROSS-EXAMINATION BY MS. PAYNE:

8 Q. Good afternoon, Mr. Russo.

9 A. Good afternoon.

10 Q. Mr. Russo, in your opinion, is the
11 Commission required to separate in a manner consistent with
12 the generally accepted accounting principles?

13 A. Yes.

14 Q. Thank you. In reference to your rebuttal
15 testimony, Page 2 --

16 A. Okay.

17 Q. -- on Lines 1 to 2 of that page, you
18 mentioned that you experienced some difficulty in
19 determining Staff's exact rate design proposal?

20 A. Yes.

21 Q. Can I ask, did you send any data requests to
22 Staff to clarify your confusion?

23 A. No, I did not.

24 Q. Did you reach out to your attorney to have
25 them contact Staff to ask any questions in relation to

1 **that?**

2 A. No, I did not.

3 **Q. Okay. Flipping over to Page 3 of your**
4 **rebuttal --**

5 A. Okay.

6 **Q. -- looking at Lines 13 and 14, you mentioned**
7 **that Mr. Robertson created a commercial class as part of**
8 **his rate design, with the same proposed rates as the**
9 **residential class. If I were to provide you a copy of**
10 **Mr. Robertson's direct, could you point out to me where he**
11 **discusses the creation of that commercial class?**

12 A. Sure.

13 MS. PAYNE: May I approach?

14 JUDGE BUSHMANN: You may.

15 WITNESS: Thank you.

16 MS. PAYNE: Absolutely.

17 WITNESS: Could you repeat your first
18 question?

19 MS. PAYNE: Absolutely.

20 BY MS. PAYNE:

21 **Q. Can you -- you stated in your testimony that**
22 **Mr. Robertson inserts a commercial class with the same**
23 **proposed rates as a residential class.**

24 A. Okay. That's Line 12 through 13 of my
25 rebuttal; is that correct?

1 **Q. Yes, it is.**

2 A. Okay. Thank you.

3 **Q. 13 and 14, actually.**

4 A. Okay. Well, the first time I saw the
5 commercial customers -- I know it's here on the top of Page
6 8 -- I'd have to re-read all of his testimony. Please give
7 me a minute.

8 **Q. Okay.**

9 A. Okay. What I have here -- let's see here.
10 Okay. My testimony -- I'll read it starting with the
11 sentence at Line 12 -- I think the total answer needs read
12 starting at Line 10, "Mr. Robertson discusses the creation
13 of a new customer class for customers residing in
14 apartments and the company's water operations in Lines 10
15 through 15 on Page 7 of his direct testimony. He states
16 this new customer class will make the water operations rate
17 structure consistent with the sewer operations." At that
18 point, that is his answers on Line 14 -- well, 12 through
19 15 in his direct. His last sentence as starts on Line 14
20 states, "Furthermore, this will make the water systems rate
21 structure consistent with the sewer systems rate
22 structure."

23 So at that point he's just talking about
24 residential and apartment class customers. And then when
25 you go down to his answer that starts on Line 18 on that

1 page, it continues on to Line 8. At the very top of Line 8
2 for the first time the words "commercial customers" appear.
3 And that's what I was referring to.

4 **Q. Okay.**

5 A. Okay.

6 **Q. Thank you for clarifying that for me.**

7 A. I -- yeah, that was a tough one.

8 MS. PAYNE: If I can have one moment, Your
9 Honor.

10 BY MS. PAYNE:

11 **Q. All right. Sorry about that. Would you**
12 **agree that part of the process of conducting a rate design**
13 **analysis is to determine the customer charge and the**
14 **volumetric charge?**

15 A. Yes.

16 **Q. Do you agree that the terms volumetric**
17 **charge and commodity charge are often used interchangeably?**

18 A. Yes.

19 **Q. And do you agree that there's a variety of**
20 **methods that a rate design analyst could use to develop**
21 **rates?**

22 A. Yes.

23 **Q. Have you ever heard reference to an absolute**
24 **correct method to calculate the commodity and customer**
25 **charges?**

1 A. Other than me joking and saying mine is
2 correct, no.

3 **Q. The Russo Standard has not officially been**
4 **accepted yet.**

5 A. I understand.

6 **Q. Do you agree that when developing a rate**
7 **design, an analyst should be flexible in developing rates**
8 **and consider account rate shock, equity, and consistency?**

9 A. At least those. There's other variables,
10 sure.

11 **Q. Including others. And you agree that a**
12 **customer's basic monthly bill consists of a fixed monthly**
13 **customer charge in the volume metric rate. Correct?**

14 A. In the case of Hillcrest Water, yes.

15 **Q. Okay. Would you agree that a monthly bill**
16 **will vary based upon customer's usage?**

17 A. Yes.

18 **Q. Would you agree that as a customer uses more**
19 **water on a monthly basis that their monthly bill would be**
20 **higher than if the customer had a lower usage rate?**

21 A. Yes.

22 **Q. And given that balance between a commodity**
23 **rate and a customer charge, would you agree that if the**
24 **customer charge is higher, the commodity rate would have to**
25 **be lower?**

1 A. Yes.

2 Q. Could you please clarify if OPC's customer
3 charge is higher or lower than the recommended charge that
4 Staff is recommending?

5 A. Let me take a look and see. My recollection
6 is it's higher, so I'm going to go with higher because
7 OPC's commodity charge, I believe, is lower. So yes, the
8 customer charge is higher.

9 Q. Can you explain to me why the customer
10 charge would be higher?

11 A. It has to do with allocations, the way the
12 expense items were allocated between the commodity and the
13 volumetric rate. There were differences between what Staff
14 did and what I prepared.

15 Q. All right. Thank you.

16 MS. PAYNE: No further questions.

17 JUDGE BUSHMANN: Questions from the bench?
18 Mr. Chairman?

19 QUESTIONS BY CHAIRMAN HALL:

20 Q. Good afternoon.

21 A. Good afternoon.

22 Q. I was hoping that you could walk me through
23 Schedule 12 behind your direct testimony that is OPC
24 summary of phased-in water and sewer rates. I want to make
25 sure I understand this.

1 A. Okey-doke. Ready.

2 Q. **Could you explain to me what this chart**
3 **shows?**

4 A. Okay.

5 Q. **On the first page, water operations, the**
6 **very first one, no phase-in. This is -- the first column**
7 **is the current service charge, which is 3.58. Now, right**
8 **now, on water, we don't have these other customer classes.**
9 **Everybody's charged 3.58, so I just made the assumption**
10 **there.**

11 The next column is the proposed service
12 charge. This is based on OPC's rate design. Residential
13 is 36.97, and you'll see apartment is 29.57, commercial
14 55.45.

15 The next column is the percent increase. So
16 if you go from 3.58 to 36.97, just as a line item, that's a
17 932 percent increase. The next column is the current usage
18 rate. Again, it's a \$1.84 per thousand. OPC's proposal is
19 5.91. So just on the usage rate, that's a 221 percent
20 increase.

21 Keep in mind --

22 Q. **So the service charge is the customer**
23 **charge?**

24 A. Yes, sir.

25 Q. Okay.

1 A. That's the monthly minimum customer charge.

2 Q. Okay.

3 A. Now, this is just the rates. When you get
4 to the individual customer, and if you go to these billing
5 comparisons, and you start putting the gallons in, because
6 the 221 -- 221 percent on the usage rate, if you start
7 using more gallons, that 932 drops. That's why I think
8 most of our increases, if you look at the billing
9 comparisons that I had -- I believe it was 465 percent.
10 There's a schedule here that has that -- no phase-in.

11 Q. Okay.

12 A. Okay. The next one down is phase-in.
13 Again, the first column, the 3.58, we -- we went through
14 that. On the phase-in, the next column is what the monthly
15 minimum would be, the percent increase.

16 Q. **And the phase-in is what percentage of the**
17 **total increase?**

18 A. I would have to go back and see if I
19 actually did that calculation. I believe it was -- I have
20 it in here somewhere. I thought it was 200. Let me just
21 find it. I don't want to give you a bad number. I thought
22 I had it in here. My recollection is it's about 233
23 percent. It's pretty close to that.

24 Q. **Of the total -- I thought I read in your**
25 **written testimony that the way you structured this was 50**

1 **percent of the increase was year 1, 50 percent was year 2?**

2 A. It was very close to that. Like I said, I
3 believe the overall increase was 466, and that's why I
4 think it's 233, sir.

5 **Q. Okay. So -- all right. So keep going.**

6 A. Oh, I'm sorry. On the phase-in, when you
7 actually -- if you had my work papers, which you don't, if
8 you look at the usage rate, the way the costs are
9 allocated, the commodity actually would've went down. So I
10 took those dollars to keep it the same. I didn't want the
11 customers all of a sudden to have a bill that they used to
12 be paying \$1.84 and now they're paying a dollar maybe
13 seventy-nine, say. I didn't want to have that happen, so I
14 took those dollars and I shifted them over to the customer
15 charge on this one here. So on this one here, when you
16 look at the customer charge, it actually might have went up
17 a little bit more because I kept that usage rate consistent
18 to make it easier on the customer. So that's what happens
19 on the phase-in.

20 **Q. So -- okay.**

21 A. Then when you go to phase-in after year 1,
22 basically everything in the previous one under your
23 proposed service charge, those become your current service
24 charge. So let's say these -- let's say this was approved.
25 This is what the real world was. And today the rates were

1 28.84 for a residential customer. A year from now they
2 would be 33.30. And so at that point your comparison is
3 based on the 28.84 going to 33.30, so the monthly charge
4 goes up to 15 percent. That's how that comes into play.

5 The usage rate, which is \$1.84, would jump
6 up to 3.91, which is a 112 percent increase on the usage at
7 that rate. The adjustment that I made in the base year,
8 the phase-in year, between the commodity and the
9 volumetric, that's gone. That's not there anymore. It's
10 -- these are the real numbers. This is where they would
11 be.

12 Now, when you get to year 2 -- phase-in
13 after year 2, again, just using residential, where after
14 year 1 it was 33.30, that now becomes your current charge.
15 That would jump up to 37.21, which is a -- roughly a 11.74
16 percent increase. And your commodity would go from 3.91 to
17 6.04, which is about a 54 percent increase.

18 **Q. So is there a three-stage phase-in?**

19 A. Yes. If rates were set today, again,
20 residential would be 28.84. A year from now they'd be
21 33.30. A year from then they would be 37.21, unless the
22 company filed a rate case and then all bets could change.
23 If they filed a rate case for some reason a year from now,
24 then this stuff would go away because new rates would be
25 set.

1 **Q. So I'm looking at the proposed service**
2 **charge phase-in after year 2 for residential. So that's**
3 **37.21. So that is higher than what the residential would**
4 **be with no phase-in?**

5 A. Correct. And that's due to those carrying
6 costs that people have been talking about. Yes.

7 **Q. And the same for the proposed usage rate.**
8 **After the phase-in, after year 2, that would be higher than**
9 **what the proposed usage rate would be without a phase-in?**

10 A. That's correct.

11 **Q. Were you in the hearing room when Mr. Cox**
12 **described -- or perhaps it was his counsel; I'm not sure --**
13 **described the difficulties that this type of phased-in**
14 **approach would present the company in terms of being able**
15 **to pay its bills?**

16 A. Yes.

17 **Q. What was your take on that?**

18 A. I have a different opinion.

19 **Q. Well, I understand. I mean, what you're**
20 **focused on here -- and I understand that, and I'm not**
21 **criticizing you for it -- but your focus here is the impact**
22 **on the consumer.**

23 A. Right.

24 **Q. And that clearly is something that the**
25 **Commission is concerned about.**

1 A. Well --

2 **Q. At the same time, the Commission is also**
3 **concerned about the company being able to pay its bills.**

4 A. Correct. And when you look at -- and,
5 again, this is a work paper that I don't think the
6 Commission has, so maybe you need to -- actually, I think
7 you do have this. On the phase-in, the total cost of
8 service would be 142,570. Without the phase-in -- and I'm
9 hoping I'm looking at the right one. I'm sorry. That's
10 the wrong one.

11 I've got to look at the right tab. I
12 apologize. Okay. Right now -- and, again, I use the
13 auditor's as-filed in the partial disposition agreement --
14 their accounting schedule -- so there's a few dollars'
15 difference between some of the -- what Staff has and what I
16 have. But the total cost of service is 177,023. Under
17 OPC's proposal, in year zero, the first rates, they would
18 be set at 105.42. I have a little bit different take than
19 the company has. When you look at -- and you do have
20 copies of these rate-making income statements, sir.

21 When you get down to what I call the
22 subtotal operating expenses, that's the stuff you're going
23 to be paying in -- with one exception. The salaries is
24 always an exception there because you're paying yourself,
25 and you have to make that decision. Do I want to defer my

1 payment a little bit and get it later with carrying costs
2 -- a little bit of interest, so to speak -- or do I want it
3 today? That's a decision -- it's a business decision. I
4 understand that. But I think there's enough money there
5 that the company would have to make some concessions. I
6 don't know how difficult it would be on -- for them, but
7 they would have to make some. But I think the money is
8 there.

9 **Q. But it's your testimony that the only**
10 **concession they would have to make is with regards to the**
11 **salary?**

12 A. Well, you've got -- that's in the items
13 above this Line 26 on the rate-making statement. Yeah.
14 It's -- they might have to make some concessions there. I
15 don't know. I -- what I don't know -- and -- I don't know
16 how much their debt payment is -- the actual interest they
17 have to pay. I do not know that. And if that's --

18 **Q. Isn't that contained in the construction**
19 **loan and security agreement between --**

20 A. I haven't looked at those documents. What
21 I'm saying is, I don't know that personally. I know it's
22 out there somewhere; somebody would have that number. But
23 if that number is -- if that number is greater than 75,
24 80,000, it would be a harder burden on the company. Yes, I
25 would say that. I don't think it would be impossible

1 necessarily, but it -- that's where you get into -- you
2 have to look at salaries -- your own salary, maybe, and
3 say, "I'm going to defer that a little bit."

4 **Q. When you were making recommendations as to**
5 **how we should structure the customer charge vis-a-vis the**
6 **volumetric charge, did you take into account public policy**
7 **issues related to conservation or the interest that most**
8 **consumers have with being able to control their bill by**
9 **conservation measures?**

10 A. Yes, sir. When you go from a \$1.84 to --
11 well, in this case, I believe my number was 5.91, I believe
12 Staff's number is six-something -- if you're the one using
13 that water, that can make an impact on you. That component
14 itself could be \$30 a month, maybe more. So yes, that's --
15 that is a component of that.

16 **Q. But if you compare that increase to the**
17 **customer charge increase, isn't it kind of dwarfed? If**
18 **you --**

19 A. I understand what you're saying. It's --
20 the customer charge would go up \$30 -- \$33. Yes. That's
21 fixed. You can't control that. You can control the amount
22 of water you use. And I would expect some people out there
23 -- no matter what happens in this case, I would expect
24 going forward you will see less water usage.

25 **Q. Let's switch gears for a second -- actually,**

1 **switch back. How common -- based on your experience and**
2 **perspective, how common is it for the Commission to order**
3 **phased-in rate increases?**

4 A. I'm not aware of this Commission doing this
5 type of a recommendation. I -- in the years that I have
6 been here, I have not seen this. It is done in other
7 states. There is a procedure out there for other states.

8 QUESTIONS BY COMMISSIONER KENNEY:

9 **Q. Question: On "this" you mean what you're**
10 **proposing or what Staff is proposing or both?**

11 A. Actually, both. Now, we've done things with
12 a variety of utility companies with surcharges. We've done
13 things where rates are set here; after a length of time
14 they go down. But we -- to my knowledge, I don't ever
15 recall us setting rates on day one at this level, and at a
16 time later going up to here and then going up to here
17 again. I just -- I'm not saying it hasn't happened. I
18 just -- I haven't done that. I'm not familiar with it.

19 QUESTIONS BY CHAIRMAN HALL:

20 **Q. But you're recommending it here because of**
21 **the significance nature of the rate increase?**

22 A. We're offering it as an option for you all
23 to consider because of the significant amount. Yes, sir.

24 **Q. Okay. All right. Thank you. I have no**
25 **further questions.**

1 QUESTIONS BY COMMISSIONER KENNEY:

2 Q. Just very briefly. On the same topic, you
3 mentioned the financial accounting standards board,
4 Statement 92 issued in like '87. What does that mean?
5 What does that say regarding this scenario?

6 A. Well, that came out back when -- it was at
7 the beginning, I think, of one of these electric plants
8 were having such huge investments. And they just -- they
9 came up with a way to deal with it in terms of minimizing
10 rate impact on the customer. That's all it is, just a
11 financial accounting standards board coming up with some
12 guidelines. If it meets this criteria, this is how you
13 treat these items. You -- and it's --

14 Q. Does your criteria meet that?

15 A. Yes, sir.

16 Q. Okay. And I appreciate you pointed out the
17 -- that, so -- and the Staff's phase-in is not a phase-in
18 according to you. Correct?

19 A. Well, I don't know.

20 Q. Well, you said it wasn't.

21 A. I said that, but today I heard something --
22 I heard something I think from their counsel that kind of
23 confused me, so I don't -- that's what I'm saying; now, I
24 don't know. Everything I had up until this morning was
25 yes, it's not a phase-in. My understanding of what Staff

1 is proposing is that rates are set. You come in a year
2 from now and you have a rate case and rates are reset. But
3 if they're proposing that --

4 **Q. But they can just want to phase it in again.**
5 **Right? They could just not set the whole thing?**

6 A. Well, that's what I'm hearing them say, that
7 they're not setting the whole rates, that they're just
8 deferring the costs to be considered in the next rate case.
9 And then in that case rates are set.

10 **Q. And you're just deferring the cost so you**
11 **don't have to incur a rate case or a rate case expenses in**
12 **-- if you're doing a similar thing as -- except with not**
13 **having a rate case?**

14 A. Well, yes. There's not a rate case. Yes.

15 **Q. I'm done. Thank you.**

16 A. Okay.

17 JUDGE BUSHMANN: Recross based on bench
18 questions? Hillcrest?

19 MR. COOPER: Yes, Your Honor.

20 RE CROSS-EXAMINATION BY MR. COOPER:

21 **Q. Mr. Russo, I'm just kind of wanting to**
22 **understand, I guess, what you refer to as carrying costs.**
23 **And I'm going to make an attempt at doing this with just**
24 **round hypothetical numbers, if we can try that. Okay. So**
25 **if you will, let's say our utility gets a revenue**

1 **requirement -- an annual revenue requirement of \$150,000.**
2 **And at the first rate increase, the first phase of that,**
3 **the rate is set to recover essentially \$100,000 on an**
4 **annual basis, what do you do with that \$50,000 of revenue**
5 **that's been foregone in the first year?**

6 A. You set that off into a deferred account.
7 Okay. So you have a regulatory asset.

8 **Q. So you're going to create a regulatory**
9 **asset?**

10 A. True. And you're going to put it in there.
11 And then you're going to take the weighted rate of return
12 -- whatever that is. And I think in this case it was
13 10.68. So you've got to go 10.69 percent on an annual
14 basis on that.

15 **Q. Okay. And then let's say at the end of the**
16 **first year, we move up to the rates that would recover the**
17 **150,000 that we originally established as the appropriate**
18 **revenue requirement. So that's the next phase. At that**
19 **point, do you add something to that 150,000 to start**
20 **amortizing your regulatory asset and your carrying costs?**
21 **Or what happens to that regulatory asset and carrying**
22 **costs?**

23 A. What I did is, yes, after year 1, you would
24 get some of that. Yes.

25 **Q. How much of that are you getting? Is it**

1 **based upon a set amortization?**

2 A. I did it very simple, so that's something
3 that other people might do differently. I just did it
4 based on you're carrying -- I believe it was -- I don't
5 remember the number. I'm trying to find it. 71,000 I
6 think it was. So after year 1, it's 10 percent. That's
7 \$7,100. After year 2, it would be the balance of that.

8 **Q. But when are you putting those amounts in**
9 **rates? When are you putting that original amount into the**
10 **rates so the company recovers it?**

11 A. Oh, you -- after year 1, they would recover
12 -- in that first phase, they would recover the first year's
13 worth of carrying costs.

14 **Q. The carrying costs. But how about the**
15 **basic? So my example, the 50,000 that they would've gotten**
16 **in the first year if it didn't, when is that 50,000 going**
17 **to be recovered?**

18 A. Year 1 you get half of that -- 25,000.
19 So --

20 **Q. Plus the carrying costs?**

21 A. Plus the carrying costs on the 50. After
22 year 2 you get the other 25, plus the carrying costs on
23 that last 25.

24 **Q. And then that becomes the rate going**
25 **forward?**

1 A. Yes.

2 **Q. Okay.**

3 MR. COOPER: That's all the questions I
4 have.

5 JUDGE BUSHMANN: Questions from Staff?

6 MS. PAYNE: Yes. Thank you, Your Honor.

7 RE-CROSS-EXAMINATION BY MS. PAYNE:

8 **Q. All right. Mr. Russo, the chairman asked**
9 **you several questions regarding the structure of your rate**
10 **design. Now, on the water side of your rate design, your**
11 **commodity rate is the same for residential and commercial**
12 **customers; is that correct?**

13 A. It's the same for all customers. Correct.

14 **Q. Okay. Now, Commissioner Kenney mentioned**
15 **the -- that the degree with the customer impact by this**
16 **rate increase and you agree that it's a significant impact;**
17 **is that correct?**

18 A. Yes.

19 **Q. But you also admitted to me earlier in**
20 **questioning that your customer charge that you're**
21 **recommending is higher. Correct?**

22 A. Yes. Yes.

23 **Q. Okay. Would you agree that if a customer's**
24 **faced with a higher customer charge that that customer**
25 **would have less control over their monthly bill,**

1 **considering a lower commodity charge?**

2 A. That's a correct statement.

3 **Q. Okay.**

4 A. The higher -- yes.

5 **Q. Okay. Also, do you believe that GAP is**
6 **applicable to a non-publicly held company such as**
7 **Hillcrest?**

8 A. I don't see why not. You've got regulatory
9 accounting. You do it according to NARUC. And I
10 understand there's a difference between that and GAP. It
11 depends, I guess, what set of books you look at. If
12 they're doing it for taxes, they may do that by GAP. I
13 don't know. But you have to follow NARUC.

14 **Q. Okay. So based on that, in your opinion,**
15 **would you say that the Commission is bound to follow GAP**
16 **for rate-making purposes?**

17 A. I think you asked me that earlier, and I
18 don't know if I -- if you did or you didn't. If I did, I
19 might have misspoken at that time. You need to follow
20 NARUC, USOA's uniform System of Accounts.

21 **Q. Okay.**

22 MS. PAYNE: No further questions, Your
23 Honor.

24 JUDGE BUSHMANN: Redirect?

25 REDIRECT EXAMINATION BY MS. MAYFIELD:

1 **Q. Now, Mr. Russo, on Schedule 12, which**
2 **Chairman Hall asked you about, the proposed customer charge**
3 **and the proposed usage rates, those are based on Staff's**
4 **EMS run figures; is that correct?**

5 A. Yes.

6 **Q. And so depending on where -- or what the**
7 **allocation factor that this Commission decides is**
8 **appropriate in this case, these numbers could go down; is**
9 **that correct?**

10 A. Yes.

11 **Q. It --**

12 A. Yes.

13 **Q. And in order to permit the company the**
14 **opportunity to earn the revenue requirement that is set by**
15 **this Commission, is that why you have created a customer**
16 **charge in the way that you have? I think there was**
17 **questions by Staff that the customer charge was high in**
18 **comparison to the usage rate.**

19 A. Could you say that again, please?

20 **Q. Sure. I think there's some general**
21 **questions out there as to why the customer charge is high**
22 **versus the volumetric rate. Can you explain why you might**
23 **have set a higher fixed customer charge versus a lower one?**

24 A. When I did my allocations, the numbers fell
25 out that way. That's what the numbers are.

1 **Q. And those are the allocations contained in**
2 **your rebuttal testimony as described therein?**

3 A. I believe it's in direct also.

4 **Q. And in direct as well?**

5 A. Right. The way the costs were allocated
6 between commodity and the customer charge and how they fell
7 out.

8 MS. MAYFIELD: No further questions.

9 JUDGE BUSHMANN: Thank you for your
10 testimony, Mr. Russo. You may step down, now. That
11 completes all the witness testimony. Let's -- as far as
12 exhibits go I show that all the marked exhibits have also
13 been offered and received, except there was one exhibit --
14 OPC Exhibit 7.

15 MS. MAYFIELD: Right. I did not move for
16 the admission of that portion of evidence, and I do not now
17 move for its admission.

18 JUDGE BUSHMANN: All right. Just checking.
19 The expedited transcripts will be available on next
20 Tuesday, May 24th. Initial briefs are due June 3rd. Reply
21 briefs are due June 15th.

22 Are there any other final matters the
23 parties need to bring up before we adjourn? Hearing none,
24 we're adjourned. Off the record.

25 (WHEREIN, the hearing was adjourned.)

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14
15
16
17
18
19
20
21
22
23
24
25

INDEX

HILLCREST UTILITY OPERATING COMPANY, INC.

Opening statement by Mr. Cooper	5
JOSIAH COX	
Direct Examination by Mr. Cooper	42
Cross-Examination by Ms. Mayfield	45
In-Camera	80
Cross-Examination by Ms. Payne	92
Questions by Chairman Hall	120
Recross Examination by Ms. Mayfield	126
Recross Examination by Ms. Payne	126
Redirect Examination by Mr. Cooper	128

STAFF OF THE PUBLIC SERVICE COMMISSION

KIMBERLY BOLIN

Direct Examination by Ms. Payne	137
Questions by Judge Bushmann	141

JARROD ROBERTSON

Direct Examination by Ms. Payne	142
Cross-Examination by Ms. Mayfield	143
Cross-Examination by Mr. Cooper	153
Questions by Judge Bushmann	157
Redirect Examination by Ms. Payne	157

SHANA GRIFFIN

Direct Examination by Ms. Payne	162
Cross-Examination by Ms. Mayfield	163
Cross-Examination by Mr. Cooper	169
Redirect Examination by Ms. Payne	182

PAUL HARRISON

Direct Examination by Mr. Westen	184
Cross-Examination by Ms. Mayfield	186

ASHLEY SARVER

Direct Examination by Mr. Westen	194
----------------------------------	-----

OFFICE OF PUBLIC COUNSEL

KERI ROTH

Direct Examination by Ms. Mayfield	196
Cross-Examination by Mr. Cooper	197
Cross-Examination by Mr. Westen	203
Questions by Chairman Hall	209
Questions by Commissioner Kenney	214

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25

INDEX

JAMES RUSSO	
Direct Examination by Ms. Mayfield	217
Cross Examination by Ms. Payne	219
Questions by Chairman Hall	224
Question by Commissioner Kenney	233
Further Questions by Chairman Hall	233
Further Questions by Commissioner Kenney	234
Recross Examination by Mr. Cooper	235
Recross Examination by Ms. Payne	238
Redirect Examination by Ms. Mayfield	239

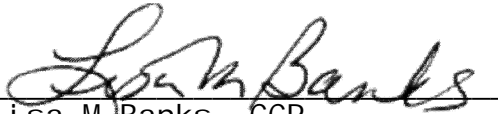
	EXHIBIT INDEX	
	MARKED	RCV' D
1		
2		
3	HILLCREST UTILITY COMPANY, INC.:	
4	Hillcrest Exhibit 1 Josiah Cox direct testimony	45 45
5	Hillcrest Exhibit 2 Josiah Cox Rebuttal testimony	45 45
6	Hillcrest Exhibit 3 Josiah Cox timesheet	132 136
7		
8		
9	STAFF OF THE MISSOURI PUBLIC SERVICE COMMISSION:	
10	Staff Exhibit 1 Direct testimony of Kimberly Bolin	143
11	Staff Exhibit 2 Direct testimony of Jarrod Robertson	143
12	Staff Exhibit 3 Rebuttal testimony of Jarrod Robertson	143
13	Staff Exhibit 4 and 5NP Direct testimony of Shana Griffin	163
14	Staff Exhibit 6HC and 7 NP Rebuttal testimony of Shana Griffin	163
15	Staff Exhibit 8 Direct testimony of Paul Harrison	186
16	Staff Exhibit 9HC and 10NP Rebuttal testimony of Paul Harrison	186
17	Staff Exhibit 11 Direct testimony of Ashley Sarver	195
18	Staff Exhibit 12 Rebuttal testimony of Ashley Sarver	195
19	Staff Exhibit 13 Operating agreement	104
20	Staff Exhibit 14	111
21		
22		
23		
24		
25		

1	Staff Exhibit 15	139	140
	Track changes-water		
2			
3	Staff Exhibit 16	139	140
	Track changes-sewer		
4			
5	OFFICE OF PUBLIC COUNSEL:		
6	OPC Exhibit 001NP and 002HC	197	197
	Direct testimony of Keri Roth		
7	OPC Exhibits 002NP and 004HC	197	197
	Rebuttal testimony of Keri Roth		
8			
9	OPC Exhibits 005	218	218
	Direct testimony of James Russo		
10	OPC Exhibit 006	218	218
	Rebuttal testimony of James Russo		
11			
12	OPC Exhibit 007	48	48
	General Ledger		
13	OPC Exhibit 008	75	77
	Certified copy of bankruptcy		
14			
15	OPC Exhibit 009	75	77
	PACER copy of bankruptcy		
16			
17			
18			
19			
20			
21			
22			
23			
24			
25			

1
2
3
4
5
6
7
8
9
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12
13
14
15
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CERTIFICATE OF REPORTER

I, LISA M. BANKS, a Certified Court Reporter, within and for the State of Missouri, do hereby certify that the witness whose testimony appears in the foregoing deposition was duly sworn by me; that the testimony of said witness was taken by me to the best of my ability and thereafter reduced to typewriting under my direction; that I am neither counsel for, related to, nor employed by any of the parties to the action in which this deposition was taken, and further, that I am not a relative or employee of any attorney or counsel employed by the parties thereto, nor financially or otherwise interested in the outcome of the action.


Lisa M. Banks, CCR



A				
A-2 116:1 127:14	20:8 67:18 73:3,11 88:10 88:11,14,21	acquired 7:25 27:3 31:6 46:23 47:15	70:4,18 76:20 79:15 111:17 124:13,13	admin 134:3 136:7 216:1
abatement 31:2	89:2,9 121:11 130:16 210:6	95:1,9 127:2 188:8 191:8	134:13,21 136:10 164:17	administrative 56:20
ability 7:17 18:19 26:8 60:12,13 62:9 132:14 177:1 246:7	223:8 232:6 236:6	acquiring 124:15 191:9 191:17	178:1,8,11 188:8 213:1,1 231:16	admission 76:9 186:7 195:6 197:7 218:17 241:16,17
able 7:20 9:7,25 13:3 25:22 37:23 61:11 62:8 64:21 66:19 113:17 129:19 130:21 131:2 171:11 172:23 174:20 177:4 205:18 205:19 215:24 229:14 230:3 232:8	accountant 34:5 196:17	acquisition 6:24 7:6,10 19:20 19:22,25 27:1 96:4 107:4 113:8 117:22 119:6,16,22 121:17,21 127:3 176:11 178:25 183:10 183:13 193:10 193:14,17,20 201:20 208:10 208:16 210:15 211:5,6,6,7,10 211:15,16,18 211:22,23,24	add 11:17 37:14 236:19	admit 103:14 111:1 162:23
absent 147:22	accountants 34:24	accounts 25:3 57:1 95:20,22 151:2,13 239:20	added 122:10 151:6,20	admitted 113:25 127:13 145:15 199:9 238:19
absolute 36:14 222:23	accounted 98:25	accuracy 22:25 36:9,23 215:21	adding 113:19	adopt 37:14
absolutely 29:7 29:13 70:7 118:13 132:3 135:11 139:8 158:9 161:2 220:16,19	accounting 20:22 23:15,16 23:20,22 24:3 56:17,20 57:3 57:3,6,8 98:7 99:5,20 128:25 129:4,12 138:3 156:25 219:12 230:14 234:3 234:11 239:9	acquisitions 10:1 57:25 64:5 94:3,20 110:14,18 113:22 135:20 208:5,6,14,18 208:23 210:12	addition 13:10 110:7	advise 4:2 86:23 90:14 172:7,9
academic 12:18 12:20	accounts 25:3 57:1 95:20,22 151:2,13 239:20	acted 32:3	additional 9:25 30:23 76:19 107:13 109:20 110:8,11 183:15 191:14	advising 172:6
accept 34:8 99:1	accuracy 22:25 36:9,23 215:21	action 246:9,13	Additionally 11:8	affect 33:4 166:24 174:14
accepted 53:1 57:11 77:11 204:13 219:12 223:4	accurate 35:21 108:24 138:13 139:22 142:24 163:2 171:4 185:14 195:3	actions 6:23 202:14	address 3:15 7:9 13:21 15:14 24:2 217:17	affiliate 183:16 affiliated 90:24 91:4
access 60:8,11 165:12	accurately 211:2	actively 11:14 107:14 203:9	addressed 6:15	afraid 119:20
accomplish 7:18 177:1	acknowledge 90:22 171:21	activities 38:4 57:21 112:21 133:12 206:19	addressing 42:9 156:6	afternoon 143:18 184:12 184:13 186:19 194:11 203:17 203:18 210:1,2 219:8,9 224:20 224:21
account 11:1	acquire 27:4 68:13 94:9,10 107:23 109:24 116:11 117:19 120:3 121:24 126:22 127:8 131:25 176:12	actual 11:22 12:2 15:25 35:23 59:11	adequate 7:17 8:8,14 131:3 177:1	AFUDC 24:10 24:14 71:19
			adjourn 241:23	agenda 125:19
			adjourned 241:24,25	agent 55:4 128:9
			adjust 10:15 26:14	aggregate 116:12 117:8
			adjusted 153:25 160:12	ago 16:22 23:13 155:22 186:21 189:23
			adjusting 192:22	agree 13:22 34:20 41:16,18 41:19 73:13 97:22 105:2 108:23 138:12 155:7 174:10
			adjustment 39:12 160:11 228:7	
			adjustments 10:13 159:16	

175:23 179:2 179:19 198:13 198:18,19 200:6,22 201:18 202:3 202:21 222:12 222:16,19 223:6,11,15,18 223:23 238:16 238:23	agreements 102:22 179:13 agrees 19:23 40:24 192:4 193:6 ahead 42:13 49:5 78:8 aid 212:7 al 3:7 alert 87:5 align 34:4 37:20 aligned 161:11 allege 178:12 alleged 178:17 allocate 11:18 37:18 191:16 211:3 allocated 10:19 23:17 128:16 201:2 202:5,11 202:22 203:3 207:17 224:12 227:9 241:5 allocating 9:21 allocation 10:2,3 12:8 20:25 21:20 23:18 26:20 35:18,20 36:3 37:18 66:5 95:12,17 112:8,12,17 113:17,21 149:19 153:25 154:1,3,8,16 154:18 197:23 199:1,16 205:2 205:8,10,14,15 209:9 210:5 213:1,3 216:5 216:15 240:7 allocations 9:18 191:15 224:11 240:24 241:1 allow 17:14 18:10,15 214:9	allowance 24:9 allowed 91:14 109:17 114:6 allowing 119:19 alteration 25:24 alternative 144:20 147:14 150:21 156:10 Amen 119:23 amenable 99:6 195:23 amended 45:3,5 102:10 131:19 amendments 101:16 102:21 American 16:23 63:23 155:23 amortization 237:1 amortized 187:24 amortizing 236:20 amount 7:13 10:18 11:7 15:4,8,22 20:8 21:14 23:10,16 24:8,21 25:6,8 26:6 31:24 33:15 36:1,13 52:12 63:2,3 78:9 84:17 115:20,21,22 115:23 116:1 118:8 122:3 123:18 125:14 127:17 129:10 132:4,5 148:18 149:1,4 159:5 161:5 163:22 163:25 164:11 166:3 175:17 175:18 176:22 177:20 204:11 204:25 205:20	211:2 213:9,21 215:20 216:14 232:21 233:23 237:9 amounts 22:19 23:20,23 24:23 27:8 36:7,9,11 36:15 37:4 96:25 97:5,9 98:11 99:21 158:11,11 237:8 analysis 61:11 162:20 222:13 analyst 142:12 142:12 222:20 223:7 angry 29:25 animal 129:16 annual 57:14 236:1,4,13 annualized 188:13 193:8 ANR-4 35:5 answer 8:17 14:22 20:18 21:10 37:23 42:10 43:5 47:9,14 54:6 57:10 64:7 72:24 73:16 76:1 95:5 99:9 103:7 126:14 147:2 152:5 169:15 172:18 173:4 182:11 189:21 192:1 192:10 193:4 206:21 210:18 212:6 214:11 215:10 218:6 221:11,25 answered 110:24 120:20 120:21	answering 133:22 answers 32:20 32:22,24 45:3 45:5 139:19 142:21 162:24 185:11,13 194:25 195:2 197:4 218:13 221:18 anticipated 93:4 93:15 anybody 65:23 anymore 107:18 228:9 anyway 120:19 171:21 apart 33:8 apartment 37:10,13,15 155:11 221:24 225:13 apartments 92:20 221:14 apologies 153:6 apologize 146:10 230:12 appear 103:17 157:13 160:3 222:2 appearance 3:11 appeared 218:5 appearing 3:14 appears 103:18 246:5 applicable 22:5 114:16 115:20 115:21 116:4 239:6 application 112:16 113:15 183:18 applications 110:2,3 applied 21:20
---	---	---	---	---

22:14,20 24:14 35:14,16 40:18 166:15 apply 35:19 117:14,20 126:7,13 159:3 applying 166:9 appointment 94:1 appreciate 69:4 234:16 approach 12:18 12:20 26:5,5,7 26:10,13 27:15 27:17 48:19 62:1 74:23 102:2 107:24 107:24,25 108:3 109:24 138:5 159:9 220:13 229:14 approached 61:14 64:10 121:2 appropriate 12:20 20:8 21:10,14 25:6 33:13 34:10,16 34:23,24 35:19 37:21 95:16 128:20 144:2,5 146:6,16,18,20 147:3 157:11 177:19 210:6 216:23 236:17 240:8 appropriately 37:20,21 approval 6:14 7:6 approve 97:5 107:9 approved 28:9 55:1,5 97:9 144:13 178:24	179:1,13 183:11 227:24 approving 107:4 approximately 7:24 8:1 13:11 22:14 27:4 30:24 38:13 52:17 99:15 120:25 198:5,9 198:12 April 69:14,15 80:10 160:10 arbitrarily 33:17 arbitrary 38:10 area 187:13 areas 129:10 arguably 174:24 argue 15:19,20 15:21 34:1 argument 33:19 39:1 53:1 77:1 arises 10:21 armslength 29:23 33:18 39:17 arrangement 128:6 arrangements 62:10 arrive 4:24 68:20 arrived 53:13 148:18 205:13 205:15 artificially 130:21 as-filed 230:13 ascertained 121:6 Ashley 22:16 187:2 194:7,9 194:13,16 242:20 244:21 244:22	asked 31:24 41:24 54:10 55:25 61:8 78:19 85:15,15 116:10 122:24 126:3,20 128:5 128:11 129:24 130:14 133:11 139:18 142:20 145:7 146:17 149:1,5 158:19 159:24 160:15 162:24 178:17 182:2,17,25 189:25 205:12 215:20 216:9 238:8 239:17 240:2 asking 32:21 87:10 91:3 107:16,17 110:6 121:1 124:12,14 133:21 140:5 145:20 158:18 172:21 189:14 216:17,21 asserted 211:11 asserting 211:19 211:21 assessing 33:22 assessor 121:3 asset 17:15,19 113:7,15 156:15 236:7,9 236:20,21 assets 6:24 52:6 76:20 111:17 125:15 126:9 126:10 167:16 172:5 175:5 179:2,8,15 180:21 182:23 assigned 33:17 assisting 7:14	176:22 associated 7:21 11:17,19 14:12 59:19 63:2 95:20,25 103:4 122:3 135:14 151:7 177:4 192:5 193:7,10 Associates 56:14 assume 15:12,12 99:3,23 135:6 174:23 208:17 assumed 73:6 assumes 47:2 55:23 assuming 123:13 209:5 assumption 27:19 225:9 Atkinson 162:21 attached 35:5 68:25 69:1 127:11 153:16 168:9 190:15 attachment 110:23 attained 178:20 attempt 63:12 200:11 235:23 attempted 64:1 attempting 11:14 80:6 attended 31:10 attention 116:1 146:14 168:7 attorney 2:2 6:22 31:4,4 55:4 74:20 90:16 101:2 202:15 219:24 246:11 attract 179:21 180:19 attributable 21:21	attributed 20:24 98:24 audience 4:3 audit 11:11 36:10 70:10 98:16 185:1 audited 36:6 auditing 11:9 20:22 148:5,9 150:3 158:22 158:25 159:15 162:19 auditor 34:5 137:9 162:9 185:2 194:15 auditor's 230:13 auditors 34:24 98:4 149:22 authority 29:10 41:25 42:4,5 88:20 97:7 authorization 107:8 182:20 182:21 automatic 39:12 available 7:9 12:4,24 13:6 13:21 14:22 23:24 24:8 109:17 114:19 114:24 215:5 241:19 average 14:3 28:20 30:17,22 35:9 37:22 68:20 92:15,17 92:24,25 93:4 93:15 150:6 averaging 30:19 aware 33:9 49:16 148:21 149:22 156:5 167:19 172:22 175:8 197:1 200:25 202:1
---	---	---	---	---

202:17 218:11 233:4	171:10 245:13 245:15	129:15,17 223:19 236:4 236:14	201:17 202:3 209:3 210:15 216:9,12 224:7 226:9,19 227:3 232:11,11 237:4 239:5 241:3	bids 11:16 61:7 130:4,6 big 117:10 119:11,15,24 bigger 17:23 117:12 biggest 31:18 33:11
B	banks 1:18 18:6 18:7 107:24 110:1 114:22 117:21 134:10 246:3	bearing 170:1,9 170:19 began 6:11 7:23 129:6 beginning 38:1 43:20 199:20 213:11 234:7 begun 13:14 106:23 behalf 3:14 112:11 belief 45:7 185:14 195:3 believe 6:8 12:20 15:14 16:6,10 16:12 18:2 28:15 39:20 41:2 42:7 44:25 46:19 48:10 50:1,5,6 52:7,16,25 53:12,16 54:3 54:8 56:4,22 61:10 69:15 71:20 74:8,18 79:6 83:18,22 84:22 85:20 88:4,24 95:15 97:19 108:16 108:18 114:17 115:22 116:5 118:23 122:3 123:9 125:5 127:23,24 131:24 147:14 158:3 159:14 161:13 169:19 170:22 176:4 186:19 190:4 197:25 198:16 198:17 199:11 200:11 201:4	believes 9:23 10:1 11:7,22 12:2 13:25 22:2 41:2 191:21 193:9 bench 83:24 131:24 215:13 224:17 235:17 Bend 201:14 benefit 17:13 55:17,19 124:12 135:10 171:4 benefits 55:10 berth 95:10 best 34:25 39:16 39:22 45:6 114:19,23 116:16 128:10 139:22 142:25 152:2 163:3 169:9 185:14 186:24 195:3 246:7 bets 228:22 better 19:24 27:13 38:5 212:5 beyond 16:13,14 20:10 25:8 106:10 125:7 129:14 132:14 156:22 157:1 bid 11:18 36:12 122:14 130:1,3 130:7,9 bidding 61:4 134:15	bill 10:22 30:21 59:24 92:15,18 92:18,18,24 93:4,15 146:2 150:7 223:12 223:15,19 227:11 232:8 238:25 billing 7:15 59:3 59:4,7,11 60:15 61:3,13 129:24 176:23 226:4,8 bills 30:19 31:19 58:12,13,15,21 59:7,12 93:1 144:6 229:15 230:3 binding 28:6,10 52:2,3 131:5,8 bird 119:21 bit 6:4 117:2 118:1 132:12 192:23 227:17 230:18 231:1,2 232:3 Bluefield 179:17 board 33:20 34:1 54:17 89:23 97:4 234:3,11 boil 113:2 Bolin 9:10 20:16 27:14 136:23 137:1,5 138:8 141:24 159:8 242:9 244:10
B-O-L-I-N 137:6	base 23:7 35:9 116:14 125:5 151:2,14 187:23 193:12 193:18,20 228:7 based 10:13 20:25 22:5 35:23,24 36:10 36:11 37:4 40:12 53:3 55:7 58:20 85:21,23 87:23 125:24 141:19 147:1 149:12 149:18 150:7 166:5,10 173:13 188:13 197:23 198:1 199:5 201:21 205:16,18 206:21 207:3 207:21 210:17 213:1 215:12 223:16 225:12 228:3 233:1 235:17 237:1,4 239:14 240:3			
B-R-A-N-C-H 217:20				
back 5:2 37:25 70:21 71:1 78:8,16 83:14 89:6 91:24 93:20 125:22 135:1 146:8,9 157:7 161:14 180:3 191:22 196:2 226:18 233:1 234:6				
backwards 68:16				
bad 6:23 32:5 119:18 187:23 226:21				
balance 159:23 223:22 237:7				
ballpark 118:7				
bank 19:3 88:10 88:11,12,14,15 89:1,9 164:21 166:12 174:22 183:7				
bank's 166:15				
bankruptcies 125:11				
bankruptcy 73:21,24 74:6 74:20 75:11,14 75:24 76:6,7 77:8,20 86:4,8 86:14,20,23 87:9,18,23 89:12 90:7,10 90:11,17 91:7 91:11 166:20	basic 31:21 32:24 33:6,6 223:12 237:15 basically 144:4 144:13 161:4 227:22 basing 10:1 basins 121:8 basis 108:1 116:12 124:4,7			

Bolin's 140:2	39:5 71:22	142:4 143:3,7	154:11 157:11	62:17 63:3,22
bond 25:2 117:5	76:24 172:23	143:9,15	198:24 199:15	63:23,24,25
117:5	Brydon 2:3	155:16 157:5,6	222:24	84:13 85:3
book 17:14	budget 122:5,8	157:16,18,20	calculated 21:19	87:22,23 88:5
43:17 122:1	build 17:10	159:10 161:23	22:4 92:25	107:24 109:24
booking 14:12	215:19	163:10,16	148:4 151:18	114:8,18 164:4
17:19	building 121:9	171:17 172:19	158:10 177:22	164:14,15,17
bookkeeping	203:10	173:3,15	177:23 198:2	164:19,22
56:19	buildings 121:11	181:10,24	213:23,24	169:1 177:11
books 103:3	bullet 153:24	184:4 186:9,15	calculating 12:3	177:15 178:13
214:18 239:11	154:3,4,5,5	187:6,9 193:24	160:5,22	179:21 180:8
borrow 19:3	bunch 128:9	194:1,3 195:8	169:21 198:19	180:19 182:3,6
166:22 174:21	burden 231:24	195:14,19,24	calculation	183:4,6,23
borrower 109:5	Bush 32:1 67:14	196:2 197:9,18	106:6 113:17	203:10
115:18 166:10	67:15,17 68:5	203:14 209:23	207:2 226:19	capitalize
166:11,13	68:7 155:19,22	215:12,15,17	calculations	193:19
borrows 174:22	Bushman 1:13	217:1 218:21	23:15 24:13	capitalized
bottom 69:10	3:3,8,16,22 4:2	219:2,5 220:14	112:12	193:11,17,18
84:25 85:2	4:12,14,21 5:2	224:17 235:17	Calish 200:19,23	captured 152:12
87:13 89:9	14:25 19:14	238:5 239:24	call 42:15 67:15	capturing
114:15 160:2	27:10 29:4,6,8	241:9,18	142:1 161:25	193:13
191:18,24	29:15 41:23	242:10,13	184:8 194:7	card 88:23
bought 136:2	42:11,13,17	business 5:21	196:4 217:4	careful 25:13
bound 239:15	45:12,16 48:21	11:11 48:5,7,9	230:21	carried 71:16
Box 2:3,9,13	49:2,7,17	48:11 50:3	called 5:13 6:13	151:3,15,16,17
Branch 217:19	50:15 56:3	56:20 58:11	51:25 54:1	151:19,19
Brandco 6:13,18	62:2 74:24	60:18 61:11	67:14,17 79:8	152:11,14
7:11,13,16,20	76:11,22 77:2	64:20 73:17	129:4 132:12	carrying 14:12
32:3 68:13	77:12 80:19	74:10 77:17	156:8 188:24	24:14 151:6
176:11,12,21	83:14,23 91:20	112:21 117:16	calling 188:20	229:5 231:1
176:24 177:3	91:24 102:3	120:2 123:11	calls 28:15	235:22 236:20
break 31:19	103:16,20,24	174:18 217:15	136:22 172:16	236:21 237:4
76:4 91:21	104:4 108:4	217:18 231:3	181:9	237:13,14,20
125:19 161:6	111:3,10 114:1	business's	camera 80:20,22	237:21,22
195:25 212:12	114:3 125:19	166:24	132:19	carryover 71:21
brief 29:14 42:9	125:22 126:17	businesses 78:20	capacity 42:23	case 5:10,23 6:7
195:23	128:2 132:18	buy 121:23	196:16	6:7,24 7:3,10
briefly 234:2	133:8 136:13	buying 156:5	Cape 10:22	8:6,21 9:4,6
briefs 241:20,21	136:19,25		28:20 120:24	10:5,20 13:9
bring 8:2 9:12	138:6,21,25	C	121:3 214:20	14:7 16:23,25
9:14 42:14	139:6,9,13	C 2:1 3:1	capital 11:14,21	17:4 19:20
176:19 241:23	140:1,5,10,15	calculable 22:25	11:22 24:19,22	21:18 24:6,15
Brittany 10:8	140:18,23	36:22	25:9 33:4	25:12 26:12,21
broken 161:15	141:2,4,7,9,18	calculate 11:23	38:19 51:14	27:18,21,24
brought 38:6	141:21,24	21:15 147:3	57:24 60:21	28:14,16 30:9

30:12,25 32:17	181:2 203:19	89:17,23 90:1	213:14 214:15	163:3 196:24
32:18 33:8	cash 14:11 62:24	90:11,21 93:21	215:20 224:18	217:25
35:10,11,19	63:5 64:20	93:22,24 94:5	224:19 233:19	changes-sewer
36:8,17 38:2	180:20	100:24 101:14	238:8 240:2	245:3
39:13 40:14	categories 134:1	104:11,15	242:6,24 243:3	changes-water
44:20 50:9	134:1 135:4	107:21 109:21	243:4	245:1
61:21 69:19	205:17,21	110:12	Chalfant 10:8	changing 90:15
71:13,24 76:13	207:3,4 210:6	CEOs 34:11	34:3,25 48:15	Chapter 73:24
85:2 97:15,18	210:8,23 211:2	certain 9:12	48:16,17 56:8	74:5
99:14,16,22	215:25	12:17 43:4	56:12,23 57:11	character 76:17
112:8,14 113:8	category 205:19	96:1 98:7	57:12,20 58:14	charge 14:1,1,5
119:3,4 124:5	206:14 210:10	168:10 178:10	58:16,18,20,24	37:19 40:18
139:4 141:16	210:21 212:14	179:2 211:14	59:1 128:20	90:16 92:24
144:14 146:21	212:22	certainly 13:4	129:2,6 131:13	144:22 145:9
146:24 147:2	cause 65:11	15:20,21 18:16	131:15,16	145:17 154:13
149:22,24	122:23 137:11	168:2 213:22	199:12,19	154:14,14
151:5,20 152:8	137:21 142:13	certainty 213:21	207:16 208:1	157:11,24
152:12,16	162:11	214:10	208:12,19,25	158:1,12 161:7
153:13,20	caused 43:3	certificate	216:18	187:17 222:13
154:22 164:20	185:4 194:17	164:20 165:9	Chalfant's 57:17	222:14,17,17
165:9 170:17	causer 37:21	183:18 246:1	128:19	223:13,23,24
175:4 176:11	caveat 60:11	certified 74:25	challenge 206:9	224:3,3,7,8,10
176:13 177:24	CCR 1:18	75:2,3,4,11,15	change 40:19	225:7,12,22,23
178:3,5,9,25	246:15	245:13 246:3	43:25 44:4	226:1 227:15
179:11,20	cell 4:4 154:19	certify 246:4	101:17,19	227:16,23,24
180:3,5 182:12	161:8,10,13	cetera 94:24	106:25 138:1	228:3,14 229:2
183:3,10,11	cells 154:10,21	CFO 34:2 129:2	138:10 168:5,6	232:5,6,17,20
185:5 187:21	161:10	129:21	168:9,15	238:20,24
188:2,16,23	census 28:20	chairman 1:14	175:23 183:12	239:1 240:2,16
189:1 191:12	center 10:12	15:1,3,7,10,25	204:3,18 207:2	240:17,21,23
191:15 194:17	19:21 34:13	16:10,12 17:6	216:18 228:22	241:6
196:22 197:25	Center's 21:13	17:17 18:1,5,9	changed 6:9,10	charged 27:7
203:23,24	centers 32:14	18:12 19:2,7,9	100:22 101:6	93:1 225:9
204:5,24 205:4	Central 5:16,21	19:12 22:18	106:19,25	charges 36:4
207:24 209:11	21:4 27:3	27:11,13,25	149:20,21	222:25
211:7 217:23	45:19,22 46:16	28:4,17,22	161:15 183:17	chart 225:2
218:1 223:14	46:21 47:16	29:1 38:15,17	changes 25:2	cheaper 61:9
228:22,23	50:18 51:10,14	38:23 39:2,7	41:17 43:12,14	63:25 64:5
232:11,23	51:17 52:8	39:15,24 40:24	43:15 44:8,11	128:12,13
235:2,8,9,11	53:19 54:18	75:6 111:10,11	44:17,24	check 70:24
235:11,13,14	55:11,18,25	114:2,5 115:14	137:14,21	180:10
236:12 240:8	58:11 61:18	116:7 126:3,20	138:2,13	checking 241:18
cases 50:7 94:24	63:12,17 80:11	131:24 133:10	142:17 152:23	checks 58:17,18
127:3 134:19	83:17 84:6	209:25 212:3,7	153:8 160:20	58:20 136:9
179:17 180:22	85:7,8 86:9,24	212:23 213:13	162:15,18,23	chief 21:22 22:8

48:15 56:8,9 56:14 78:1,2,3 78:4,5 96:9,20 97:1 128:21 choice 8:10,12 8:19 107:6 choices 8:21,22 31:23 chose 95:12 chosen 26:3 35:15 154:13 cited 42:3 cites 42:4 City 1:7 2:4,9,13 72:10,16 city's 72:23 CJ1 68:25 69:3 claims 17:20 clarify 49:14 92:21 94:9 104:17 106:14 151:11 204:3 219:22 224:2 clarifying 222:6 class 37:10,10 37:11,13,15,16 146:6,17,19,21 147:4 155:6,8 155:11,11,12 157:9,12 158:20 159:5 220:7,9,11,22 220:23 221:13 221:16,24 classes 37:8,14 92:7 146:22 225:8 classification 33:15 34:17 classifications 33:13 34:14 clean 8:15 clear 93:2 206:5 clearly 135:7 229:24	client 8:5 close 109:15 110:13 123:20 135:24 178:16 226:23 227:2 closed 106:22 closely 34:4 closer 15:9 70:3 192:23 closing 14:17 107:15 Code 73:24 Cohane 78:24 Coincidence 12:12 Coleman 31:10 collapsed 40:23 collateral 182:24 Collect 146:5,16 collects 20:8 Columbia 113:1 column 135:6 161:5 212:11 225:6,11,15,17 226:13,14 columns 135:9 206:10 combined 30:18 93:16 121:19 come 16:6 27:18 28:1,7 32:6 39:13 62:25 84:17,19 122:9 122:10 123:7 148:3,20 150:8 150:14 152:7 153:10 168:6 175:5,8,11 177:25 179:7 188:2,17,22 213:24 235:1 comes 8:11 20:1 228:4 comfortable 173:4	coming 113:22 234:11 comments 31:10 31:13 67:24 68:2 commercial 37:11,13,15 55:4 110:1 114:22 117:20 128:8 155:6,7 155:11 157:9 157:12 164:21 166:15 183:7 220:7,11,22 221:5 222:2 225:13 238:11 Commission 1:1 2:8,10 3:4,16 3:17,19 6:15 7:5,11 8:7,8,10 9:8,9,13,15 10:11 13:9,17 14:2,19,20 16:13,18 17:4 17:9 18:13 19:15,16,18 22:19 24:12,25 28:9 29:10,20 30:3,8,10 31:13 33:8 34:6,8,12,19 35:15 36:2,16 36:19 37:14,24 38:5,9 40:15 41:4 42:9 47:6 47:8,11 49:3 67:2 75:15 79:7 103:14 113:15 121:18 121:21 127:5 134:18 137:8 137:10 144:14 144:21 145:7 145:16 156:11 162:10 175:11	176:2 177:20 178:24 182:20 182:21 184:20 184:25 188:25 189:5 195:22 201:16 203:20 216:17,21 218:7 219:5,11 229:25 230:2,6 233:2,4 239:15 240:7,15 242:8 244:9 Commission's 13:20 22:22 26:4 27:2 42:8 Commission-a... 144:9,11,12 commissioner 4:24 28:12 29:4,5 31:10 40:1,2,4,10,20 41:6,16,18,21 120:18 125:23 125:25 141:4,6 181:23 195:17 213:12 214:16 233:8 234:1 238:14 242:25 243:4,5 commissioners 1:15 209:24 commitment 28:6,6 commitments 100:4,7 commodity 154:12,14 161:7,10 222:17,24 223:22,24 224:7,12 227:9 228:8,16 238:11 239:1 241:6 common 36:7	214:5 233:1,2 communicated 105:6 community 25:19 32:9 companies 29:11 51:10 56:10,13,19 65:25 87:3 89:14 91:5 93:19 94:9,10 112:24 118:19 118:21 120:3 129:19 130:4,6 130:8 132:1 169:18,20 170:3,4 181:19 190:11,19,23 200:8 233:12 company 1:11 2:5 3:6,15 5:8 5:10,13,15 6:2 6:3 7:22 9:1,6 9:23 10:1,4,10 11:4 12:2,5,9 12:17,19 13:13 13:15,25 15:4 15:8 16:4 17:14,18,20 18:14,18 19:2 20:2,7,12 21:5 22:7,7 23:16 23:23 24:5,5 25:6,22,25 26:6,8,15,21 27:6,18 28:1,6 28:14 30:12 32:16 33:3,5 36:8 37:8,11 38:3,12,18 39:13 43:1 45:14 46:6,11 46:14 51:25 54:1 55:22 57:24 59:9
--	---	---	--	--

61:10 65:6,7 66:6,6 79:8,9 79:11,14,17 80:10,16 83:19 83:20 86:11 88:23 92:6 94:3,6,6,23 97:1 99:5,6,12 99:14 103:3 108:13 109:11 110:22,23 111:16,19 112:2,4,7,25 113:4,24 118:2 121:23,24 122:20 123:2 123:16 124:14 126:5 129:20 148:18 149:3 150:15 151:4 152:7,15,24 155:23 164:3 166:13 172:2 175:11 177:5 177:24 178:3 180:20 181:15 185:20 188:1,7 188:15,22 189:1,7 191:11 191:17 197:24 203:25 204:1,2 204:5 205:3 210:4 211:11 211:19 212:25 213:10,25 228:22 229:14 230:3,19 231:5 231:24 237:10 239:6 240:13 242:2 244:3 company's 11:24 13:10 24:2,20 32:19 96:9 148:23 178:24 214:18	221:14 comparable 191:2 compare 34:21 35:2 170:12 182:10,12 200:11,15 232:16 compared 8:23 72:2,9 169:16 190:10,17 204:6,11 206:11 209:12 216:6 comparing 170:9,16 190:1 216:10 comparising 169:23 comparison 73:2 130:16,23 146:2 170:2,19 190:6 201:6 228:2 240:18 comparisons 34:15 73:4,10 170:12 202:3 226:5,9 compatible 190:23 compensation 101:8 125:3 complaint 201:15 complaints 201:22 complete 9:25 completed 8:3 completely 62:23 119:12 completes 136:19 141:24 169:15 241:11 completing 12:5 complex 165:4,6	complexity 164:25 165:2 compliance 6:19 6:22 8:3,15 complicated 105:24 comply 57:2 component 232:13,15 concept 23:5 144:10 166:5 Conceptually 18:11 concern 29:22 30:7 31:15 33:14,21 concerned 25:22 229:25 230:3 concerning 13:18 15:3 18:1 173:11 202:14 213:8 concerns 24:2 26:9 29:24 30:5 32:23 38:2,5 168:2 201:22 concession 231:10 concessions 231:5,14 conclusion 26:24 153:11 172:17,20 concrete 121:8 conditions 179:10 conducting 222:12 confidential 35:5 80:15,17 80:18 133:3,4 185:17 189:12 191:1 196:21 conflict 39:17	169:5,7 confused 12:8 120:22 234:23 confusion 12:14 219:22 conjunction 157:23 connected 38:11 65:21 186:25 consent 31:2 89:23 consequence 8:18 14:13 conservation 232:7,9 consider 61:1 181:15 218:7 223:8 233:23 considerable 7:13 176:22 consideration 24:20 25:1,13 26:4 27:9 133:6 170:3 considered 22:3 23:11 96:10 235:8 considering 168:1 239:1 considers 25:9 27:1 consistency 223:8 consistent 177:21 178:19 183:20 219:11 221:17,21 227:17 consists 223:12 consolidated 139:5 constitute 151:10 constituted 210:15	construct 52:6 constructed 18:23 construction 7:23 8:3 11:15 24:10 53:4 112:18 113:23 122:7,12 134:14,21,21 135:11,14 212:17 231:18 consult 97:8 consulting 118:1 118:3,8 consumer 59:18 60:4 134:13 229:22 consumers 232:8 contact 32:1 219:25 contacted 68:5,7 contain 90:20 contained 35:4 45:2 67:24 139:18 142:21 145:14,22 158:13 197:3 218:13 231:18 241:1 contamination 66:10 contends 25:24 continually 64:13 continue 62:15 63:24 107:23 192:21 continued 63:20 123:24 continues 58:4 222:1 Continuing 150:5 164:10 166:7
--	--	---	---	---

contract 113:5 120:12 122:25 129:25 130:1	173:17 181:12 181:21 182:18 182:25 183:9 193:25 195:18 197:20 203:12 205:12 215:14 216:12 219:4 235:19,20 238:3 242:3,4 242:7,13,16,23 243:5	45:6,20,24 46:3,4,18,21 46:22 50:19,20 50:25 51:1,3 51:11,12,15,16 51:19,25 52:1 52:10,11,21,24 53:2,6,8,9,15 53:24 54:2,5 54:11,15,16,20 54:21,24,25 55:2,6,9,11,12 55:15,16,20 56:5,8,11,15 56:21,22,24 57:7,11,13,15 57:16,18,19 58:15,21,22 59:2,4,7,8,10 59:12,15,17,22 59:24 60:2,6,7 60:9,16,19,25 63:8 67:5 68:6 69:14,16,19 70:1,19 71:5 71:10,24,25 73:21,22,25 74:1,3,4,10,11 74:13,14,17,18 74:20,21 76:22 77:21 78:10,20 79:8,14 80:7 80:12 83:21 84:11,12,18 85:9,19 86:5 86:10,17 87:10 87:15,16,19 88:6,12,19 89:10,21 90:8 90:18,21,25 91:5,17 92:8,9 93:13,17,18 94:4,17 95:2 95:10 96:11,14 96:22 98:9	99:16 100:4,16 103:2,5,8 104:1,25 105:4 105:9,23 106:1 106:11,16,17 107:1,2,7 108:6 109:9,14 109:18,22 110:10,14 112:9 113:20 114:9,10,25 116:5 118:13 121:19 122:4 126:22 127:24 130:3 131:2 133:2 135:8 140:15 141:12 146:4 147:5,24 153:11 155:12 155:13 156:12 156:16 159:1,2 167:21,24 169:21,22 170:5 171:12 171:23,24 172:4 174:2,5 176:1,3 177:13 177:16,17 178:5,6,13,15 178:25 179:5,6 179:14,17,18 179:22 180:1,2 180:5,6,14,24 180:25 181:2 190:12,13 191:3,5,13 198:6,7,9,10 198:23 199:2,3 199:6,7,16,18 200:4,5,13,17 200:18 201:3,9 201:10,12,13 202:11,19,20 202:25 203:1,6 206:13 207:16	207:22 208:7 210:13 211:25 213:3,19 216:2 216:3,23,24 220:25 222:24 223:2,13 229:5 229:10 230:4 234:18 238:12 238:13,17,21 239:2 240:4,9	corrected 149:11 correcting 177:7 correction 218:3 218:9 corrections 161:3 185:7 194:20 196:24 218:10 correctly 78:24 154:1 161:11 177:10 corresponded 206:11 cost 10:15 11:3 12:16,19,23 13:16 18:1 20:9,10 22:23 24:10,12,13 26:1 32:14 35:13 36:21 37:21 44:19 71:21 98:25 99:7 117:17 148:5,9 149:10 149:23 150:2 177:12 178:1,7 178:8,10,11 187:3,3,12 193:15,16 201:1 205:10 209:10 230:7 230:16 235:10
contracted 36:11	Cooper's 19:18 21:6				
Contractor 134:11 135:22	copies 49:2 75:3 83:23 102:21 102:22 129:3,6 230:20				
contractors 122:15 134:13 134:13,14,23 135:23,24	copy 54:9 74:25 75:2,11,16,16 84:21 101:20 101:23 103:8 108:24 138:13 206:25 212:4 220:9 245:13 245:15				
contracts 13:18 113:14 120:11	Corey 31:16				
contributions 84:14,17,19 85:3 87:22,24 88:5	corner 139:1				
control 38:8,9 60:4 85:8 232:8,21,21 238:25	corporate 9:18 9:22 10:6 26:20 66:4 88:7 95:1,9,12 95:16 112:8,12 112:17 113:16 191:15 205:3 205:10 210:5				
conversations 120:14 121:6	corporate-rela... 36:4				
cools 113:2	corporation 56:2 191:10				
Cooper 2:2 3:13 3:14 4:8,9,13 4:19 5:6,7 15:2 15:6,9,19 16:2 16:11,16 17:8 17:23 18:4,7 18:11,16 19:6 19:8,10 21:1 25:21 28:12 42:15,19 45:9 47:1 55:21 62:1 76:12 115:12,25 116:4 128:3,4 132:15,20 133:1,9 136:11 136:17 141:3 155:17,18 157:3,19 171:18,19 172:25 173:6	corporations 5:19 29:9				
	correct 15:5,6 15:13 16:8 17:7 18:4 38:20,22 43:24				

<p>costs 7:7,8 9:22 10:9 11:17,19 12:2,10 14:3,4 14:12 18:18,19 20:1,2 24:14 37:20 38:10 65:1,2,3,10 71:19 95:1,10 95:14 98:4,7 98:15 117:14 122:12 151:6,6 152:11,14 191:22 192:5 193:7,9,20 205:4 227:8 229:6 231:1 235:8,22 236:20,22 237:13,14,20 237:21,22 241:5 could've 41:14 212:18 counsel 2:7,7,11 2:12,14 3:10 3:23,25 4:10 9:14 14:10 29:16,19 30:4 38:25 41:25 49:23 69:25 71:9 86:23 91:1,9 115:11 140:24 141:19 143:16 157:16 163:17 186:16 189:11 195:15 196:3,15 229:12 234:22 242:21 245:4 246:8,11 Counsel's 64:20 counseled 67:11 counseling 67:13 86:16 country 129:20</p>	<p>county 10:22 11:6 16:6 118:5,5 120:14 120:24 121:3 200:20,24 201:2 214:20 couple 43:14 124:24,25 135:14 178:4 205:5 course 11:11 53:10 86:17 115:24 119:24 159:16 court 1:19 3:15 3:20 4:1,18 75:12,14 137:4 142:8 162:6 246:3 cover 25:7 162:19 covered 77:25 covers 116:20 Cox 5:17,21 8:20 10:7 13:1 19:11 33:23 34:23 39:23 42:15,18,21 45:19 49:11,19 52:20 73:23 75:19 83:16 85:11 88:10 91:25 92:5 102:6 108:11 115:25 128:5 133:2,10 136:19 165:20 168:3,8,13,25 169:6,8 193:13 200:3,7,12 205:16 206:3 208:2,4,6,18 208:23 209:1 216:18 229:11 242:3 244:4,6</p>	<p>244:7 Cox's 84:2 167:12,13 193:8 199:6,15 200:15 207:21 212:24 create 47:21,24 48:8,10 50:6,6 56:25 155:6,10 156:14 169:5 183:1 236:8 created 24:24 47:20 50:2,8 51:5 88:11,11 88:15 131:12 159:15 220:7 240:15 creates 138:14 creating 48:13 92:7 157:9 183:2 creation 37:12 220:11 221:12 credible 33:7 credit 18:14 86:16 166:10 166:11,12,19 166:20 creditors 90:6 Creek 6:2 13:13 66:14 112:2,15 112:17 134:23 135:12,15,17 135:20,25 136:3,4 198:4 205:23 210:24 criteria 234:12 234:14 criticizing 229:21 cross 139:25 140:23 143:2 155:16 163:15 163:16 171:17 193:24 195:14</p>	<p>197:18 203:14 219:2 243:3 cross-examina... 45:11,16,18 91:25 92:4 143:16,17 155:18 163:18 171:19 186:15 186:17 195:13 197:17,20 203:16 219:1,7 242:4,5,12,13 242:16,16,19 242:23,24 cross-examine 186:14 Crouse 31:16 CSW 111:22,24 112:20 118:11 CSWR 5:15,18 10:7 30:3 42:24 45:23 46:1,6,11,13 46:17 47:10,20 47:22 48:2,8 50:4,25 51:3,4 51:11 54:9 58:4 85:12,14 85:16,18,25 86:24 87:5,22 88:6,10,11,14 90:21 93:25 102:11 104:14 107:22 126:8 131:19 191:2,6 197:23 216:11 curious 181:16 current 10:2,2 22:11 39:9 53:13,14 54:15 92:14 94:23 105:11 118:15 128:6,11 199:20 214:23 214:24,25</p>	<p>215:1,5,7 225:7,17 227:23 228:14 currently 6:1 13:19 28:10 54:9 58:1 59:1 66:10 92:15,23 95:13 107:17 107:18 108:24 120:7 156:4 180:4 196:12 200:7 201:15 216:4 217:12 curve 95:19 customary 109:6 customer 7:15 14:1,5 26:25 30:23 37:11,19 37:22 40:18 59:3,6,7 61:5 68:21 69:6 93:2 124:12 135:23 143:24 144:22 145:8 145:17 146:6 146:17,19,21 147:4 150:11 154:12 157:11 157:24 158:1 158:12,20 159:5 161:7,10 174:8 176:23 187:17 201:22 221:13,16 222:13,24 223:13,18,20 223:23,24 224:2,8,9 225:8,22 226:1 226:4 227:14 227:16,18 228:1 232:5,17 232:20 234:10 238:15,20,24 238:24 240:2</p>
--	--	--	--	---

240:15,17,21 240:23 241:6 customer's 223:12,16 238:23 customers 8:14 8:23 9:1,2 10:2 14:14,18 17:13 20:4,9 25:7,13 25:16,17 27:7 28:18,23 30:15 30:18 38:13 40:6 41:3 67:19,25 70:23 73:15 116:22 119:8,11 124:13 130:22 132:5 144:7 171:4 197:24 197:25 198:5,5 198:9,12,13,16 198:17,23 203:6 216:5,6 216:11,12,13 216:14 221:5 221:13,24 222:2 227:11 238:12,13 cutting 136:9 Cydney 2:11 3:24 29:18	27:22 68:11 84:3,6,14 85:25 88:16 89:19 90:4,23 91:3 99:15 100:11 115:19 116:18 193:10 199:21 dates 69:18 David 50:23 53:22 54:17 104:25 118:17 day 13:7 135:3 172:14 233:15 days 7:24 86:4 87:17 109:7 116:11 Daytona 56:13 dcooper@bry... 2:5 deal 114:19,23 119:11 234:9 dealing 4:22 129:18 134:22 187:12 dealt 17:4 Dean 2:2 3:13 5:7 debit 88:23 debt 11:23 12:2 12:4,10,16,19 12:22 18:1 24:10,12,13,22 24:24 26:1,19 44:15,16,19 64:21,23 74:13 78:13 91:15 115:2 116:20 117:4,7,12,13 117:17,20 164:4,19 165:19 166:8 167:9 174:5,5 174:6,10 175:7 175:9 177:11	177:25 178:1,7 178:8,10,11,13 178:13,18,21 182:7 183:20 187:23 231:16 debts 25:7 74:10 78:9 decade 6:8 December 86:17 86:20 160:13 188:9 213:12 213:15,16 decide 20:21 173:21 decided 96:25 182:12 decides 240:7 decision 172:10 206:17 230:25 231:3,3 decisions 24:25 174:13 declared 73:20 decrease 87:14 209:10 deemed 9:11 67:18 68:3 167:12,14 deeper 26:23 default 65:11,12 122:18,19,25 123:3 167:4,5 167:8,14 defaulting 122:23 defer 151:25 156:23 230:25 232:3 deferred 14:13 236:6 deferring 235:8 235:10 define 98:3 defined 22:21 106:8	definite 24:23 definitely 58:14 64:4 119:14 definition 23:12 36:25 97:24 98:1 99:1,2,3 definitions 114:15 degree 22:25 27:20 36:9,22 214:10 215:21 238:15 delete 60:12 deny 22:1 department 6:21 31:3 66:23 134:19 150:4,10 155:20 156:5 158:22 159:1 159:15 162:20 department's 148:5,9 dependent 94:22 depending 27:24 94:12 240:6 depends 239:11 depo 207:8 deposition 34:4 53:12 54:8 57:18 80:9 205:16 206:22 206:24,25 207:1,5 246:5 246:10 depositions 32:19 35:25 39:20 depreciation 57:4 129:14,16 129:17,18 151:2,13 187:22 Deputy 2:11 describe 133:1	150:22 152:3 212:1 described 7:7,11 14:9 56:18,24 152:11 207:4 211:14,15 229:12,13 241:2 describes 5:21 describing 207:3 description 160:11 design 13:25 20:23 25:11,12 37:23 40:15 92:7 100:2 143:23 144:20 144:20,23 145:17,18 147:1,15,20 148:8 149:7 157:1 158:18 158:21,24 159:4 186:25 187:1,15 188:21 219:19 220:8 222:12 222:20 223:7 225:12 238:10 238:10 designation 146:22 desire 132:2 desk 61:24 detail 115:9 detailed 76:3 212:21 details 120:7 determination 22:10 34:16,17 173:1 determine 21:14 76:5 97:7 98:4 158:24 159:4 190:22 205:18
D				
D 3:1 Dana 31:20 DANIEL 1:14 Danielle 74:19 data 37:4 49:23 69:21,22 102:15 103:13 103:18,19 188:8,11,14 191:15 219:21 date 24:6 26:7 26:11,13 27:21				

205:20 210:16 214:9 215:25 216:14 222:13 determined 34:22 158:19 166:8 185:24 197:23 207:18 213:5 determining 10:8 34:9 58:4 58:10 190:17 219:19 detrimental 25:19 develop 122:15 129:7 187:3,4 222:20 developing 223:6,7 development 125:14 deviate 15:15 devices 4:4 dictate 213:22 differ 69:24 149:13 difference 9:3 22:13 121:13 204:22 208:22 210:7 230:15 239:10 differences 33:12 224:13 different 15:23 16:20 17:2 24:12 40:11 41:2 56:10 61:6 69:25 70:5 79:19 95:6,23 117:11 117:11 128:10 129:16 173:8 180:7,22,24 209:4 229:18 230:18	differentiation 139:1 differently 15:20 237:3 difficult 8:6 14:18 16:4 32:24 119:10 178:23 205:22 231:6 difficulties 33:9 229:13 difficulty 219:18 diligence 134:8 134:9 direct 5:20 8:20 35:6 39:8 42:19 43:4,9 43:17 44:1,8 44:10 48:16 76:21 85:8 96:6 116:1 120:20,23 134:17 137:2 137:12 140:2 141:10 142:6 142:14 143:9 143:19 145:12 145:20 146:8,9 147:7 148:13 149:13,14 150:5,17 152:19 158:4 160:5 161:14 162:4,12 163:6 184:11 185:4 186:24 192:7 194:10,17,24 196:8,18,25 197:3,10,11,22 200:1 201:5 209:13 217:8 217:22,25 218:4,10,13 220:10 221:15 221:19 224:23	241:3,4 242:4 242:10,12,15 242:18,20,23 243:2 244:4,10 244:12,15,18 244:21 245:6,9 directed 27:14 190:5 direction 246:8 directives 27:2 directly 48:18 76:21 134:22 199:14 Directors 33:20 89:23 97:5 disagree 71:15 200:2 disagreement 32:14 37:7 disallow 178:9 disallowed 206:15 212:14 disarray 40:23 discharge 8:15 74:9,12 78:10 78:13 91:14 discharging 66:17 disclose 67:20 67:23 disconnect 32:4 discovery 32:19 discretion 16:13 16:17,19 42:8 115:18 discuss 4:7 9:18 40:14 122:18 168:4 discussed 123:23 131:11 185:23 203:9 discusses 220:11 221:12 discussing 141:16 147:16	159:7 discussion 33:19 53:14 150:13 205:18 206:3 discussions 16:5 120:7 150:9 188:14 disinfected 66:18 disinfection 7:2 disposition 9:7 20:13,15,19 24:4 40:13 99:11 141:11 141:14 148:17 148:24 149:2,4 149:7,13,15 151:3 153:14 153:16 158:2 188:7,18 189:8 230:13 dispute 26:22 disputed 141:15 disputes 27:5 disrepair 19:21 31:6 132:8 district 75:12,14 75:16,25 76:6 118:4,6 distrust 30:7 divide 161:5 198:16 division 93:1 170:11 DNR 122:10 134:19 135:15 135:18 201:23 201:24 202:14 document 49:11 49:16,20,22,25 50:2,10,13 75:19,23 76:16 77:9,21 80:15 84:1,5,9 85:23 89:22,25 102:5	102:9 108:10 114:11 115:4 115:13 132:22 133:16 138:1,8 138:10 139:2,9 140:6 159:12 159:13,15 168:18 documentation 22:10 documented 20:14 documents 65:15 85:21 88:7 132:16 138:22 179:13 231:20 doing 56:19 94:3 115:10 118:8 124:6 129:12 189:4 233:4 235:12,23 239:12 dollar 158:10,11 204:25 227:12 dollars 17:11,24 18:21,25 144:21,22 145:8 157:25 209:18,19 227:10,14 dollars' 230:14 drink 119:20 drinking 7:23 66:11,13,16 112:3 119:20 119:22 drops 226:7 Du 66:16 202:7 202:15 due 16:1 18:23 27:6 100:10,11 115:23 134:8,9 144:2 164:25 167:11 213:15
---	---	---	--	--

229:5 241:20 241:21 duly 246:5 duties 34:3,25 118:11 dwarfed 232:17 Dynamic 51:18 51:24 60:19 79:8,13,20,25 80:2,7	26:7,11,13 27:21,22 99:15 effects 25:19 effort 13:23 efforts 114:24 eight 43:21 either 10:2 17:12 26:5 87:2 99:12 188:15 189:1 either/or 37:1 electric 29:9 42:3,4 234:7 electronic 129:3 129:6,7,11 elements 23:6,9 98:24 99:7 214:4 eleven 91:22 Elm 113:3 127:4 embedded 178:11 emergency 7:1 emotion 120:1 emphasis 36:24 Empire 178:5 180:3,5 employed 42:22 184:19,22 196:13,14,16 217:12 246:9 246:11 employee 5:18 21:19 33:2,16 33:16 34:21 35:1,4,15,22 47:23,25 48:12 48:14,17 56:7 79:24 80:1 185:20,21 246:11 employees 9:24 10:6 22:1 32:20 33:3,13 34:2,7 35:12	35:25 46:2 96:14 97:3 124:1 131:14 131:15 203:21 employees' 28:25 35:10 employment 10:15 35:13 77:17 EMS 40:9 138:2 159:23 240:4 encountered 33:9 encumber 179:1 179:8,15 endeavor 60:23 123:11 endeavors 13:2 ended 22:13 188:9 ends 26:2 97:19 97:21 enforcement 6:23 66:24 202:14 engaged 11:14 engineering 53:4 70:15,16 122:15 134:5,7 134:7 136:1 205:21 210:23 212:17,19 216:1 England 2:3 ensure 20:7 27:7 ensuring 23:5 25:7 34:8 enter 52:3 179:9 entered 24:4 52:2 130:1 131:5 Enterprise 88:12,15 entire 181:8 entirely 192:4	193:6 entities 46:18 54:22 56:16 91:10 113:8 133:5 156:4 200:13,16 201:5 202:8 203:9 entitled 20:2 105:22 106:9 entity 5:13,14 6:13 46:1,8 58:5,21 101:11 111:14 200:23 202:18 entries 129:12 210:14 211:9 211:18 212:2 entry 3:10 21:16 159:20 160:8 178:24 179:13 211:18 environment 63:5 94:13 117:9 environmental 63:2 172:13,13 173:11,12 180:20 equal 14:16 equate 22:2 144:4 161:9 equates 25:25 equation 105:24 equipment 121:7,9 equity 11:23,25 24:24 71:19 104:11,13,14 104:15,17,20 105:4,8,11 107:7,25 109:25 117:21 164:12,18 165:19,19	166:3 167:9,12 167:13 177:15 179:25 180:4,8 180:18 182:4,6 182:7 183:5 223:8 ER-2014-0370 22:22 36:18 error 145:10 154:15 160:20 160:21 161:3 161:18,18 especially 6:19 8:22 27:2 135:15,25 essentially 17:5 41:9 116:8 156:14 206:15 236:3 establish 13:5,5 57:3,4 established 8:16 18:22 94:19,21 104:23 128:7 236:17 estate 55:4 125:14 128:8 estimate 121:20 164:4 213:21 213:25 estimated 13:16 23:10,23 36:9 36:15 120:24 121:18 122:12 209:5 estimates 122:14 estimating 164:3 et 3:7 94:24 events 22:23 36:20 eventually 13:16 everybody 32:7 Everybody's 225:9 Eves 10:8
E				
E 2:1,1 3:1,1 e-mail 168:8,15 168:20 earlier 10:24 13:14 22:18 92:6 104:23 107:12 127:13 199:9 207:10 213:5 238:19 239:17 earliest 36:14 98:14 early 19:1,4 68:10 86:20 115:1 135:25 earn 240:14 earth 121:8 easier 227:18 easily 166:16 Eastern 75:12 75:14,16,25 76:6 easy 12:22 economic 10:11 21:12 34:13 94:7 economies 9:2 effect 102:23 108:25 118:14 151:23 156:16 156:21 187:20 215:7 effective 24:6				

131:13,15,17 199:12,19 207:16 208:1 208:13,19,25 216:19 evidence 18:2 30:6 45:11 47:2 49:6 50:13 55:24 76:10 77:3 113:25 145:15 158:16 179:9 197:8 208:3 209:2,7 212:15 212:19 218:20 241:16 evidentiary 1:5 3:5 exact 16:3,8 52:14 60:10 68:10,23 74:15 88:16 89:19 127:10 219:19 exactly 61:15 76:15 89:3 114:13 119:17 207:1 212:22 215:3 Examination 126:2,19 128:4 137:2 142:6 157:21 162:4 182:1 184:11 194:10 196:8 215:18 217:8 239:25 242:4,6 242:7,7,10,12 242:14,15,17 242:18,20,23 243:2,3,5,6,6 EXAMINATI... 42:19 examine 76:5 examined 34:4 examining 57:24	134:9 example 33:23 129:1,21 178:3 210:11 212:10 237:15 examples 65:4 exceeded 125:10 exception 230:23,24 excess 27:7 Exchange 47:6,8 47:11 exclude 208:15 211:24 excluded 211:15 212:2,14,18,20 excuse 100:23 144:3 154:12 158:8 168:19 188:10 191:23 218:7 executed 131:9 168:18 execution 179:12 exhaustive 32:21 exhibit 43:8,9 45:10,10,14 75:13,20,21 76:9,9 77:4 103:25 104:2,5 104:7 111:1,1 111:4,5 114:3 116:1 127:14 132:22,24 133:15 136:12 136:15 138:20 139:10,12,14 140:3,8,11,13 140:16,19,20 140:21 143:7 143:10,13 159:8,8 163:7 163:12 186:7,7	186:8,11 195:10 197:10 197:10,11,12 197:14 199:9 206:7 212:4 218:17,23 241:13,14 244:1,4,5,7,10 244:11,13,14 244:16,17,19 244:20,22,23 244:25 245:1,2 245:5,10,11,13 245:14 exhibits 4:18 45:2 75:7,10 140:19 163:9 163:11 195:6 197:7 241:12 241:12 245:7,8 exist 131:8,10 existed 177:8 existence 96:17 173:2 existing 134:8 exit 7:20 177:4 expand 95:15 expanded 37:9 expect 87:14 98:15 232:22 232:23 expectations 122:6 expected 93:15 164:13 166:2 expects 24:7 expedited 241:19 expenditures 38:24 expense 44:21 137:20 151:2 151:14 187:22 193:9 224:12 expenses 23:6	25:18 36:4,6 36:10 37:2,18 37:20 188:12 230:22 235:11 expensive 8:22 13:6 61:7 experience 21:15,24 35:9 35:12 53:5,5 65:24 96:21 166:2 190:22 233:1 experienced 10:14 21:16 22:3 25:14 96:10 219:18 expertise 173:18 explain 21:9 46:5,10 73:8 93:21 121:1 132:21 143:24 144:10 160:19 160:21 161:2 205:13 212:21 224:9 225:2 240:22 explained 36:17 exponentially 164:13 extend 26:15 173:18 extension 26:18 100:11 extent 12:17 54:19 173:4 186:1 extra 123:19 extraordinarily 30:11 61:7 extravagant 31:24 38:9 extreme 163:22 163:25 164:11 175:17,18 extremely 18:24	F
				faced 30:18 206:9 238:24 faces 8:10 facilities 8:2,2 31:7 fact 6:23 10:21 14:2 25:3 36:10 53:3 100:10 102:14 119:12 128:22 130:6 132:10 154:9 168:5,22 169:23 178:22 factor 12:9 20:25 21:20 23:18 35:20 36:3 95:13 154:13 155:8 161:7,8,12 197:23 209:9 216:15 240:7 factors 26:22 facts 47:2 55:23 fail 37:3 failed 62:23 168:3,13 failing 5:22 8:11 8:12 12:25 13:18 14:20 26:1 51:21 60:22 63:1,9 80:5 94:14 109:24 112:25 117:9 120:15 130:25 156:6 failure 29:21 fair 94:8 108:23 138:13 141:14 143:23,25 144:1,4 182:15 190:6,7,18 208:24 fairly 203:5

214:5	figures 40:13	164:4,6,12	firms 61:6	201:8 205:3
faith 29:23	240:4	174:13,25	first 5:4,15,15	219:2 220:17
165:16	file 1:10 3:6 6:15	175:1 176:24	5:18,23 6:7	221:4 222:2
fall 8:4 32:16	28:14 47:10	177:2 183:22	9:18 10:7	225:5,6,6
68:10	87:15 99:14	234:3,11	15:19 21:7	226:13 230:17
familiar 7:13	103:20 113:14	financially 58:5	26:5 27:14	236:2,2,5,16
47:19 49:11,19	129:7 139:2	246:12	30:12,25 32:18	237:12,12,16
50:10 97:14	152:7 188:2,22	financing 6:14	42:14,24 43:15	fit 34:25 135:7
98:19 174:4	189:1	7:7 13:2,2,3,6	45:16,23 46:1	fits 129:21
176:21 179:16	filed 4:16 9:16	18:8,9 19:1	46:6,8,11,13	five 25:4 61:6
203:19 233:18	20:15 26:18	26:18,19 32:25	46:17 47:10,20	112:21 127:9
families 32:13	27:22 40:13	55:14 62:7,9	47:21,24 48:2	187:24
119:15,25	73:23 74:2,9	62:19 63:13,21	48:8 50:3,25	five-year 125:9
family 32:11	75:25 148:12	63:25 64:5,11	51:3,4,10	fixed 14:3 32:12
92:19	152:15 153:13	76:19 80:7	65:11 71:22	37:19 41:8
far 4:15 18:2	153:20 154:22	100:12 105:9	80:10 85:12,13	223:12 232:21
40:20 49:16	154:24 157:23	106:20,24	85:16,17,18,25	240:23
112:19 164:2	159:8 166:20	107:14,19,21	86:9,24 88:6	flat 92:18
172:10,22	170:4 228:22	109:13,16,20	90:6 93:20,21	flexibility 24:25
200:25 207:17	228:23	110:8 113:8	93:25 94:2,5	flexible 223:7
241:11	files 60:12	116:12 117:11	96:14,16,21	flip 78:16,22
feasible 132:6	filing 86:19	134:11 136:5	101:17 102:11	102:8,15,18
February 51:8	87:17 90:24	164:20,21	104:12,13,14	160:17
73:25 83:22	91:4 125:10	165:9 167:8	104:18,21	Flipping 220:3
84:20 89:17,20	filled 74:16	171:3,8,12	105:4,13,14,17	flow 36:4 150:24
90:4 131:16	filling 86:7	172:2,2 174:19	107:5,22	151:9,11,12
133:23 159:20	final 94:21 105:1	177:7 182:19	109:20 110:1	180:21
160:1	105:25 106:5,7	182:22 183:7	110:12 111:22	flows 63:5 165:3
federal 8:16	168:17 241:22	183:18	111:24,25	fluctuate 95:3,4
fee 59:6,21	finally 31:25	find 13:1 63:25	112:1,3,5,20	flux 88:1
feel 125:16	32:18 35:18	72:7 114:14	113:12 114:14	focus 191:12
173:4	37:7 59:20	115:5 128:10	118:11 122:18	229:21
fees 11:9,11	106:5 160:15	129:1,3,19	124:23,25	focused 73:17
20:22 23:15,16	finance 64:2	134:11 135:23	126:21 127:2	229:20
23:19,20,22	107:25 134:6,6	148:14 160:22	129:9 131:11	folks 175:8
24:3,3,8 98:16	134:10 175:3	168:5 226:21	131:18 133:21	follow 4:15
99:5,19,20	financed 32:25	237:5	133:23 135:16	239:13,15,19
fell 240:24 241:6	finances 33:4	finding 134:12	135:20 136:2	follow-up
felt 61:7 130:8	financial 7:15,18	finds 11:25 23:1	139:7 140:1,23	214:17
field 134:22	21:22 22:8	fine 4:12 50:15	142:9 143:15	following 80:21
fifth 154:5	25:23 48:15	93:7 95:8,18	153:24 156:15	99:15 127:6
figure 35:21	56:8,9,14 78:2	158:17 160:24	156:19,21	144:14
69:23 70:25	78:5 96:9,20	161:17 207:1	163:16 165:25	follows 7:11
148:3 149:5	97:1 100:3,7	214:12	167:10,17	42:18 137:1
214:20 215:2	128:21 162:20	firm 26:4 122:15	195:14 197:18	142:5 162:3

184:10 194:9 196:7 217:7 foot 52:15 foregoing 246:5 foregone 236:5 form 43:5 61:12 87:15 formally 83:20 formation 79:12 84:2,6 85:25 formatting 161:18 formed 46:17 51:3 61:3,10 61:13,15,17,18 83:20 85:18 90:23 forming 83:19 86:8 formula 154:2,3 154:8,10,11,16 154:18 159:4 forth 114:12 146:21 forward 13:23 15:13 17:13 123:21 124:4 232:24 237:25 found 80:22 153:15 four 77:19 78:1 112:13 200:8 fourth 154:5 Franklin 120:14 Fresh 65:18,20 65:21,23 100:4 100:8,14,19,24 101:1,5,12 105:7 106:18 107:15 108:13 108:25 109:8 109:11,16,17 110:22 113:24 118:15 123:2,3 126:5 165:21	165:21,22,23 165:24 167:16 168:18 friend 61:1 friends 60:24 125:15 front 85:21,24 89:5 93:5 127:5 204:25 full 26:6,14 42:10 97:6 110:2 115:19 184:14 fully 25:23 129:13 fun 120:19 function 33:22 34:9 38:11 58:2,3 216:22 functioning 19:24 functions 56:14 56:17,18,20,24 57:6,8 fund 72:23 funding 88:6 funds 13:20 24:9 further 4:7 10:17 65:4 91:18 111:9 120:16 126:15 128:1 155:14 161:21 171:15 193:22 198:3 209:20 214:12 216:25 224:16 233:25 239:22 241:8 243:4,5 246:10 Furthermore 221:20 future 9:24 11:2 13:6,23 62:24 63:5 67:19 89:14 95:5	105:22 116:11 116:18 134:6,8 152:12 <hr/> G <hr/> G 3:1 G-R-I-F-F-I-N 162:7 Gadwall 54:4,11 54:14,23 55:2 55:6 gallons 68:20 92:24 150:8 226:5,7 GAP 57:3 95:23 129:8,11,16 239:5,10,12,15 gears 232:25 general 6:22 15:15 23:7 34:22 47:19,21 47:24 48:1,4,6 48:8,10 50:5,7 56:16 72:23 84:21,24 85:1 89:4 143:22 200:4 202:4,16 204:3,6,12,16 214:3 240:20 245:12 General's 31:4 generally 134:2 177:25 219:12 generated 60:1 generates 59:12 generating 169:2,11 getting 117:17 182:20 236:25 Girardeau 10:22 28:21 120:24 121:3 give 17:13 43:16 69:22 118:7 120:6 124:4	129:1 130:12 160:16 221:6 226:21 given 34:3 166:3 178:23 180:17 223:22 glad 119:23 Glarner 50:23 50:23 53:23 54:18 104:24 104:24,25,25 118:17,17 Glarners 55:17 63:11,16,21 64:2,4 65:17 65:21 165:20 165:24 166:4 167:15 183:24 go 5:2 16:13,14 19:2 21:8 26:23 42:13 43:16,17,18 44:1,6,13,14 44:18,20,21 61:23 63:24 68:16 70:21 71:1 73:8 75:3 76:16,17,18 78:8,8,15 80:14,17,19 94:24 107:23 109:15,23,24 109:25 115:16 117:2,13,21,23 123:12 125:17 132:18 144:8 144:21,22 145:8,9,17 150:6 157:25 158:11,12 159:5 161:14 170:20 174:17 174:21 210:20 215:7 221:25 224:6 225:16	226:4,18 227:21 228:16 228:24 232:10 232:20 233:14 236:13 240:8 241:12 goes 18:17 34:2 126:10 145:18 148:1 152:23 172:10 174:22 192:2 214:1 228:4 going 4:22 15:13 15:15 17:2,10 17:12,13,14 18:17,19 21:8 27:14 32:4 49:4,9 50:12 64:22 75:2 76:16,16 80:15 83:25 86:19 89:13 91:20 113:14 116:4 116:16 119:14 123:21 124:8 130:12 132:16 132:20 134:12 134:14 139:6 139:10 144:16 163:21 165:15 170:22 172:16 173:13 176:20 178:4 180:3,14 182:23 186:18 187:16 189:14 205:20 212:21 214:2 224:6 227:5 228:3 230:22 232:3 232:24 233:16 233:16 235:23 236:8,10,11 237:16,24 good 3:3 15:1,2 27:11,12 29:17
--	--	--	--	---

29:23 32:2 38:15,16 40:1 40:2 58:12 92:5 111:12,13 130:23 133:8 136:6,9 143:18 165:16 173:19 173:25 174:8,9 184:12,13 186:19 194:11 203:17,18 210:1,2 215:10 219:8,9 224:20 224:21 Gordonville 72:11,16 gotten 88:25 237:15 gouge 32:7 government 8:17 28:19 grant 26:6,13 granted 30:10 121:22 grants 26:7 graphs 135:2 great 161:1 greater 129:10 164:5 231:23 greatly 15:23 Greens 202:24 203:3,5 Griffin 24:16 162:1,3,7,22 163:7,19 182:2 184:4 190:2,5 190:16 242:15 244:15,16 Griffin's 189:22 ground 121:4,7 group 11:13 52:9 61:10 groups 53:10 63:22 107:25 117:21	grow 13:4 GSWD 50:18,21 53:23 54:1 guarantee 171:11 172:8 173:9 guarantees 171:2,8,22 173:24 guess 47:6 58:12 68:12 69:20 70:20 145:14 145:25 152:3 167:4 169:12 170:11,12,15 175:10 186:25 188:19 192:1 213:10 235:22 239:11 guide 164:1,2 guidelines 234:12 guy 123:19,20 guys 27:16 73:17 75:1 123:23 GWSD 104:22 104:23 105:3 105:12 106:2,9	39:2,7,15,24 75:6 111:11 114:2,5 115:14 116:7 126:3,20 131:24 133:10 209:25 212:7 212:23 213:13 213:14 214:15 215:20 224:19 233:19 240:2 242:6,24 243:3 243:4 hand 25:21 212:3 handed 75:20 89:22 102:6 108:10 130:4 138:9 happen 161:4 206:25 207:7 227:13 happened 107:5 165:8 207:8 233:17 happens 65:12 94:7 156:20 227:18 232:23 236:21 hard 88:2 165:7 210:16 harder 231:24 harm 26:9 Harrison 21:11 23:14 152:1,2 156:23 184:8 184:10,12,16 185:3 186:19 187:6 192:18 192:22 194:3 242:18 244:18 244:19 hate 206:6 HC 49:14,15,16 132:24 134:23 135:6 162:13	162:13 163:6,8 185:22,24 186:3,8,11 189:13,15 192:11,13 196:19 197:11 197:12 head 19:11 29:13 42:6 heading 159:22 hear 9:19 18:17 21:1 36:24 176:6 190:2,7 heard 19:18 31:5 34:19 98:21 119:7 190:9 222:23 234:21,22 hearing 1:5 3:5 3:10 9:13,16 20:5 31:9,17 45:13 80:18 104:5 111:3 119:2,4,6,6,13 119:13,16,23 136:13 140:11 140:19 143:11 144:15 155:23 163:10 186:9 195:8 197:9 218:22 229:11 235:6 241:23 241:25 hearings 101:3 heightened 26:14 heightens 25:16 held 5:14 80:21 89:17 90:7 174:11 200:16 239:6 help 115:11 helped 84:2 hereof 115:19 hereto 102:22	hey 110:1 121:6 123:10 124:14 high 8:9 18:24 22:25 32:14 36:9,22 215:21 240:17,21 higher 10:3 31:14 164:7,7 164:8,9,13 223:20,24 224:3,6,6,8,10 229:3,8 238:21 238:24 239:4 240:23 highest 169:24 highly 35:5 80:14,16,18 133:3 164:6,22 183:6 185:17 190:25 196:21 hike 31:15 hillcrest 1:10 2:5 3:6,12,14 5:4,8 5:9,12,13 6:13 6:16,25,25 7:5 7:7,23 8:1,5,25 9:4,6,20,22 10:3,4,6,10,17 10:19,22 11:1 11:5,16,18,20 11:21,25 13:10 14:6,17,22 19:22 20:4,10 20:24 21:21,22 23:18 24:19 25:13 26:17 27:1 28:18,23 28:25 30:15,16 31:6,17 33:14 33:17 35:11,19 35:23 36:1,5 37:15 42:14 43:1,8,9 45:2 45:10,10 46:3 46:6,7,11,12
---	--	--	---	--

46:13,14 55:15	197:19,24	105:3	212:20 213:1	229:21 232:13
59:4,6,16,21	198:11,16	homes 92:19	215:25	234:10 238:15
59:25 60:5,8	199:9 205:7,11	honestly 42:5	house 31:18,20	238:16
60:11 62:12,14	205:19,20,23	Honor 3:13 4:9	119:18,19	impacted 166:18
62:14,20,22	206:7,11,14	4:13 5:6 45:9	household 32:10	implement
63:7,9,14,19	207:19 210:9	48:20 50:12	hovers 32:10	26:10
64:3,7,12,17	210:17,21,22	62:1 74:22	huge 63:2,3	implementation
64:19 65:11,12	210:24 211:3,6	76:8,14 91:18	125:14 234:8	25:25 27:9
66:4 69:6	211:8,17,24	110:25 111:9	human 31:21	151:25
70:17 72:14,20	212:16,18	126:16 128:3	humbling	implemented
73:3,5,11	215:13 216:2,7	132:15,21	124:17	25:24 129:13
76:19 92:14	216:12 219:3	136:11 141:1,3	hypothetical	implication
96:4 98:6	223:14 235:18	141:20,22	10:16 24:19	131:14
100:3,6,10,15	239:7 242:2	155:15,17	173:1 177:11	imploring 31:13
107:14,19	244:3,4,5,7	157:4,17,19	177:14,25	important 11:13
108:13,25	Hillcrest's	161:22 171:16	178:7 183:1,2	13:9,21 21:3
109:9,10 110:8	164:17 167:3	171:18 172:15	235:24	27:2 175:1
110:10,19,21	193:12	181:22,25		impossible
111:14,16,18	Hills 6:3 13:15	193:23,25	I	231:25
111:19,21	64:6 112:4,18	194:2 195:16	idea 101:13	improve 5:22
112:9 113:24	113:3 117:22	196:4 197:6,16	116:10 117:7	improvement
114:7 118:11	127:4 135:13	203:13,15	130:24 173:19	20:1 26:25
122:23 123:2	198:8 210:25	217:4 218:16	173:25 174:8,9	32:7 62:17
126:5,8 128:2	hire 129:23	219:4 222:9	identical 123:18	106:21
128:17 130:17	hired 56:23,25	235:19 238:6	identification	improvements
130:20 132:22	57:6 131:16,17	239:23	43:10 49:1	7:8,24 10:23
132:24 133:11	hiring 56:11,12	hope 13:4 18:16	75:8 104:3	10:25 12:6,24
133:15 134:23	historic 15:16	94:9,10 127:2	132:23,25	13:14 18:23
135:6,10,12,15	16:13	127:3,8 131:25	133:15 139:15	19:25 20:9
135:16,17,19	historical 37:4	179:17,19	identified 9:14	30:17 31:1,7
135:25 136:3,5	Historically	hopes 12:8	9:16 10:4	31:11 38:20
136:12,15	22:17	14:22 25:5	13:24 133:3	40:25 41:13,14
141:2 155:16	history 6:18	hoping 224:22	185:22 186:2	41:20 62:7,12
157:18 164:15	22:2 128:23	230:9	200:4 204:19	63:3 72:19
165:1,3,18	hold 50:12 80:19	hourly 21:19	205:9 207:15	122:4 132:5
167:4,7,10,14	166:4	hours 22:5 33:2	identify 113:17	imprudent
167:20 168:18	holding 5:13	118:9 123:22	198:4	164:16 178:18
169:17 171:17	21:5 46:6,11	123:25 135:3	identifying	178:21,23
176:12 178:13	46:14 65:6	193:7,10	12:19 206:10	In-Camera
178:17 179:24	66:6 101:18	205:19 206:13	ignore 11:3	242:5
180:19 181:17	111:19,21	206:16 207:17	imagine 116:20	inaccurate 6:10
182:3 183:5,16	112:24 113:3	207:21 208:2	immediately	inadequate
183:22 190:10	124:13	208:10,16	128:25 129:6	201:22
191:2,4,13	Holdings 63:23	210:11,16	impact 38:13	inappropriate
193:11,24	holds 104:20	211:2,14	119:15 166:21	23:1

<p>include 13:18 23:2 32:16 35:8 37:9,10 37:15 68:22 71:21 99:5 145:11 208:10 208:15</p> <p>included 11:10 23:16,19 26:20 37:6 99:21 121:12 156:19 187:23 188:6 193:8,12,18</p> <p>including 46:3 113:11 162:12 163:3 170:4 223:11</p> <p>inclusion 36:15</p> <p>income 20:22 25:20 28:18,20 32:10 36:6,10 77:16 87:10 90:15 117:24 148:7 149:6 150:25 230:20</p> <p>incomes 28:25 32:12</p> <p>incorporated 3:6 45:20,23 46:17,21 47:16 51:18 55:19 56:1 58:4 61:18 84:7 86:10 89:24 93:23,25 148:7</p> <p>incorrect 149:9</p> <p>increase 18:13 20:6 21:25 22:20 24:18 25:12,14,17 26:6,15 27:16 27:23 30:13,14 31:19 40:6 87:14 93:4 98:8,8 99:6</p>	<p>122:3 148:1 159:17 170:5 209:10 225:15 225:17,20 226:15,17 227:1,3 228:6 228:16,17 232:16,17 233:21 236:2 238:16</p> <p>increased 137:20,23</p> <p>increases 164:8 164:8 167:20 226:8 233:3</p> <p>incur 109:5 235:11</p> <p>incurred 109:7</p> <p>indebtedness 109:6 179:9</p> <p>index 10:15 35:14 166:9,16 242:1 243:1 244:1</p> <p>Indian 6:3 13:15 64:6 112:3,18 117:22 135:13 198:8 210:24</p> <p>indicate 65:9 89:12 150:7</p> <p>indicated 51:9 52:25 53:13,16 54:10,11 88:4 186:23 215:24</p> <p>indicating 47:11 112:12</p> <p>indication 124:5</p> <p>individual 65:7 95:13 107:8 114:20 172:1 173:19,21 174:6,11,12,22 226:4</p> <p>individuals 10:14 97:13</p>	<p>industry 9:2</p> <p>inflation 10:15 35:14,16</p> <p>inform 29:22</p> <p>information 3:20,25 10:12 13:22 21:13 22:6 29:23 31:23 33:7 34:13 35:24 45:6 60:8 66:20,22 87:10 133:7 145:16 145:22 148:5,6 150:14 165:13 186:2 208:19</p> <p>Infrastructure 63:23</p> <p>initial 7:12 46:24 48:24 52:4 84:16 85:2 88:5 241:20</p> <p>initially 49:12 49:20</p> <p>initiated 9:4</p> <p>innovative 129:22</p> <p>input 154:10</p> <p>inquires 4:11</p> <p>inquiring 158:10</p> <p>insert 28:13</p> <p>inserts 220:22</p> <p>inside 94:23 106:8 112:2</p> <p>instance 31:16</p> <p>institutional 108:1 114:21 117:21</p> <p>intends 27:4</p> <p>interchangeably 51:11 222:17</p> <p>interest 39:17 50:24 51:2,4</p>	<p>54:18,22 79:7 79:10 104:11 104:14,15,18 105:4,8,12,16 106:3 114:12 115:23 116:16 116:17 127:20 127:20,21,22 167:10,12 169:6,7 174:23 231:2,16 232:7</p> <p>interested 156:5 246:12</p> <p>interests 104:13 112:21 169:9</p> <p>International 201:9,14,20</p> <p>interrupt 49:13</p> <p>intervened 6:25 113:2</p> <p>interviewed 97:11</p> <p>introduction 104:5</p> <p>invest 181:14</p> <p>invested 8:1 38:19</p> <p>investigation 24:18</p> <p>investing 117:9 181:15</p> <p>investment 13:11 55:20 106:18 114:8 121:4 164:25 165:1,2,8,18 167:21</p> <p>investments 6:13 13:12 118:20 119:1 234:8</p> <p>investor 53:10 178:21 180:23 181:3,13 183:22</p>	<p>investors 19:4 52:5,22 53:19 84:14 87:21 100:19,20,21 100:22,24 101:1,5,10 105:8 106:25 107:4,7 108:1 108:1 109:25 114:21,21 117:22 118:15 128:11 165:19 165:22 167:9 167:11 182:7 183:12,20</p> <p>investors' 164:12</p> <p>invests 169:1</p> <p>involve 117:16 134:10</p> <p>involved 5:19 13:22,23 16:22 17:24 63:11,17 63:21 128:9 135:10 176:13</p> <p>involvement 58:10 83:16 85:11,16 148:22</p> <p>involving 31:2 201:23</p> <p>issue 9:18,19 10:5,20,21 11:8 12:16 13:8,9,24 16:25 24:11 25:12 36:7 37:12 67:12 137:20</p> <p>issued 49:23 105:21 234:4</p> <p>issues 4:17 6:19 7:7,9,14 9:12 9:14,15,16,17 9:20 13:25</p>
--	---	--	---	--

20:14,20 21:9 26:21 33:11 62:15 66:10,21 132:14 135:18 141:15,15 176:23 201:23 232:7 item 17:19,22 191:25 225:16 itemized 103:4 items 17:24 22:23 32:16 36:20 64:24 150:25 151:1,9 151:10,11,12 151:20 152:22 152:25 153:2,3 153:10,11,15 156:18,20 161:6 188:24 224:12 231:12 234:13 IV 102:19	244:13 JC 123:15 JC-1 69:9 70:8 Jefferson 1:7 2:4 2:9,13 118:5,5 Jim 32:1 67:14 67:15,17 job 33:13,14,16 33:21,24 34:3 34:7,9,14,16 34:21,25 38:10 203:20 216:18 216:22 jobs 33:3 joint 4:16 99:17 joking 223:1 Joseph 16:23 Josiah 5:17 10:7 21:3 33:23 42:15,18,21 133:2 168:25 242:3 244:4,6 244:7 Josiah's 22:5 journal 129:12 JRR-D2 144:25 145:5 JRR-D3 145:1,5 JRR-D8 148:12 judge 1:13 3:3,9 3:16,22 4:2,12 4:14,21 5:2 14:25 19:14 27:10 29:4,6,8 29:14,15 41:23 42:11,13,17 45:12,16 48:21 49:2,7,17 50:15 56:3 62:2 74:24 76:11,22 77:2 77:12 80:19 83:14,23 91:20 91:24 102:3 103:16,20,24	104:4 108:4 111:3,10 114:1 114:3 125:19 125:22 126:17 128:2 132:18 133:8 136:13 136:19,25 138:6,19,21,25 139:6,9,13 140:1,5,10,15 140:18,23 141:2,4,7,9,18 141:21,24 142:4 143:3,7 143:9,15 155:16 157:5,6 157:16,18,20 159:10 161:23 163:10,16 171:17 172:19 173:3,15 181:10,24 184:4 186:9,15 187:6,9 193:24 194:1,3 195:8 195:14,19,22 195:24 196:2 197:9,18 203:14 209:23 215:12,15,17 217:1 218:21 219:2,5 220:14 224:17 235:17 238:5 239:24 241:9,18 242:10,13 July 127:5 jump 228:5,15 June 91:14 127:5 241:20 241:21 junk 25:2 justification 152:23 153:7 justifications	153:9,12 <hr/> K <hr/> K-1 125:6 Kearsy 52:5 100:20,25 keep 14:11 50:14 60:12 64:22 123:22 137:24 225:21 227:5,10 keeping 123:25 177:6 214:3 Kenney 1:14 29:4,5 40:1,3,4 40:10,20 41:6 41:16,18,21 120:18 141:4,6 181:23 195:17 213:12 214:16 233:8 234:1 238:14 242:25 243:4,5 kept 227:17 Keri 35:6 39:19 196:4,7,11 242:22 245:6,7 Kim 9:10 20:16 136:23 Kimberly 137:1 137:5 242:9 244:10 kind 58:9 69:21 118:3 123:9 129:8,22 132:14 134:16 136:6,9 206:16 213:25 215:19 232:17 234:22 235:21 knew 86:19 87:21 90:23 91:3 119:14 121:24 122:13 186:18	know 16:3,8 17:1 19:10,11 28:17 32:4 42:5 47:9,13 47:15 54:6 61:3,15,17,19 62:24 65:20,23 66:1 68:7 69:2 70:2,10,11 71:15 72:16,18 72:21,24 73:4 73:10,16 78:23 79:18 88:14,20 93:8 94:13,23 95:5 99:2,3,9 101:23,25 114:11,13,14 115:5 117:4,5 117:7 118:22 118:23 119:1 119:17,22 121:6 124:11 124:15,17 125:6,8 126:12 126:14 127:10 129:4,5,8,18 130:5 134:6,22 135:12,23 146:23 147:6 149:19 150:16 153:2,3 166:14 167:1 168:16 173:16 175:12 177:9 181:20 185:22 190:20 203:23,24 204:22 205:22 208:4,22,24 209:18 212:17 213:17 214:2,7 214:11,18 215:1 221:5 231:6,15,15,15 231:17,21,21 234:19,24
---	--	--	---	---

239:13,18	191:11	letter 9:5 168:9	144:16 146:5	listen 155:24
knowing 208:17	late 47:17 68:9	level 21:17 22:2	146:14 147:13	little 6:4 20:17
knowledge	lately 38:7	35:9 66:6 96:1	147:25 150:6	37:7 40:5 41:1
39:21 45:6	laundry 124:18	96:10 146:16	150:18 151:8	105:24 117:2
59:13 101:1	law 1:13 2:2 3:9	146:18 204:16	151:17 152:21	118:1 120:22
139:22 142:25	lawyer 47:13	214:22 233:15	153:25 155:4	122:5,7 134:10
163:3 175:14	lead 25:18 66:10	level-4 185:2	162:21 163:23	180:7 192:23
185:14 195:3	66:13	levels 21:15	165:11,15	227:17 230:18
201:25 203:8	leads 26:8	146:6,20 147:3	167:3,5 168:1	231:1,2 232:3
203:11 233:14	learn 183:11,15	leverage 163:23	169:14,15	live 118:25
knowledgeable	learning 95:19	163:25 164:7	181:8 189:20	LLC 1:19 5:15
48:1,3	lease 52:9,12,14	164:11 175:17	191:25 192:2,2	5:18 6:13 10:7
known 10:25	54:9,15 55:1,5	175:19	192:9,14,20	42:24 45:23
15:16,17,21,22	55:9,10 128:7	leveraged 164:6	193:2 204:12	46:1,6,7,11,12
16:1,14 22:19	leasing 128:6	164:22 183:6	216:21 218:4	46:13,17 47:20
22:21,24 23:11	leave 158:17	levy 214:22,22	220:24 221:11	47:22 48:2,8
23:12,20,22	ledger 47:20,21	215:1,7	221:12,18,19	50:4,18,21
24:7 36:8,13	47:24 48:2,4,6	liabilities 63:2	221:25 222:1,1	51:5,19,24,25
36:16,18,20,22	48:9,10 50:5,8	liability 5:14	225:16 231:13	53:17,23 54:1
36:25 37:3	84:21,25 85:1	55:22 172:14	lined 87:21,25	54:2,4,5,10,11
74:6 128:20	89:5 245:12	173:12 180:20	lines 61:23 65:9	54:14,23 55:2
213:16 214:6	ledgers 50:7	liable 109:5	66:8 67:4,8	55:6 60:19
215:3,21	left 125:23	lien 65:14 123:4	68:17 71:3	77:23 78:2,24
KNR-1 196:21	left-hand 139:1	life 38:7 67:13	73:1 130:14	79:8,20 80:7
KNR-3 190:25	legal 29:10	67:16	147:10,18	85:12,14,16,17
201:4	41:25 46:17	lifted 7:3	152:19 157:8	85:18,25 93:25
	91:1 172:16,19	light 26:2 38:6	163:21,21	94:1,6 102:11
L	legally 171:2	139:17	164:10,24	104:14,22
labeled 25:20	legitimacy 29:22	lightly 119:11	167:19 168:25	106:8 107:22
69:9 75:20	lender 18:25	limit 24:21	170:25 189:21	126:6 131:19
80:16 163:7,8	65:13,16	132:7	191:19 193:5	loan 63:18 65:15
196:20	lenders 119:18	limited 5:14	219:17 220:6	100:15,15
labor 10:9	length 155:23	7:18 8:22	221:14	107:15 108:12
Lac 66:16 202:7	233:13	55:22 177:2	linking 154:1,2	108:24 110:2,2
202:15	less-than-tran...	180:20,21	liquidation 74:6	110:15,17,21
lack 29:21,21,23	38:12	Lincoln 200:20	Lisa 1:18 246:3	113:23 115:19
30:7 31:23	let's 3:10 5:2	200:24 201:2	246:15	115:23,24
39:17 165:12	42:13 93:20	line 31:25 32:11	list 4:16 9:16,17	116:13,16
Lake 202:2	151:1 173:7	43:18 44:3,6	13:25 26:21	122:2 123:1,3
landlord 54:14	174:17,17	44:14,14,14,19	66:24 87:2	126:4,9,10
54:19	191:22 192:1	44:20,22 64:16	113:9 134:24	127:13,18,20
large 38:10	198:3 221:9	66:3,13 71:17	201:5 202:2	168:18 231:19
116:12 122:2	227:24,24	73:18,20 76:15	listed 103:4	loans 18:6,7
177:24 178:3	232:25 235:25	80:22 92:13	133:6 202:14	local 20:5 31:9
larger 116:14	236:15 241:11	143:22 144:8	202:19	119:2,13

<p>located 72:15 118:24 120:13 120:13 135:1 146:1 154:17 154:19 189:21</p> <p>location 78:20 217:18</p> <p>logic 95:11</p> <p>long 28:8 30:11 40:21 96:13,16 168:14</p> <p>long-term 120:2</p> <p>longer 7:17 62:14,17 102:23 177:1</p> <p>longstanding 7:3</p> <p>look 10:11 63:1 63:20 66:8 67:7 68:17 71:1,12 73:1 77:16 87:12 89:24 102:18 108:5,21 109:23 114:15 117:20 127:23 133:21 143:19 145:2 147:10 153:19,22 159:19,22 161:14 166:12 166:17 168:19 169:19 175:3 191:18 192:1 198:3 213:6 224:5 226:8 227:8,16 230:4 230:11,19 232:2 239:11</p> <p>looked 68:13 128:9 132:3 199:25 202:25 206:6,13 210:9 231:20</p> <p>looking 55:7</p>	<p>71:3 83:19 84:1,5 98:4 110:14 113:20 115:15 127:13 134:5 136:5,6 146:1,5 150:18 152:19 159:25 163:20,21 164:24 167:19 168:25 169:14 180:23 181:4 189:13,21 191:19 192:11 192:20 193:2 198:21 205:24 206:2 220:6 229:1 230:9</p> <p>looks 54:11 76:2 123:10 133:24 147:19 198:2 198:22</p> <p>lost 125:13,16</p> <p>lot 34:10 38:8 65:1,3 119:25 130:6 132:8 191:11</p> <p>Louis 10:13 74:2</p> <p>low 8:9 130:21 130:25 131:1</p> <p>lower 64:6 105:8 116:13,21,23 117:13,17,20 199:1 209:15 209:16 223:20 223:25 224:3,7 239:1 240:23</p> <p>lowered 204:19</p> <p>lowest 11:18 130:9</p> <p>lunch 125:20</p> <hr/> <p style="text-align: center;">M</p> <hr/> <p>M 1:18 217:11 217:21 246:3</p> <p>M-I-N-N-O-W</p>	<p>217:19</p> <p>M.Banks 246:15</p> <p>ma'am 45:21,25 46:9 47:13 51:12,16,20 52:11 53:3,16 53:21,25 54:6 54:13,21,25 55:3,7,16 56:4 57:9,16,19,22 58:22 59:5,15 59:18,23 60:3 60:7,10,17,20 61:2,16,19,22 62:3,11 63:15 63:20 64:8,13 65:5,13,19,22 66:1,13 67:3,9 67:14 68:6,14 68:18,22 69:1 69:5,15,17,20 69:22 70:2,18 70:25 71:25 72:5,8,12,18 73:6,13,16,22 74:1,4,8,11,15 74:18,21 75:22 76:1 77:18,22 77:24 78:6,11 78:14,18,21,25 79:2,5,9,14,18 79:21 80:8,13 83:22 84:8,12 84:15 85:4,10 85:20,20 86:1 86:3,6,11,15 86:18,22 87:1 87:4,7,11,16 87:20,25 88:7 88:13,16 89:7 89:11,15,19,21 90:3,5,8,19,22 91:1,6,9,12 92:12,17 93:5 93:13,18,24</p>	<p>94:12,18,21 95:11 96:2,5,7 96:12,15,23 97:2,6,11,16 97:23 98:10,13 98:22 99:2,10 99:17,23 100:1 100:5,9,13,17 100:23 101:7 101:11,15,19 101:22,25 102:7,10,13,17 103:1,6,9 105:1,5,10,10 105:15,19 106:12,14,17 106:21 107:2,6 107:10,16 108:5,12,22 109:1,4,10,23 110:13,17 111:7 126:23 127:10,15,19 127:20</p> <p>Madison 2:8,12</p> <p>magnitude 16:21</p> <p>maiden 162:22</p> <p>maintain 35:8 95:1 103:3</p> <p>maintenance 61:5 62:15 134:12</p> <p>major 13:24 62:17</p> <p>majority 25:3</p> <p>make-whole 116:1 126:6,13</p> <p>making 13:14 41:17 87:18 89:16 125:5 232:4</p> <p>manage 32:15 48:16</p> <p>managed 5:16</p>	<p>11:12 54:1</p> <p>management 30:4 33:5 56:13,16,19 65:5 66:4 71:21 134:21</p> <p>manager 21:7 21:23 22:8 34:23 45:23 93:25 94:1 96:9,20,25 97:6 200:4 204:4,6,12,16</p> <p>manager's 202:4 202:10,22 203:2 204:9</p> <p>manages 54:4 169:1</p> <p>managing 38:9 95:20</p> <p>manner 147:15 147:19 168:4 168:14 219:11</p> <p>Manz 52:5 100:21,25</p> <p>March 6:16 20:15 90:7,14 131:17 168:19 188:9 193:7,16 202:13</p> <p>margin 166:9,15</p> <p>mark 60:15,18 75:10,12 79:23 103:24 132:22 139:7</p> <p>marked 4:18 35:5 43:8 48:23,25 49:12 49:15,20 50:14 75:8 87:15 104:2 111:5 132:25 133:14 139:10,15 140:13 143:14 163:13 186:12</p>
--	---	---	---	---

190:25 192:13 195:11 196:19 197:15 218:18 218:19,24 241:12 244:2 market 55:8,8 107:24 117:23 markets 25:2 60:21 63:25 109:25 117:4 match 33:22 34:9 matches 148:12 matching 23:4,9 98:19,23 99:8 214:1 materials 189:15 math 160:20 161:3 198:18 mathematical 154:15,20 161:18 matter 1:10 3:5 19:21 20:14 21:12 22:12 23:21 24:11 27:5,19 74:20 94:3 102:14 126:10 137:12 138:24 162:12 167:23 172:10 189:2 232:23 matters 4:6,22 20:21 241:22 Mayfield 2:11 3:24,24 29:17 29:18 38:16,21 38:25 39:5,10 39:19,25 40:2 40:8,12 41:1 41:12,17,19,22 42:2,12 45:18 47:4 48:19,22 49:4,8,10,15 49:18 50:12,16	55:25 56:6 62:5 74:22,25 75:1,9,18 76:8 76:14,24 77:6 77:14,15 83:15 83:25 84:4 91:18 107:12 126:1,2,15 128:6 140:25 141:20 143:17 155:14 156:13 157:8,17,22 158:18 159:24 160:15 163:18 178:17 182:2 186:17 187:14 189:13,17,18 192:16,25 193:22 195:16 196:4,8 197:6 197:16 212:3 215:18 216:25 217:4,8 218:16 218:25 239:25 241:8,15 242:4 242:6,12,16,19 242:23 243:2,6 Mayfield's 182:11 McQuarry 63:22 mean 16:17 18:12 21:16,17 35:9 40:22,23 66:3 70:20 119:9,10,13 123:5,6,7 130:19,20 136:2 151:17 165:17 166:11 169:7 175:10 207:11 210:11 213:21 229:19 233:9 234:4 meaning 31:4	means 30:22 meant 134:1,3 154:9 measurable 15:17,18 16:3 16:14 22:19,21 22:25 23:12,20 23:22 24:8 36:8,16,18,23 36:25 37:3 214:6,8 215:3 measurable' 36:20 measured 23:7 measures 232:9 mechanical 121:9 mechanism 17:5 media 67:18 median 28:18 32:9 meet 25:23 26:1 26:8 100:3 234:14 meeting 58:12 89:16 90:6,12 119:25 125:20 134:17 meetings 135:21 188:14 meets 234:12 member 79:21 149:23 members 33:20 34:1 53:22 54:17 67:10 79:19 101:9 membership 101:10 107:5 memo 131:5,9 memorandum 52:2,4,7 memory 161:13 mention 12:7,15 92:13	mentioned 4:23 11:5 13:14 20:13 21:1 23:12 76:23 120:10 126:20 127:4 129:25 182:19 183:9 205:4 206:20 212:10 219:18 220:6 234:3 238:14 mentioning 63:6 65:2 67:3 merely 156:10 MERIC 10:12 21:12,14,18 22:3,11 34:14 34:20,21 35:9 35:14,16 204:13 216:22 met 63:22,22,23 63:24 114:20 metered 70:18 meters 70:24 method 25:11 170:15 222:24 methodology 164:1,2 methods 222:20 metric 145:19 157:12 187:17 223:13 mezzanine 107:25 mic 192:22 Michael 1:13 3:8 microphone 187:7,10 middle 21:17 25:20 214:19 miles 72:13 million 8:1 10:23 12:24 13:12,16 17:1	38:19 74:13 91:15 114:7,7 116:20 117:6,6 mind 145:2 177:6 192:22 225:21 mindful 14:2 mine 67:22 223:1 minimizing 234:9 minimum 16:7 226:1,15 Minnow 217:19 minute 23:12 80:19 168:20 221:7 minutes 4:23,25 195:23 mirrored 148:8 missed 103:9 176:8 210:3 Missouri 1:2,7 2:4,9,10,13 6:21,22 10:11 16:23 21:12 31:3,4 34:13 52:6 63:10 65:25 66:10,23 67:1 73:8 74:3 75:14,25 76:6 94:15 113:5 118:21,24,25 119:1 120:4,9 134:19 137:10 155:23 156:6 169:18 175:19 179:5,7 184:19 184:22 190:19 196:14 200:17 217:20 244:9 246:4 misspoken 239:19 MM 88:12,15
---	--	---	---	--

<p>mobile 4:4 model 5:21 modest 32:9 moment 186:21 192:16 222:8 momentarily 189:23 money 7:8 12:24 14:21 17:20 19:3 31:24 39:4 41:10 51:14,21 53:4 60:21 66:3 72:19 80:4,11 110:9,11 123:20 124:14 125:14 165:3 174:21,22 180:24 231:4,7 monitor 129:17 month 30:17,19 30:20,21,24 52:13,17 68:20 69:6 70:24 85:6 87:19 92:18,19 232:14 monthly 150:6 223:12,12,15 223:19,19 226:1,14 228:3 238:25 months 23:2 24:6 25:2 27:18,21,24 28:2,7 39:14 98:17 99:15,21 124:6 151:5 152:8,11 188:2 188:8,11,13,16 188:17 189:2 Moore 201:14 morning 3:3 15:1,2 27:11 27:12 29:17</p>	<p>38:15,16 40:1 40:2 79:7 92:5 111:12,13 234:24 motivated 169:8 move 49:5 76:8 110:25 138:17 186:6,8 195:6 197:6 218:16 218:19 236:16 241:15,17 moves 13:23 moving 50:13 113:7 124:4 MS.PAYNE 92:4 multiple 6:21 53:10 63:22 101:3 175:18 191:6,7 multiplication 154:11 161:12 multiply 154:12 161:8 MuniBilling 59:10,11,14,16 59:19,22,23 60:2,9</p> <hr/> <p style="text-align: center;">N</p> <hr/> <p>N 2:1 3:1 Nacoma 56:13 name 3:8 5:7,15 19:17 42:20,21 51:18 101:2 113:10 126:25 137:3,5 142:7 142:9,10 162:5 162:7,22 184:14,17 185:21,23 194:12 196:9 217:9 named 21:7 128:9</p>	<p>names 51:14 78:20 133:4 narrative 161:16 NARUC 57:2,3 95:20,22 128:25 129:3,8 129:12,15 239:9,13,20 Natural 6:21 31:3 66:23 134:20 nature 16:3 78:19 233:21 near 43:21 necessarily 16:17 171:1 232:1 necessary 7:8 8:18 12:5 62:18 necessity 31:21 need 4:7,17,23 15:16 30:23 31:14 37:9 62:12 76:4 110:9 121:7 123:11 125:19 132:18 145:2 153:2,5 195:19 195:20 196:25 206:25 230:6 239:19 241:23 needed 40:25 41:8,9,13,20 161:4 176:2 188:15 needs 7:20 17:20 57:24 94:1 174:19 177:3 185:24 221:11 negotiate 64:2 64:14 negotiated 57:12 97:2 100:18 101:6 165:21</p>	<p>negotiating 134:15 negotiation 11:6 16:5 53:10 88:8 97:12 negotiations 20:12 97:10 165:17 neither 246:8 net 123:17 124:12 never 77:20 80:1 91:7,10 166:1 new 11:3,7 17:2 20:6 27:21,23 57:1 64:5 92:7 94:25 95:9 101:10 107:4,6 110:14,18 117:19 151:20 155:10 188:23 221:13,16 228:24 NewCo 131:6,8 nice 8:7 31:21 night 12:18 Nitor 59:3,7,9 59:13 60:6,9 60:15 61:3,13 61:15 non-cash 150:24 151:9,11,12 156:18 188:24 non-publicly 239:6 non-regulated 57:21 58:25 206:18 noncompliance 201:24 nontraditional 25:9 norm 25:4 normal 11:11 27:24</p>	<p>normally 178:1 182:9 north 113:1 northeast 129:5 note 21:3 26:17 154:2 notices 201:23 notification 175:23,25 November 22:8 124:2 199:20 NP 162:13,13 163:6,8 197:10 197:12 244:16 nucleates 66:15 number 3:7 7:17 8:23 12:11 15:16,17 16:3 16:6,8 17:10 36:17 40:18 43:8,9,22 44:21 45:10,10 56:10 73:9 74:15 77:13 92:13 94:14,16 97:11 116:6,19 118:18 120:15 125:10 127:7 127:11 130:3 132:3,11,22,24 133:15 136:12 136:15 139:2 140:13 148:4,8 148:11,11,20 148:21,23 149:12,14,19 149:21 150:8 150:18 160:3,4 176:25 177:25 185:21 199:9 203:24 206:7 207:25 208:2,9 208:23,25 209:13 214:9 215:3 216:5,6</p>
---	--	--	--	---

216:10,11 226:21 231:22 231:23,23 232:11,12 237:5 number's 205:4 numbers 12:12 12:13 45:14 70:3,3,4,8,9,11 70:14,16,19,22 77:4,9 122:9 122:11 135:1,3 139:14 140:21 143:13 145:4 157:15 163:12 186:11 195:10 197:14 198:21 203:23 206:10 208:12 213:23 218:23 228:10 235:24 240:8 240:24,25 Numeral 102:19 Numerals 103:5 numerous 66:19 114:21	objectives 179:20 obligations 25:23 26:1,8 26:16 109:4 obtain 13:3 33:6 57:24 62:6 144:7 154:13 172:7 175:9 obtained 51:2 100:11 148:6 obtaining 62:19 177:7 182:19 obvious 11:3 obviously 40:20 41:7 128:24 135:19 occur 27:20,23 occurred 126:13 137:17 160:20 168:15 October 22:13 35:11 97:19,22 98:18 133:24 188:10 199:13 offensive 67:18 67:24 68:2,3 offer 45:9 136:12 138:18 138:19 140:2 143:3,5 163:6 offered 45:15 105:7 126:7 143:10 165:22 241:13 offering 27:17 46:24 47:3,5 47:12 48:24 116:19,20 117:7,13 140:16,17 233:22 offers 127:1 office 2:12,14 3:23,24 9:13	14:9 21:23 22:7 29:16,18 30:4 31:4 38:25 49:23 52:9,15 64:20 69:24 71:9 96:8,20,25 196:14 242:21 245:4 officer 21:23 22:8 48:15 56:8,9,15 78:1 78:2,3,4,5 96:9 96:20 97:1 128:21 officers 129:4 officially 103:22 223:3 Oh 17:8 69:11 79:5 227:6 237:11 oil 7:3 201:23 okay 15:10 17:9 18:5 19:7 27:25 28:4,17 29:1,14 39:15 39:24 41:6,21 42:13 49:17 50:11 67:23 68:24 69:23 75:6 76:7 78:8 80:6 92:10,21 93:3,7,14 94:2 94:8,16,19,25 95:18 96:19 97:4,8,14,21 97:24 98:19 99:11,19,24 100:14,18,22 101:4,8,16,20 101:23 102:1 102:12,18 103:11 104:17 104:20,23 105:16 106:2,7	106:13,24 107:11,20 108:2,8,15,22 109:8,12,19 110:15,20 111:18,24 113:9,16 114:17 117:3 118:10,24 121:15 122:17 127:7,12,25 130:13 134:25 138:16 140:1 143:21 145:6 145:10 146:15 147:12,21 151:8 153:21 156:1,3,24 157:2 158:17 161:20 170:24 174:20 175:13 176:18 177:18 180:13 182:17 187:15 192:3 192:19,24 193:1 204:18 204:22 205:2 206:20 207:4 210:14,20 211:4,9,23 212:1 213:8 214:12,14,15 219:16 220:3,5 220:24 221:2,4 221:8,9,10 222:4,5 223:15 225:4,25 226:2 226:11,12 227:5,20 230:12 233:24 234:16 235:16 235:24 236:7 236:15 238:2 238:14,23 239:3,5,14,21	Okey-doke 225:1 old 62:16 once 40:15 60:18 109:15 148:6 158:21 161:4,7 ones 22:20 60:13 91:13 127:6 ongoing 62:15 108:1 129:15 134:4 136:7 OPC 32:21 34:20,22 35:1 35:20,24 36:2 37:13,17,22 38:1 39:10 40:24 41:2,19 45:17 48:24,25 49:12,20 50:14 71:4,11,23 75:7,7,10,13 75:20,21 76:9 76:9 77:4 92:5 124:1 125:25 155:5 168:8 188:14 190:10 190:25 197:7,7 197:10,10,11 197:12,14 199:15 201:15 203:20 204:20 205:13 210:5 215:17 218:6 218:17,18,23 224:23 241:14 245:5,7,8,10 245:11,13,14 OPC's 15:14 33:14,21 37:14 39:3,3,9 48:23 64:18,25 70:4 155:7 157:9 204:23,23 205:2 209:10
---	--	--	--	--

213:9 224:2,7 225:12,18 230:17 OPC003 197:8 OPC004 197:8 open 33:11 122:1 opened 76:25 89:1 opening 4:24 5:3 5:4 6:4 19:19 21:1,2,6 25:22 29:16 92:6 176:5,6,9 242:3 operate 5:22 200:8 operating 1:11 2:5 3:6,14 5:8 6:2,3 7:21 13:13,15 43:1 46:15 51:18,23 57:5 65:6 66:6 78:1,3,4 94:6 101:17,18,21 102:11,22 103:12 108:13 109:10 110:22 111:16,18 112:2,4,25 113:4,24 117:14 118:18 118:19 123:2 126:5 131:19 177:5 230:22 242:2 244:24 operation 20:9 26:1 53:5 77:17 204:9 operational 65:10 operations 7:2 7:14,18 34:23 36:5 61:4 64:22,23 65:12	120:13 122:18 134:4,12 135:16 136:7 176:23 177:1 204:6,12,16 221:14,16,17 225:5 opine 172:24 opinion 20:21 141:13 156:4 156:24 164:15 165:4 169:6 191:10 219:10 229:18 239:14 opportunity 14:6 61:14 240:14 oppose 155:5,9 157:10 opposite 119:17 option 128:10 128:12,13 177:7 218:7 233:22 options 26:3 order 4:15,16 7:2,3 10:16 16:21 22:22 24:12 29:10 31:2 36:17 62:6 98:4 113:3 144:7 154:11 161:9 171:3,8,11 188:19,21,23 233:2 240:13 orders 189:5 201:23 organization 5:20 6:1 9:25 13:4,11 organizer 79:18 organizers 79:13 79:16 original 51:4	52:22 71:20 79:12 86:11 100:20,24 101:5,9,9,21 103:8 105:7 165:21 183:18 237:9 originally 60:20 60:22 101:6 121:2 165:8,20 206:21 236:17 outcome 246:12 outlier 70:25 outside 22:9 23:10,25 32:17 61:10 63:21 69:21 109:13 118:2,24 119:1 214:2 outstanding 115:23 116:17 127:20,21,22 outward 67:13 67:16 overall 11:24 12:3 31:15,15 207:18 227:3 overhead 32:15 38:10 overly 165:6 overrule 173:3 overruled 56:3 77:2 173:15 181:10 overstated 14:4 owes 19:3 owing 16:1 owned 5:12 6:12 6:25 60:15 104:24 111:19 111:21 113:11 167:11 owner 5:9 6:16 7:16,20 51:24 171:10 172:1	173:8,19 174:11,22 175:4 176:24 177:3,7 182:18 182:20 217:14 owner's 33:4 174:13,24 175:1 owners 41:14 50:21,22 53:15 53:23 106:18 120:8 171:1,7 171:22 172:6 ownership 20:6 50:24 51:2 101:19 105:1 165:23,25 175:23 owning 7:21 177:5 owns 6:1 46:13 46:14 60:5 111:14,16 112:1,3 126:11 Ozark 201:8,14 201:20	79:4 80:22 84:24 86:13,13 87:8,13 89:6 92:11 96:6 99:25 102:16 102:19 108:6 108:21 114:13 114:15 115:15 116:6 120:23 121:16 122:17 123:14 130:11 133:21,21,23 133:24 143:20 144:8,16 146:1 146:9 147:7,19 150:5,18 152:18,24 153:22 155:1 157:7 160:16 162:19,21 163:20 164:23 166:7 167:2,18 168:24 169:13 170:23,25 189:10,20 191:18,23,24 192:9,14 193:2 218:4 219:15 219:17 220:3 221:5,15 222:1 225:5 paid 7:1 10:22 15:8 17:3 23:2 23:17 33:17 72:21 98:11 99:19,20 128:15 160:13 213:17 painstakingly 22:4 paper 68:22 145:15 154:22 198:1,20 204:5 230:5 papers 145:11
--	---	---	---	--

P

P 1:14 2:1,1 3:1
P.O 2:3,9,13
PACER 75:17
 77:10 245:15
PACER-filed
 75:13
page 43:17 44:2
 44:2,4,14,18
 61:22,23 62:4
 64:15 65:8
 66:2,7 67:6,21
 67:24 68:15
 69:5 71:2 72:1
 72:25 73:18
 77:7,9,12,14
 77:19 78:7,8
 78:15,16,16,22

146:4 157:23 158:1,13,16 185:20 190:20 227:7 paragraph 36:19 176:10 parameter 132:1 parent 11:19 201:11 Park 113:7 part 13:12 24:4 24:17 28:2 48:4,6,9,11 50:3 53:17 60:23 62:15 65:15 66:23 67:11 79:9,10 79:14 85:1 89:13 92:7 99:11,17 102:14 103:13 106:2 108:20 121:21 145:17 145:18 150:1 193:12,17 199:14 220:7 222:12 partial 9:7,11 20:13,15,19 24:4 28:4 65:10 99:11 141:11,13 149:2,7,14 151:3 153:14 153:16 230:13 participated 30:10 176:15 particular 50:13 66:21 76:16 146:24 154:13 174:1 particularly 11:12 31:12 parties 4:6,16,17 9:12 28:5,11	32:14 33:12 34:20 37:8 241:23 246:9 246:11 partners 60:19 134:6 party 59:9 pass 132:16 178:20 passed 132:10 132:11 passing 12:17 passive 33:20 Paul 21:10 23:14 151:25 152:2 156:23 184:8 184:10,16 185:3 242:18 244:18,19 pay 11:1 14:14 30:23 31:19 32:7 58:15 59:24 98:15,16 98:17 116:17 213:10 229:15 230:3 231:17 payables 109:6 paying 25:8 30:17 40:21,22 41:3,4,4,7,9 58:13 87:6 115:20 227:12 227:12 230:23 230:24 payment 26:16 26:19 64:21,23 123:3 127:17 231:1,16 payments 23:2 54:23 55:18 62:9,24 100:11 Payne 2:7 3:17 3:17 4:20 19:16,17 27:12 27:19 28:3,8	28:19,24 29:3 29:7,12 49:13 92:3 102:2,4 103:12,18,22 104:1,9 108:3 108:7,9 110:25 111:8 114:4 126:18,19 128:1 136:22 137:2 138:5,7 138:17,23 139:3,8,11,16 139:24 140:4,8 140:17 141:22 142:1,6 143:2 143:5,8 157:21 159:9,11 161:21,25 162:4 163:5,14 171:15 172:15 172:21 173:13 181:8,25 182:1 184:3 190:5 192:14 219:6,7 220:13,16,19 220:20 222:8 222:10 224:16 238:6,7 239:22 242:5,7,10,12 242:14,15,17 243:3,6 payoff 19:4 payroll 10:5,9 20:21 21:11,14 33:12,14,15 96:10 123:16 123:17 185:19 185:21 193:8 193:16 208:11 pays 59:6,21 PC 2:3 PCB 120:13 peers 150:10 penalty 19:4,9 115:1 127:19	people 4:2 18:20 25:19 97:12 119:14,17,19 119:23 165:20 209:6 229:6 232:22 237:3 percent 9:21,22 10:4,18 11:19 11:22,23 12:3 12:10,11 18:3 30:13,14 32:11 35:20 36:3 43:19,19 44:15 44:15 46:20 72:22 95:12,14 95:15 104:19 105:15,22 106:1,5 113:19 114:23 122:2 128:18 164:5,6 164:18 165:16 165:22,24,25 167:17 177:12 177:12,16,16 180:1,9,18 182:4 183:19 198:17,23 199:2 202:4,10 203:2 205:6 206:2 207:18 208:20 209:9 211:20 213:5,6 216:13 225:15 225:17,19 226:6,9,15,23 227:1,1 228:4 228:6,16,17 236:13 237:6 percentage 9:23 113:18 118:7 128:16 149:19 166:6 213:1 226:16 percentages 37:18 113:18	perfect 65:13 123:4,11 perfectly 4:12 perform 56:14 57:20,23 58:3 58:24 59:1 124:23 performed 36:12 150:3 212:12 216:2 performing 58:1 118:11 period 17:3 21:25 22:9,12 23:3,17,21 24:1 32:17 35:11 37:5 69:13,19,21,25 77:25 97:18,21 99:1 125:10,16 133:20 156:15 188:9 207:23 214:3 permission 102:2 108:3 175:6,9 176:2 179:8 permit 24:25 25:6 42:6 99:12 100:3 240:13 permits 99:4 permitted 110:15 person 31:18 166:13,19,19 173:7 186:24 187:1 person's 209:5 personal 33:4 73:21 121:9,13 125:15 166:20 169:9 171:2,7 171:10,11,22 172:5,7 173:9
---	--	--	--	--

173:24 174:6 174:13,14,25 175:1,13 182:19,21 213:9 214:19 215:2 personally 28:24 29:12 49:24 85:13 87:4 125:10 166:23 203:11 231:21 persons 200:12 200:16 perspective 13:10 30:22 39:3,16 123:10 233:2 pertain 144:6 pertains 145:20 Peterman 60:16 60:18,22,24 61:1,8,14 79:23 petition 74:2 75:15,24 76:6 77:8 78:8 87:9 90:17 91:11 petitions 91:16 ph 31:16 32:1 200:19 phase 29:9 88:9 235:4 236:2,18 237:12 phase-in 14:8,10 14:15 26:10 27:15,20 29:10 39:8,11 41:24 41:25 65:10 100:2 150:21 150:22 151:22 152:3,7 156:8 156:9,20 187:5 187:20 189:3 225:6 226:10 226:12,14,16	227:6,19,21 228:8,12,18 229:2,4,8,9 230:7,8 234:17 234:17,25 phased 41:15 phased-in 39:10 42:4 64:18,25 71:5,9,11 147:16,22,22 188:1,5,20,21 218:8 224:24 229:13 233:3 phasing 42:6 phones 4:4 phrased-in 189:6 pick 177:20 188:23 pipeline 113:22 place 13:3 16:24 63:13,19 122:25 144:5 156:25 213:22 214:9 placed 47:5 85:23 placement 47:7 47:8 places 24:21 180:24 plan 117:16 120:2 183:6 plant 6:20 16:24 17:1 31:7 55:15 121:4 193:11 plants 66:17,19 203:10 234:7 play 228:4 played 124:18 please 4:3 19:16 29:19 42:14,17 42:20 46:7 61:21 67:7	68:15 71:3 72:1,25 73:19 74:23 77:8,13 78:16 80:18 87:9 109:3 137:3,7 142:7 142:11 143:19 143:19,20,24 144:10 145:4,6 147:8 148:2,25 150:18,21 151:11 152:18 153:20 157:25 158:6,9,23 160:11,19,21 162:5 163:19 164:24 184:14 187:7 189:10 193:4,5 194:11 194:14 196:5,9 208:21 217:5,9 217:17,18 218:3 221:6 224:2 240:19 plus 237:20,21 237:22 pockets 14:14 point 9:24 11:6 17:3 18:21 23:7 41:10 88:1 117:17 131:12 132:16 136:6 151:5 153:24 154:4,4 154:5,5 204:15 207:1,7 214:3 218:3 220:10 221:18,23 228:2 236:19 pointed 234:16 policy 20:18 142:12 232:6 poorly 211:13 portion 10:8 20:2 21:20	26:11,12 80:14 80:18 241:16 position 7:19 15:11,14,15 23:19 28:5 31:22 34:18 36:18 37:14,17 39:9 42:25 112:5 129:21 137:7 142:11 162:8 166:4 177:3 184:24 200:15 213:9 positions 35:4 200:16 positive 201:21 possession 130:5 possible 62:25 64:10 70:5,7 120:4 132:1,7 134:5 160:4 171:13 173:24 174:1 175:10 possibly 89:3 129:10 potential 12:14 39:17 61:14 67:19 114:18 169:1,5,10 potentially 69:23 166:24 167:4 poverty 32:11 practical 24:21 132:6 practice 23:5 48:5,7,9,11 practices 50:3 pre-marked 197:7 preceding 77:20 78:1 predicament 119:10 preferred	105:17,23 106:3,15,16 131:20,20,22 preliminary 4:6 4:21 preparation 11:9,10 prepare 58:16 137:11 142:13 162:11 187:15 196:18,20 prepared 25:18 43:3 85:1 137:12 142:14 162:11 185:4,4 194:16,17 217:22 224:14 prepares 58:18 58:20 prepay 115:18 116:11,16,24 prepayment 115:20,21,22 116:9 prepayments 126:6 present 39:20 57:17 170:5 186:20 189:22 229:14 presented 23:24 33:25 156:11 164:20 165:9 presently 126:21 presents 8:6 president 5:19 21:4,22 32:19 33:23,24 42:24 43:2 45:19 52:21 53:2 85:7,17 89:16 90:1,10 112:6 200:3 204:4,7 presidents 34:11 presiding 1:13
---	--	--	--	---

3:9	39:22 41:9	proof 62:23	201:20 220:8	58:14 59:3
presumably	127:4 175:3	proper 27:8	220:23 225:11	100:15 174:23
180:23	211:13	37:17 154:1,2	227:23 229:1,7	200:23
pretty 95:2	problem 4:14	154:8,11 159:4	229:9 240:2,3	providing 32:25
135:7 136:3	31:18 115:10	161:12	proposes 10:17	71:11 172:25
226:23	210:25	properly 27:8	proposing 24:23	174:18
previous 57:10	problems 32:3	73:2 130:16	39:12 40:15	provision 126:7
125:11 153:25	41:8 122:13	154:10	41:23 71:9,24	126:13 176:9
227:22	173:11 177:8	properties 127:2	151:23 233:10	provisions
previously 4:1	procedural 4:10	128:10 191:16	233:10 235:1,3	176:18
6:12 8:12	procedure 233:7	property 10:20	prospect 30:19	prudency 38:24
36:15 52:25	proceeding 5:11	11:1 15:3,8,13	prove 117:8	39:1
56:24 79:6	24:7 43:4 74:6	15:22,24 17:21	provide 10:16	prudent 164:14
84:25 94:16	74:7 142:15	17:25 20:22	14:5,10 26:3	PSC 134:17
100:6 105:6	184:1	22:17 23:2,8	29:13 42:9	135:19 212:11
108:19 216:10	proceedings 1:4	23:19 24:3	49:5,22,24	212:12
priced 171:3,12	80:21	36:6,13 98:7	61:9 130:22	public 1:1 2:8,10
primarily 14:3	process 5:24 6:5	98:17 99:5,19	131:3 144:20	2:12,14,14
18:20 74:10	33:10 158:20	120:22,24	171:2,7,11,22	3:23,25 9:13
135:17	159:17 179:20	121:10,13,13	172:7 173:9	14:9 20:5
primary 100:21	191:9 213:20	123:4 127:8	175:24 183:25	29:16,18 30:2
prime 166:16	222:12	137:19,20	200:12 201:5	30:4,5 31:9,17
principal 127:22	procure 76:19	154:1 160:13	217:17 220:9	38:25 46:24
214:1	procurement	201:14 213:8,9	provided 3:20	47:3,5 49:23
principle 23:4,9	134:11 135:22	214:19 215:2	4:1 8:9,14 9:9	64:20 66:22
98:20,23 99:8	product 20:25	215:19,21	9:24 10:6	67:1 69:24
principles	professionally	proposal 24:21	18:21 20:16	71:9 83:1,14
219:12	11:12	64:18,21,25	21:11 22:6,16	119:2,3,13
printed 75:17	profile 67:13,16	71:5,10,12,12	23:14 24:16	134:17 137:10
prior 9:16 17:2	164:6	123:17,17	25:10 32:22	140:24 141:19
22:1,8 23:24	profit 125:6	150:21,22	35:24 37:5	143:16 157:16
26:14 30:16	profits 105:25	155:5,10	38:11 55:14	163:17 181:3
51:13 56:12	program 129:7	156:10 157:9	67:12 70:8,14	184:20 186:15
77:19 87:22	129:15	158:19 188:1	70:16 71:4,20	189:12 195:15
96:4 106:10	progressing 7:4	188:22 219:19	102:13 108:16	196:3,15,17,19
107:15 177:6	project 110:13	225:18 230:17	108:18,19	196:21 218:18
193:7,10,14,16	projected	propose 124:6	110:2 112:14	218:19 232:6
203:19	191:16	199:1	124:2 139:21	242:8,21 244:9
private 18:8,9	projects 51:14	proposed 7:6,6	145:7 148:5	245:4
19:3 47:7,7	62:17 212:21	9:21 12:9	150:14	publicly 181:14
67:18 107:25	prompting	23:23 25:5	provider 72:11	181:17,18
117:21	168:10	39:11 72:3,9	72:13	pull 92:10
private/public	prongs 37:2	128:16 137:22	providers 72:4	205:19,22
118:4	pronouncing	147:16 152:23	72:10	211:2
probably 16:22	78:24	153:8 188:5,19	provides 29:9	pulling 191:14

pump 174:19,21 174:24	58:6 64:16 70:12 71:7	136:17 139:18 140:6,25 141:3	R-U-S-S-O 217:11	50:7,9 55:8,8 64:25 71:5,9
purchase 5:22 38:18 114:8 126:8	72:2,6 76:2,21 78:17,19 85:15 87:9,13 95:6	141:5,9 142:20 155:14 157:3,6 157:17,19	Raccoon 6:2 13:13 112:2,15 112:17 134:23 135:12,15,17 135:20,25 136:3,4 198:4 205:23 210:24	71:12,13,22,24 85:2 92:7 94:23 95:2 99:6,13,13,14 99:22,22 100:2 105:8 112:15 114:12,12,16 117:5,14,20 119:6,13 124:5 130:21,25 143:23 144:14 144:19,23,23 145:9,17,18,19 146:21 147:1 147:15,19 148:8 149:7 151:2,5,14,18 151:20 152:8 152:12,16 156:15,19,21 157:1,12 158:18,21,24 159:4,17 165:16,25 166:3,14,15,16 166:21,25 169:24 170:4 170:19 177:24 178:3,5,19,20 179:25 182:13 183:10,19 186:25 187:1 187:15,17,22 187:23 188:2 188:15,16,21 188:23 189:1,2 189:4,6 190:18 191:12 193:12 193:18,20 205:3,8,14,15 214:19,23,25 215:4 219:19 220:8 221:16
purchased 6:14 101:10	99:9 116:9,10 122:19,24	161:21 162:24 171:15 175:22	radically 95:23	
purchasing 191:7	126:14 134:25 135:5 141:7,19	181:21,23 182:11 184:3 185:10 186:2 187:11 189:14 189:25 190:2 193:22,25 194:2,23 195:16,17,18 197:2 203:12 205:12 209:20 209:23,25 212:23 214:13 214:16 215:12 215:14,16,23 216:25 218:12 219:4,25 224:16,17,19 233:8,19,25 234:1 235:18 238:3,5,9 239:22 240:17 240:21 241:8 242:6,10,13,24 242:25 243:3,4 243:5	Radio 66:15 Radlof 90:9,14 raise 11:14 31:14 51:14,20 60:21 80:4,11 112:16 119:24 raised 31:14 32:22 39:1 raising 53:4 203:9 Randy 31:25 range 11:25 177:12,15,18 177:19,20 ranges 24:24 25:1 rate 1:10 3:5 5:10,23 6:7,7 8:9,9 9:6 11:24 11:24 12:3 13:8,25 16:23 20:23,23 21:25 22:20 23:7 24:5,11,17,18 24:25 25:11,12 25:12,14,16,16 25:25 26:6 27:9,16,18,21 27:23 28:14,16 28:16 30:12 31:15 37:8,10 37:14,19,23 39:11,12,13 40:15,17 41:7 41:11 44:20	
purpose 9:21 12:5 14:22 20:7 50:9 109:14 143:23	145:6 146:12 150:20 152:5 155:4 156:3 157:5 158:5,23 160:25 169:14 170:23 171:20 172:16 173:5 177:3 178:16 186:19 187:8 190:4 192:10 210:18 211:12 211:17 212:6 214:7,8,11,17 215:20 220:18 233:9 243:4			
purposes 4:10 10:19 11:15 33:22 43:4 50:7 59:10 147:1 169:21 179:11 183:11 216:4 239:16	questioned 204:19			
put 16:24 30:21 31:22 32:6 91:7,10 111:7 121:18 172:4 174:24 180:24 187:13 190:20 236:10	questioning 76:15 168:11 181:9 238:20	quick 185:16 quickly 89:6 quite 7:12 124:17 132:12 176:21 quote 36:11 178:14 quotes 151:16		
puts 76:20	questions 14:25 20:18 21:10 27:10 32:20,21 32:24 35:7 37:23,24 38:4 38:4 39:16,21 45:1 91:19 107:12 111:9 111:11 120:16 120:18,20 125:24,25,25 126:15 128:1,5 128:19 129:24 130:15 131:13 131:18,23 133:6,11			
putting 85:21 161:13 182:23 191:11 226:5 237:8,9				
Q		R		
qualified 76:1 172:17		R 2:1 3:1 184:16 R-O-B-E-R-T... 142:10		
quarterly 59:21 59:24				
question 7:19 8:7 14:20 16:2 16:4 27:13 28:13 29:6 38:23 39:2,4 41:24 43:5 47:9,14 54:7				

221:20,21	121:25 143:23	69:22 89:6	155:1 157:7	186:10,12
222:12,20	144:1,5,6,20	121:12 123:20	158:2 160:16	195:9,11
223:6,8,13,20	147:16,22,23	125:14 128:8	162:13,17	197:13,15
223:23,24	151:22 152:4,7	185:16 227:25	163:8,20	218:22,24
224:13 225:12	152:15 153:1	228:10	164:23 167:2	241:13
225:18,19	166:8 187:5,20	real-time 129:17	167:18 168:24	receivership
226:6 227:8,17	188:1,20 189:3	reality 73:3,11	169:14 170:23	13:19 66:14
228:5,7,22,23	189:5 218:8	130:16	179:23 185:4	113:5 120:12
229:7,9 233:3	220:8,23	realized 22:24	185:16 189:10	170:4
233:21 234:10	222:21 223:7	36:22 68:3	191:19 192:6,8	receiving 54:23
235:2,8,11,11	224:24 226:3	really 33:7 99:2	192:12 193:2	125:3
235:13,14	227:25 228:19	115:8 117:6	194:17,24	recess 4:25
236:2,3,11	228:24 230:17	156:9 173:23	196:20,25	91:21 125:20
237:24 238:9	233:13,15	180:19	197:3,12,12,21	195:23,25
238:10,11,16	235:1,2,7,9	realtime 69:21	199:11 217:22	reclassification
240:18,22	236:16 237:9	reason 182:12	218:1,10,13,18	204:23
rate-making	237:10 240:3	183:1 188:6	219:14 220:4	reclassified
10:19 23:4	rating 164:2	228:23	220:25 241:2	203:20
98:24 179:11	ratio 197:24	reasonable 12:1	244:6,13,16,19	recognize 10:14
230:20 231:13	Raytown 202:18	14:6 25:8 35:8	244:22 245:7	42:2 75:19,22
239:16	202:22 204:2	52:17,19	245:10	102:5,12
ratepayers 3:25	RC 134:23	141:14 182:16	recall 52:18	108:10 119:12
26:9,13 29:19	RCV'D 244:2	190:6,7,18	66:19 90:13	133:16 138:8
32:12 72:22	re-read 221:6	208:17,24	149:21 207:7	159:12,16
ratepaying	reach 9:7 168:3	209:3,4	233:15	recognizes 8:5
30:15	168:13 219:24	reasonably	receipt 45:13	25:15 26:24
rates 6:8 8:18	reached 20:13	171:3,12	55:17 106:10	recollect 68:9
10:15 14:2,10	206:1,2	reasons 38:1,2	218:22	recollection
15:4 18:13,23	read 19:19 43:18	169:9 170:17	receive 55:20	54:12 84:2,6
20:3,5,8 22:11	43:19 44:15	reassessment	66:20 78:12	85:24 89:25
22:14,20 23:3	102:19 109:3	106:19	105:17,25	224:5 226:22
23:8 24:6	115:8 156:1	rebuttal 43:4,9	106:3,5 117:24	recommend
25:17,23 26:7	160:11 176:9	44:11,13,17	117:24 158:25	36:2 177:11,15
26:11,12,14	176:20 193:3,4	61:20 64:16	received 11:16	recommendati...
27:21,22 29:9	221:10,11	65:9 66:2,8	45:13,15 58:21	7:12 21:18
29:11 30:14,14	226:24	67:7 68:16,25	61:7 75:11	169:16,24
31:14 32:16	readers 70:22	69:1,4 71:2	77:3,5 101:9	170:1,10,18,20
34:14 35:14,15	reading 69:16	72:2,25 73:18	104:6,7 111:4	176:10,16,19
35:16,17 37:6	70:22 169:22	73:20 76:23,25	111:6 136:14	182:16 183:8
41:4,25 42:4,7	reads 69:15	92:10,16 99:25	136:16 140:11	187:19 188:25
64:18 72:3,3,9	168:25	121:15,17	140:14,20,22	190:7 201:19
72:10,17,18,21	ready 5:3 91:25	122:17 123:15	143:11,14	201:21 233:5
72:22 92:14	136:21 196:2	130:10 142:14	153:7,9 158:21	recommendati...
99:16 116:13	225:1	143:10 145:23	163:11,13	12:1 35:3
116:21 121:19	real 38:12 55:4	145:24 153:20	166:21 168:20	169:17 170:21

182:14 232:4 recommended 24:19 164:18 170:21 182:13 204:23 205:2 209:10 224:3 recommending 180:4 187:21 205:7 218:6 224:4 233:20 238:21 recommends 35:20 40:6 reconcile 27:15 record 5:1,3 13:5 45:13,15 66:22 77:5 91:23,24 103:13,16,17 103:23 104:6,8 108:20 111:4,6 125:21,23 128:23 136:14 136:16 140:12 140:14,20,22 143:12,14 163:11,13 184:15 186:12 194:12 195:7 195:11 196:1,2 196:10 197:13 197:15 217:10 218:24 241:24 records 59:19 60:1,4,5,11 103:3 recoup 20:2 25:6 recover 14:6 64:17,24 65:1 236:3,16 237:11,12 recovered 237:17 recovers 237:10 recovery 14:4	recross 125:24 126:2,19 141:19 157:16 195:19 215:12 235:17 242:6,7 243:5,6 RECROSS-E... 235:20 238:7 redirect 128:2,4 141:21 157:20 157:21 181:24 182:1 194:1 195:20 215:17 215:18 239:24 239:25 242:7 242:14,17 243:6 reduced 246:7 reduction 149:18 refer 116:6 151:9 235:22 reference 64:6 90:20 102:25 127:12 131:4,6 131:20 158:3 175:16 212:5 219:14 222:23 referenced 9:19 10:23 21:2 160:19 references 138:23,24 referencing 62:20,21 140:8 referred 21:4 77:10 138:14 152:25 157:22 202:15 referring 66:12 66:14,16 69:5 140:6 149:6 205:6 222:3 refers 23:5 139:4 150:20 190:25	refinance 18:10 18:15,19,20 refinancing 18:18 126:4 reflected 149:4 152:15 208:9 refresh 54:12 84:2 85:24 89:25 refreshed 84:6 regard 8:12 11:21 16:21 17:21,25 35:18 67:12 156:25 173:23 187:19 201:19 regarding 20:17 21:11 22:17 23:15 24:2,17 25:11 68:8 157:24 158:13 215:23 234:5 238:9 regardless 126:11 189:5 regards 17:19 151:24 190:4 231:10 region 10:13 202:2 Regis 52:9 regularly 34:12 regulated 6:1 21:24 33:2 35:13 36:1,5 46:2 57:1,5 59:20 60:3 66:9,11,15,17 67:1,4,11 72:11,12 73:7 73:14 94:15 95:25 96:3,22 113:1 120:11 128:24 136:8 200:12,16,23	201:11 212:13 regulating 65:24 regulations 201:23 regulators 67:25 regulatory 1:13 3:9 17:15,19 63:4 94:13 117:8 137:9 156:14 162:9 185:1,2 194:15 236:7,8,20,21 239:8 rehabilitated 14:21 related 11:9 35:7 37:24 58:3 118:11,21 144:1 189:15 210:22 211:9 211:15,16 212:11 232:7 246:8 relates 22:22 36:20 relation 20:6 62:20 101:17 182:22 219:25 relationship 33:1 46:5,10 80:2 93:21 relative 246:10 relevance 76:12 relevant 76:13 76:15,21 reliable 33:7 130:22 relied 190:21 relief 73:23 rely 199:15 remain 32:21 remainder 118:10 remaining 20:20 104:20	remember 19:19 51:7 52:14 62:25 63:15 64:9,14 68:10 74:14 87:7 88:16 89:3,19 101:2 105:10 131:6 133:10 237:5 remove 187:22 removed 150:25 renegotiate 63:13,18 64:11 renegotiation 64:2 rent 52:16 54:23 128:15 rental 55:18 repairs 7:1 repeat 46:8 77:12 145:4,6 170:14 173:5 174:16 178:2 181:11 208:21 216:8 220:17 repeating 206:6 rephrase 58:6 71:7 144:3 156:17 158:5 replace 174:19 174:21 replaced 43:21 43:22 Reply 241:20 report 22:22 36:17 90:9 REPORTED 1:17 reporter 3:15,21 4:1,18 137:4 142:8 162:6 246:1,3 reporting 1:19 7:15 176:24 199:13
---	--	--	--	---

represent 19:17 134:1,3 135:2	236:1,1,18 240:14	85:8,9 86:9 89:17,24 90:2 90:11 93:22,22 93:24 94:5 100:25 101:14 104:11,15 107:22 109:21 110:12 134:20 177:2	12:4 13:8 20:23 24:5,17 24:24 38:11 55:20 71:19 83:1 105:18,23 106:3,5,7,9,10 106:15,16 114:12 131:20 131:21,22 151:2,5,14 164:8,12 166:5 169:24 170:20 177:15 179:21 179:25 180:4 180:18 182:13 187:22 236:11	revolved 135:21 revolves 33:12 right 4:10 5:2 21:8 31:21 40:8 50:17 54:14 64:15 66:15 74:7 79:1 85:5 86:21 89:4,18 89:22 92:13 93:5,11,12 96:8,13,24 99:24 100:6,14 102:8 104:10 110:9,11 112:18 117:18 120:11 121:15 121:23,23 122:22 125:22 127:18 138:4 139:17,24 140:23 146:11 150:19 152:20 153:23 155:3 159:21 160:18 173:24 178:22 180:9 183:9,21 186:5 189:9 191:5 193:1,18 200:20 201:2,6 208:2 214:23 215:10 222:11 224:15 225:7 227:5 229:23 230:9,11,12 233:24 235:5 238:8 241:5,15 241:18
representation 150:11	requirements 8:16 11:20 57:5 144:2	Resources' 66:23	returns 105:19 105:21 169:2 169:11	risk 18:24 25:16 106:19 164:3,4 164:6,7,12 166:5 182:8
representative 35:21	requires 25:13 28:14 152:7	responds 37:21	revenue 10:10 11:10,20 14:7 16:15 23:6,6 40:16 125:6 137:22 144:9 144:11,12,13 146:6,18,20 147:4 148:2,8 148:19,23 149:2 158:19 158:21,25 159:23 186:24 187:4,12,16 204:23 214:4 214:24 235:25 236:1,4,18 240:14	riskier 181:18
represented 101:2 183:5	research 10:12 21:13 34:13 134:4,4 136:4 177:21 205:21 216:1	response 49:22 66:25 78:23 102:15 103:13 103:18 107:11 107:11 169:19 190:8	revenues 13:5 14:13 146:17 188:12	risky 181:5 182:7
representing 5:8	reset 235:2	responses 35:25 201:22	review 28:16 48:4,6 99:13 99:13,22 188:15 189:2,4	
represents 9:22 30:5	resident 28:21 31:16,20	responsibilities 7:21 177:4	reviewed 49:25 55:3	
request 1:10 3:5 21:25 24:18 27:23 30:12 49:23 98:8 102:15 103:13 103:19,19	residential 37:9 150:11 155:11 220:9,23 221:24 225:12 228:1,13,20 229:2,3 238:11	responsibility 60:4		
requested 18:14 36:7 37:2 93:4 98:8	residing 221:13	responsible 47:23 48:12,14 59:20 91:16 200:7		
requesting 98:6	resolution 141:14	rest 110:23		
requests 22:21 32:15 219:21	resolved 32:23	restate 146:11 158:8,23 160:25 200:14		
require 22:15 26:15 188:1,22	resonate 30:8	restated 102:11		
required 9:24 31:1,8 39:13 62:9 63:4 64:22 65:6 124:15 132:5 135:22 152:9 164:12 171:2 171:22 219:11	resource 45:20 45:22 60:22	result 10:3 19:24 30:13 31:2 33:18		
requirement 10:10 11:10 14:7 16:15 23:6 27:17 40:16 137:22 144:9,11,12,13 148:2,8,19,23 149:2 158:22 158:25 159:23 175:24 186:24 187:4,12,16 204:24 214:4	resources 5:16 6:22 7:19 21:5 27:3 31:3 46:16,21 47:16 50:18 51:10,15 51:17,19,24 52:8 53:20 54:19 55:11,18 56:1 58:11 60:19 61:18 63:12,17 79:8 79:13,20,25 80:3,7,11 83:17 84:7	resulted 160:20 161:18 165:16		
		resulting 10:18		
		retain 101:20 103:8		
		retained 74:19 101:23		
		retirees 32:13		
		return 11:24,25		

road 66:14 72:14,14 217:20	86:24 88:6 93:21,25 94:2 94:5 96:14,16 96:21 101:17 102:11 104:12 104:14,18,21 105:4,13,14,17 107:5,22 110:12 111:22 111:24,25 112:1,3,5,20 113:12 118:11 126:21 127:2 131:11,18 165:25 167:10 167:17 205:3 235:24	sad 31:6 safe 8:8,14 93:14 95:8 101:4 130:22 131:3 salaries 10:16,18 21:15 33:17 34:21 35:2,10 38:10 97:2 124:7 204:6 208:20 230:23 232:2 salary 10:18 21:13,19,21 22:3 33:22,25 34:10,17 35:3 53:7,13 57:11 57:12,14 87:6 87:18 96:25 97:12 106:10 125:2,5 185:24 204:7,10,11,13 204:15,19 207:18 216:23 231:11 232:2 sale 126:13 Sarver 22:16 187:2 194:7,9 194:13,16 195:20 242:20 244:21,22 sat 205:16 satisfaction 115:1 satisfy 37:2,3 saw 120:25 221:4 saying 12:23 19:6 124:14 181:19 214:21 223:1 231:21 232:19 233:17 234:23 says 28:20 69:6 72:6 87:13 123:17 127:17	130:15 144:9 146:5,16 147:13,25 148:1 152:21 153:25 155:5 160:10,11 162:19,21 163:22 164:11 164:25 165:15 166:7,9 191:21 192:4 210:21 scale 9:2 scenario 25:15 167:12,13 204:8 234:5 schedule 35:4 68:24 69:2,3,9 69:13 78:9 116:2 123:15 144:21,25 145:8 146:1,3 148:12 153:1 160:23 190:15 190:25 196:21 201:4 224:23 226:10 230:14 240:1 schedules 74:17 78:7,16 86:8 86:14 87:3 89:13 90:20 91:8,13 127:24 138:3 145:12 158:15 seamlessly 129:8 searched 13:1 seated 42:17 136:25 second 27:20 43:16 115:10 125:3 130:12 154:3 160:2 192:6 232:25 second-to-the-... 159:20	section 77:16 102:8,15,18 103:9 109:2 secure 80:6 171:3,8,12 175:4 secured 126:9 Securities 47:6,8 47:11 security 113:23 116:19 117:4 126:4 174:23 231:19 see 31:10,12 39:7 62:10,25 69:11 72:4,7 77:17 78:17,23 79:5 83:25 84:9 85:2 89:8 89:11 129:2 130:17 147:13 151:1 154:6,25 160:8 161:15 163:23 164:25 167:5 169:3 170:21 198:24 221:9 224:5 225:13 226:18 232:24 239:8 seek 78:9 182:21 212:25 seeking 7:6 9:5 15:4 107:13,13 109:13,19,20 110:7,7,11 112:8 126:21 210:4 213:2 seeks 11:17 seen 175:17 198:1,20 199:23 213:7 233:6 select 34:7 selected 33:16 33:24 52:20
Robert 50:22 53:22 54:17 104:25 118:17				
Robertson 25:10 142:2,5,9 143:9,10,18 155:19 157:22 161:24 186:20 220:7,22 221:12 242:11 244:12,13				
Robertson's 220:10				
Rocky 128:9				
role 107:3	routine 48:5,7,9 48:11 50:3,8			
roll 116:18	routinely 50:2,6			
Roman 102:19 103:5	Ruger 31:25			
room 229:11	rules 172:13,22 173:2,11			
root 14:19	run 9:20 64:22 138:2 157:15 240:4			
ROR 169:16,17 169:21 170:18	running 7:16 176:25 210:25			
Ross 100:20,25	Russo 37:22 39:7 40:6,14 71:20 73:4 217:5,7,11,12 217:21 218:19 219:8,10 223:3 235:21 238:8 240:1 241:10 243:2 245:9,10			
Roth 39:19 196:5,7,11,12 196:18 197:10 197:11,11,12 197:21 203:17 209:22 217:1 242:22 245:6,7				
Roth's 35:4,6				
roughly 228:15				
round 5:15,15 5:18 10:7 21:7 42:24 45:23 46:1,6,11,13 46:17 47:10,20 47:22,24 48:2 48:8 50:3,25 51:3,4,11 85:12,14,16,17 85:18,25 86:9	Russo's 73:2,10 130:15			
	S			
	S 2:1 3:1			
	S-A-R-V-E-R 194:13			
	S&P's 164:2			

56:7	149:10,23	65:24 72:3,10	7:15 176:23	92:19
self-employed	150:2 174:19	72:11,13 73:14	shot 212:9	sir 39:1 62:3
217:13,15	184:20 187:3,3	92:17,18 93:16	should've 40:22	90:17 92:2
self-titled 204:9	187:12 193:11	111:25 112:1	166:6	111:13,20,23
sell 31:20 117:5	200:23 209:10	117:25 118:4,6	show 30:6 62:8	112:10,23
119:17,19	225:7,11,22	118:21 119:18	76:16 79:2	114:13,14,20
123:12	227:23,23	120:3,8 131:25	91:10 182:15	114:25 115:3,8
Selma 118:5	229:1 230:8,16	138:11,24	190:6 208:3	115:16 118:2
send 59:7	242:8 244:9	139:4,11 150:9	209:2,8 212:15	118:13,18,23
219:21	services 36:12	155:6,20 156:5	212:20 241:12	119:5,6,9
Senior 1:13 2:7	58:14 61:4,6,9	156:6 164:3	showed 54:8	120:5,10,17
sense 27:25	62:23 93:18	169:18,20,25	showing 145:8	121:2,12,20
116:24	200:12	170:3,7,13,16	shown 144:25	122:1,7,21
sent 168:8,15	session 83:1,14	171:25 172:8	shows 78:9	123:1,13,24
sentence 43:20	set 3:4 14:7	175:11,21	86:16 144:21	124:19,22
43:22 130:15	16:15 33:24	181:4,15	148:19 154:3,4	125:12,18
152:25 221:11	40:17 41:5	182:18 190:1	158:15 187:16	128:8,14 131:7
221:19	53:7,18 57:11	190:11,19,23	198:20 225:3	131:10 133:13
sentiments 30:6	129:14 143:23	190:24 198:5	shut 68:4 86:11	136:20 141:6
separate 138:21	146:21 165:3	198:12 200:8	sic 72:13 109:21	184:17 187:7
181:2 219:11	166:14,16	200:20,24	169:23 208:19	225:24 227:4
separately	179:20 210:17	203:10 221:17	side 6:20 42:5	230:20 232:10
138:19	228:19,25	221:21 224:24	174:14 238:10	233:23 234:15
September 9:6	230:18 233:13	Shana 24:16	sign 58:19 90:17	sit 142:4 158:24
36:14 98:18	235:1,5,9	162:1,3,7,21	signature 88:20	situation 7:11
168:20 170:5	236:3,6 237:1	163:7 242:15	signed 58:17	8:6 12:21
215:5,8	239:11 240:14	244:15,16	significance	14:18,19 16:21
serious 25:18	240:23	shape 32:5	168:2 233:21	17:4,7,9,16
29:23	sets 33:8 40:16	58:12	significant 8:18	132:4 172:3
seriously 167:24	72:16 114:12	share 36:7	25:1 95:19	174:1,13,25
served 8:23	setting 10:9 14:1	shareholders	167:20 168:4	175:1 180:17
67:25	233:15 235:7	50:17 53:15	169:2,11 182:5	situations 13:21
serves 59:23	seven 125:4	55:11,13,19,23	233:23 238:16	172:1 174:4
service 1:1 2:8	188:8,10,13	shares 5:12,14	significantly	175:18
2:10 8:8,14	seventy-nine	30:5 46:20,23	18:13 32:16	six 61:6 125:4
10:25 15:22,24	227:13	47:12,15 79:15	silence 4:3	six-figure 87:6
22:23 26:25	sewer 5:9,23 8:2	85:13	similar 5:25	six-something
27:8 30:2,18	8:11,13,25 9:2	sharing 125:6	13:2 16:22,25	232:12
36:21 61:5	9:5 12:25	shifted 227:14	23:18 72:20	size 72:20
67:1 73:14	14:20 19:20	ships 12:17	112:16 235:12	117:10
92:23 98:25	20:11 26:25	shock 25:16,17	similarly 177:14	small 5:10,22
99:7 130:22	29:11 30:14,18	41:11 223:8	simple 237:2	8:13,24,25 9:5
131:3 134:18	30:20,21 34:15	short 14:11	simply 34:1	32:13 38:14
135:23 137:10	35:13 38:14,18	91:21 195:25	154:19 167:10	41:17 51:21
144:7 148:6,9	42:1,7 62:8	shortcomings	single 31:18	60:21 62:7

64:19 65:24	sought 11:16	splits 106:17	126:17 130:4	244:9,10,11,13
66:9 73:3,7,12	30:12 64:6	spoke 52:22 64:4	136:22 137:24	244:14,16,17
73:17 76:4	74:9,12	sponsoring	138:14 139:10	244:19,20,22
80:4 94:14	sound 29:24	141:11	139:11,14	244:23,25
117:9 118:4	52:17 94:17	spread 95:10	140:2,8,11,13	245:1,2
130:7,17,23,25	sounds 52:19	spring 47:17	140:16,19,20	staff's 11:25
131:25 132:4,8	74:1,4,14,21	square 52:15	140:21 141:21	17:18 20:6,21
132:12,13	88:19 89:21	SR 139:4	142:1 143:7,8	23:19 26:5,10
164:3 169:18	190:16	St 10:13 16:23	143:10,13	40:9 69:24
169:20,25	sources 114:18	74:2	148:18,23	71:12 103:19
170:3,7,12,16	space 52:10	stability 174:11	149:3,23	111:1 123:17
171:25 172:8	speak 124:8	stable 95:2	150:13,15,23	136:21 137:21
174:4 175:7,10	231:2	117:9	151:22,25	144:19 147:15
175:21 181:15	specialized 96:1	staff 2:7,7,10	152:2,3,22	150:21 152:6
182:18 190:1	species 119:21	3:16,18,20	153:7,25 155:5	163:7 164:14
190:11,18,24	specific 28:23	7:11,12,19 9:8	156:9,23	168:2,6,17
203:5	42:5 63:7,8	9:9 12:10,16	157:20 159:8	169:16 182:13
smaller 181:4	64:24 65:4	12:18,22 13:17	161:25 162:10	186:7,7,8,11
Smithview	75:22 207:17	14:4,9 15:14	163:9,12	187:25 188:4
112:24 127:4	210:8,14,22	19:15,17,23	164:17 165:9	188:21,25
social 67:18	specifically	20:12,16,24	165:15 167:19	195:6,10 204:4
software 59:10	21:21 64:1,17	21:9,10,12,17	167:23 168:2,3	219:19 232:12
59:12,24	73:1 87:12	21:25 22:4,6,9	168:8,20	234:17 240:3
129:18	96:24 108:20	22:11,16,17	169:16,17,25	stage 158:2
Sohitiz 63:24	168:4 179:3,10	23:1,14,16,24	170:16 176:10	stages 26:11
solely 111:19	206:24 210:9	24:3,7,13,16	176:15,19,21	stance 26:4
solicit 84:13	211:5 212:11	24:17,24 25:5	177:2,25	stand 20:17
solutions 134:5	specify 211:1	25:8,10,15	181:24 182:4	55:19 57:10
somebody 32:6	spectrum 26:2	26:3,17,21,24	183:4,11,15	93:10 103:7
231:22	speculation	27:1,6,6,16	184:7 186:6,13	136:23 142:2
somewhat 48:3	173:14 181:9	28:16 30:3	188:14 189:1,4	162:1 180:15
sorry 16:11 46:9	spell 137:3 142:7	35:1 37:11	189:7 191:21	184:8 194:7
49:8,13 61:25	162:5 184:17	38:1 39:11	192:4 193:6,9	196:5 217:5
68:16 69:12	spend 95:14	40:11,13 41:24	193:13,19	standalone
70:12 79:3	118:8	67:10,12,20,23	194:1,6 195:5	191:1,4
85:6 93:13,20	spending 20:10	71:4,8 91:25	195:12 198:2	standard 34:6
95:7 100:23	spends 35:22	99:4,6,12,13	201:19 203:14	34:11 36:19,25
118:19 144:3	spent 7:13 10:3	101:3 102:13	203:20 204:11	57:4 150:11
146:8,25	36:1 39:4	103:24 104:2,5	204:20 212:4	223:3
156:17 168:19	72:19 133:11	104:7 105:7	215:15 219:5	standards 21:13
178:2 187:11	135:6 136:3,4	108:16,19	219:22,25	234:3,11
200:14 205:25	176:21 193:14	110:5 111:4,5	224:4,13	start 4:24 15:21
222:11 227:6	206:11 209:5,6	111:8 114:3	230:15 233:10	23:24 65:18,20
230:9	210:12,15,17	116:10 121:21	234:25 238:5	65:21,23 100:4
sort 18:15 57:24	213:2	123:21 124:1,8	240:17 242:8	100:8,14,19,24

101:1,5,12	175:19 179:23	85:7,9 86:9,25	164:15,18,19	sudden 227:11
105:7 106:19	182:10 184:14	89:17,23 90:1	164:22 165:1,2	suddenly 25:17
107:15 108:14	190:19 194:11	90:11,21 93:22	165:4,8,18	sufficient 13:5
108:25 109:9	194:14 196:9	93:22,24 94:5	177:11,15	14:10 179:21
109:11,16,17	198:8,11 199:4	98:24 100:24	180:8 182:3,6	180:19
109:21 110:22	199:12 217:9	101:14 104:11	183:1,2,4,7,16	suggest 179:25
113:24 118:15	246:4	104:15 107:22	183:17,23	200:3 208:1
123:2,3 126:6	State's 5:21	109:21 110:12	191:11 221:17	suggesting 210:5
165:21,21,22	stated 20:5 21:6	125:9 169:15	221:21,22	suggestion 17:18
165:23,24	22:18 25:21	221:15,20	232:5 238:9	suggests 10:10
167:16 168:18	36:19 37:12	233:7,7	structured	sum 9:15 161:9
205:25 226:5,6	60:1 92:5	stating 168:9	226:25	166:9
236:19	107:12 109:19	201:20	struggle 33:6	summary
started 5:24	110:7 121:16	statute 29:8 42:3	study 10:13	224:24
51:20 83:18	121:25 126:24	statutes 172:13	148:6,10	summer 68:10
87:18 112:24	156:22 167:23	172:22 173:2	149:10,23	86:12
123:25 124:20	178:21 179:10	173:10 201:24	stuff 129:22	supervider
starting 32:13	182:3 190:5	213:22 214:8	136:7,10	72:13
64:16 147:13	204:14 210:23	staying 44:1	193:18 228:24	supervise 48:18
152:21 167:5	213:4 220:21	64:15 66:2	230:22	supervisor 47:25
171:20 193:3	statement 5:4	144:16 150:17	Subari 74:19	support 10:6
221:10,12	71:17 131:23	step 93:20	subdivision	39:10
starts 147:25	143:25 145:10	136:20 161:23	62:22	supported 22:18
153:24 155:4	148:7 149:6	184:5 194:4	subject 5:10 6:6	supporting 39:8
169:14 171:1	150:25 157:8	195:20 217:2	173:10 174:12	supposed 41:3
192:2 221:19	167:7 171:5	241:10	180:10 201:15	103:3 109:13
221:25	176:5,7,9	Stinger 128:9	subjective 29:25	surcharges
state 1:2 8:16	197:22 199:16	stip 99:18	submission 9:5	233:12
27:3 31:6	200:2 231:13	stipulated 65:10	submit 157:14	sure 41:16 47:2
42:20 62:6	234:4 239:2	stipulation 28:2	201:21	55:22 58:7,15
63:9 66:9	242:3	28:5,8,14	submitted 121:5	79:4 90:22
67:10,24 71:4	statements 4:24	151:4	145:12 146:3	115:7 117:1,6
71:6 72:2 73:2	5:3 30:6 37:25	stop 165:1	158:14 201:19	129:10 145:3
73:7,19 94:15	76:18 230:20	Stover 217:20	submitting	149:1 152:5,9
96:8,19 100:2	states 5:16 8:20	strata 25:20	123:25	153:18 167:1
103:2 113:6	21:4 45:20,22	Street 2:8,12	subordinate	169:8 170:15
120:15 129:10	46:16,21 47:16	Strickland 70:15	109:17	195:24 206:5
132:7 134:9	50:18 51:10,15	70:16	subsequently	211:12 212:8
137:3,7 142:7	51:17 52:8	strictly 27:6	9:7	213:5 218:5
142:11 143:22	53:20 54:18	110:6,19,21	subsidiary	220:12 223:10
150:12 162:5	55:11,18 56:1	structure 5:25	111:19,22	224:25 229:12
165:11 168:1	58:11 61:18	11:21,22 21:6	subsidized 72:22	240:20
168:13 169:18	63:12,17 73:24	24:19,20,22	subtotal 230:22	surprise 121:22
169:20 170:1	75:11,14 80:11	25:5,9 37:23	successful 169:2	202:13
170:13,17	83:17 84:7	40:15 164:14	169:11	surprised 125:8

125:12 168:3 suspected 119:21 Swearengen 2:3 Swiss 54:2,4,10 switch 232:25 233:1 sworn 30:3 42:16 136:24 142:3 162:2 184:9 194:8 196:6 217:6 246:6 system 6:23 7:2 7:7 13:15 31:5 31:12 32:5 38:18 40:23 57:1,3 62:13 62:16,16,22 63:1,1 64:22 66:15 95:20,22 106:23 109:15 112:3,16 113:1 113:1,5,6,18 114:8 120:12 122:13 144:2,5 150:12 172:8 181:4 239:20 systems 5:10,23 6:6,8,9,11,12 6:14,16,18,25 7:25 8:3,11,13 8:24 10:24 12:25 13:12,18 13:19 14:21 19:21,23 22:5 27:4 38:19 51:21 60:22 62:8 66:11 67:1,3 73:4 80:5 94:14 107:23 111:25 112:1,13,22 113:10,11,13 117:8,10 120:8	124:16 132:8,9 132:11 134:8,8 134:9,15,18,18 134:20,20 135:21 156:6 170:8 177:8 190:1,25 191:7 191:8 200:9,9 211:19 221:20 221:21 <hr/> T <hr/> tab 230:11 table 94:20,22 tables 4:11 135:2 take 25:1 37:12 41:1 56:23,25 65:14 73:1 76:4 77:16 87:12 91:21 93:20 112:25 113:4 115:9 116:13 117:12 121:11 123:3,5 123:8,19 130:12 138:25 151:23 153:19 156:25 160:24 170:2 187:20 191:18 195:25 198:15 212:9 224:5 229:17 230:18 232:6 236:11 takeaway 119:7 taken 11:1 12:18 19:1 27:8 37:17 80:9 89:24 246:6,10 takes 7:19 24:20 95:25 122:20 122:25 177:2 talk 6:4 167:3 187:9	talked 17:11 123:16,21 156:18 talking 65:16,18 66:5 80:16 101:11 106:15 122:23 123:15 125:13 144:19 147:14 150:6 150:20 156:13 157:8 172:12 192:23 211:4,5 221:23 229:6 tangible 38:13 targets 133:5 tariff 153:2,5,8 153:12,16 tariffs 95:24 tasks 7:18 177:1 tax 10:20,21 11:1,7,9,10 15:3,8,13,25 16:7 17:2,21 17:25 20:22 23:2,8,19 24:3 36:6,10,13 98:7,16,17 99:5,19 137:20 137:20 154:1 160:13 213:9 215:19 taxes 20:22 22:17 28:21 120:22,24 121:10 213:8 215:21 239:12 technically 97:21 183:22 technique 98:24 technologies 136:6 technology 134:5 tell 16:7,20 92:14 93:3	96:24 97:17,24 98:14 101:8 102:9 104:10 105:11 125:2 128:7 157:25 158:9,12,20 182:5 210:9 temporary 7:1 tender 45:11 139:24 143:2 163:5,14 197:17 218:25 tenders 186:13 195:12 tentatively 75:9 tenure 30:11 term 14:11 22:21 36:20 79:18 98:21 152:9 154:2 163:22 188:20 terms 6:6 52:14 57:4,23 63:5 64:5 116:8,13 117:11 122:2 128:15 179:2 179:11,12 222:16 229:14 234:9 Terre 66:16 202:7,15 test 15:7,16 16:14 23:10,17 23:25 32:17 37:3,5 68:19 97:15,17,19,25 98:1,3 99:21 207:23 214:2 testified 32:12 42:18 79:6 85:1 137:1 142:5 155:22 162:3 184:10 194:9 196:7 217:7	testify 178:4 testifying 186:20 testimonies 196:25 testimony 5:20 8:20 9:9 11:5 19:19 20:16 21:2,11 22:17 23:15 24:17 25:11 30:3 35:6 39:6,8 43:5,7,13,17 44:2,9,10,12 44:13 58:23 61:21 64:16 66:3,8 67:4,7 68:25 69:2,4 73:19,20 76:25 92:11 96:6 99:25 114:17 120:21,23 121:16,17 130:10 136:20 137:12,15,18 138:18 139:19 139:21 140:2 141:10,25 142:14,18,21 142:24 143:6 143:19 145:13 145:21 147:8 152:19 153:20 155:2,24 156:9 157:13,24 160:6,16 161:14 162:12 162:12,13,16 162:17 163:2,7 163:8,20 164:24 167:3 171:21 173:23 175:16 178:14 179:24 180:11 183:25 185:5,8 185:13,17
--	--	--	---	--

189:10,23	171:14 181:25	129:2,9,25	98:21	208:21 209:5,6
190:15 193:2	182:9 184:4	132:20 133:1	tie 185:21	210:14,15,22
194:18,21	189:16 192:17	136:8 151:9	tied 110:19	211:1,3,9,17
195:2 196:19	192:23 194:3,5	156:13 171:20	TIGER 1:19	211:22 212:2
196:20 197:21	195:20 197:16	173:7,8 174:3	time 3:4 4:19,20	212:11,14,15
197:22 198:3,4	203:15 209:21	177:19 178:4	7:14,25 9:23	212:18 214:3
198:22 199:5	209:22 213:13	179:23 180:11	10:2 19:22	221:4 222:2
199:11,14,17	215:10,16	180:17,18	23:7,23 24:7	230:2 233:13
200:1 201:5	217:1,3 219:6	181:3,13	26:14,15 35:19	233:16 239:19
207:13 209:14	219:14 220:15	186:18,23	35:22 36:1	timeframes
212:25 217:22	221:2 222:6	188:23 193:1	41:15 43:13	68:23 70:6
217:22 218:1,1	224:15 233:24	198:4,11 199:4	51:23 54:10	timely 168:4,14
218:4,10,18	235:15 238:6	199:14 205:4	58:13,15 68:23	times 205:5
219:15 220:21	241:9	211:21 213:4	69:13,25 76:4	timesheet 22:6
221:6,10,15	thankful 31:11	213:24 214:1	77:25 80:17	35:23 205:17
224:23 226:25	Thanks 184:6	221:11 226:7	86:8 88:25	210:17,21
231:9 241:2,10	214:14	227:4 230:5,6	89:1 90:1	212:13,20
241:11 244:4,6	thereto 246:12	231:4,7,25	91:19 94:20,22	215:24 244:7
244:10,12,13	they'd 124:6	234:7,22	94:25 95:9,14	timesheets 22:7
244:15,16,18	228:20	236:12 237:6	98:25 100:18	118:14 124:1,2
244:19,21,22	thing 28:13 75:4	239:17 240:16	103:15 107:23	133:2,19 199:5
245:6,7,9,10	91:2,9 123:11	240:20	109:23 115:19	199:6,8,15,20
246:5,6	125:17 129:13	thinks 61:8	117:17,19,22	199:23 205:24
text 171:21	133:3 190:17	third 59:9 154:4	118:8,10	206:3 207:22
Thank 3:13,22	202:7 214:5	third-party 61:5	124:13 125:16	212:4
4:13 5:6 19:12	235:5,12	164:21 178:20	125:24 131:8	title 33:16,21,24
19:14 27:9	things 41:8 68:2	183:20	133:11,20	34:3,7,9 52:20
29:2,3,15,17	103:4 151:24	Thomas 52:5	134:15,17	52:23,24 53:1
38:14 39:24	173:22 176:8	thought 61:9	135:5,22 136:3	53:6 56:7,10
41:21 42:11	178:10,12	121:25 122:18	136:4,7,11,22	128:20 194:14
49:17 62:3	191:16 233:11	122:24 131:12	138:18 142:18	200:2 204:3,8
69:8,11 75:6	233:13	186:18 226:20	156:15,21	204:13 216:18
92:3 93:3,19	think 6:11 12:9	226:21,24	160:17,24	titled 89:23
94:2,8,19,25	12:13 16:16,18	thousand 17:11	162:16 163:6	204:7
95:24 97:8,14	17:8,15 28:15	225:18	163:14 168:14	titles 34:21,25
98:6 99:4,24	39:22 40:14	three 10:6,14	168:15 176:22	38:10 203:21
101:4 105:6,16	41:12 47:1	13:12 21:14	184:7 185:20	204:4 205:17
107:3 108:15	55:21 59:25	22:1 112:1	186:6,13	210:23
109:2 110:24	68:1 69:9	151:1,10	193:13 194:6	TMN 56:13
125:18 127:25	70:15 71:6,6	152:22,24	194:21 195:5	today 3:3,10 5:9
128:3 132:17	71:11 72:14	153:3,15 191:8	199:13 202:4	5:17 6:7 19:18
137:11 138:12	73:6 76:13,14	191:9 200:7	202:11,22	19:24 20:7,20
141:22 142:13	76:15,21 83:25	three-stage	203:3 204:15	38:4 45:2
151:15 159:7	95:4 115:16	228:18	205:20,23	58:23 130:2
160:15 161:22	117:6 123:9	thrown 71:1	206:11 207:15	139:19 162:24

185:11,23 194:25 197:2 199:9 207:11 207:13 227:25 228:19 231:3 234:21 told 32:2 121:3 174:3 181:13 Tom 100:21,25 ton 91:1 122:14 tone 119:17 top 19:10 29:13 42:6 44:2 69:11,12,12 77:10 79:4 114:22 133:25 139:1 170:25 221:5 222:1 topic 234:2 total 30:20 121:4,19 123:20 127:17 197:24 198:15 198:23 209:18 209:19 216:5,6 216:10,11 221:11 226:17 226:24 230:7 230:16 totaling 84:17 totally 124:15 tough 14:18 125:17 222:7 tower 121:8 track 13:5 123:22 128:23 137:24 138:1,2 138:10,13 245:1,3 tracker 17:6 tracker-type 17:5 trade 109:6 traded 181:14 181:17,18	traditional 25:25 26:5 116:11 134:11 136:5 147:15 147:19 166:8 189:5 Traditionally 166:8 transaction 33:18 transactions 39:18 TRANSCRIPT 1:4 transcripts 241:19 transfer 113:15 129:7,11,22 translate 129:15 transparency 29:21 30:7 165:12 transparent 32:22 38:3 treat 186:3 234:13 treated 179:24 206:18 treatment 6:20 13:20 16:24 tremendous 41:11 tried 63:18 80:10 troubled 62:7 120:3,8 191:7 true 6:19 33:18 45:5 46:19 54:3 69:20 85:20 91:15 96:1 107:14 116:19 117:7 139:21 142:24 163:2 178:13 179:12 183:21	185:13 195:2 236:10 true-up 17:3 truly 172:2 176:8 177:18 Trumpet 51:25 77:23 78:2,5 78:23 124:20 trust 29:21 165:16 trustee 90:9 try 32:7 60:21 64:11 115:12 129:1,3 173:7 179:4 210:19 210:20 235:24 trying 40:5 51:13,20 64:13 69:22 71:13 80:4 88:1 107:18,21 128:10 134:10 206:5 211:24 237:5 Tuesday 241:20 turn 44:18 61:20 65:8 66:7 67:6 68:15 69:3 71:3 72:1,25 73:19 77:7 78:7 84:24 86:13 87:8 89:5 130:10 143:20 145:25 146:13 147:7 150:18 152:18 163:19 167:2 189:9 turning 122:21 155:1 164:23 167:18 168:24 169:13 Twitter 67:21,24 two 6:1,5 12:17 13:18 17:10,11	26:2,3,11 27:3 32:20 34:2 51:9 53:11,14 53:14,15,19 55:10,13 65:2 72:13 93:16 98:17 99:21 104:13 112:23 113:8,9,10 119:3,5 120:11 127:23 135:21 136:1 140:19 145:4 180:22 191:9 200:9 207:24 type 70:25 151:24 229:13 233:5 types 212:2 typewriting 246:7 typical 170:11 170:15 193:19 typically 35:1,16 <hr/> U <hr/> Uh-huh 206:23 215:11 ultimate 50:21 50:22 unable 76:19 201:21 unaudited 70:9 70:21 unavailable 23:22 uncertain 63:4 uncollected 151:1 Uncollectible 151:13 unconnected 12:11 under-served 41:7	understand 15:10 20:1 40:5 70:11 75:23 84:25 102:24 110:4 116:23 119:9 151:8 165:7 177:10 211:12 223:5 224:25 229:19,20 231:4 232:19 235:22 239:10 understanding 17:17 38:5,17 38:21 39:9 40:9 43:7 52:3 52:4 71:8,16 71:18,23 95:19 95:24 96:1 112:7 124:10 124:11 131:5,9 143:25 144:10 148:17 150:22 150:24 152:6 152:10 168:17 187:25 188:4 190:12 212:24 215:9 234:25 understands 14:17 understood 20:5 74:5 119:15 undertaken 31:1 unfair 15:11 unfamiliar 159:13 unfortunate 40:24 unfortunately 8:9,17 41:13 uniform 95:20 239:20 unit 162:20 United 73:24 75:11,13 125:9
--	--	---	---	---

units 101:10 107:5	36:2 37:22 59:21 124:6	14:11 16:22 18:22 19:20	233:12 235:25 242:2 244:3	view 71:14 133:4
unopposed 92:6	149:9 158:14	20:1 21:24	utility's 22:23 36:21 130:25	views 164:17 182:4 183:4
unpaid 116:17	159:3 161:7	30:21 31:1	174:24	Village 113:7
unrealistic 15:11 15:12	164:2,4,22 178:1,7,8,11	32:15,25 33:1 33:2,23 34:2,7	utilize 16:17 170:16	118:5 202:24 203:3,5
unrealistically 131:1	185:20 187:6 200:2 208:19	34:10 35:24 38:14 42:3	utilized 10:9 56:13 202:8	violated 100:7 violation 23:9
unreasonable 11:3 31:25	208:25 209:4 214:19 215:1,4	43:1 46:14,15 52:6 55:14	utilizes 59:13,16 utilizing 40:9	172:12 173:10 201:24
unregulated 59:2 94:15 113:6	222:20 230:12 232:22	57:2,4,5 59:11 59:20 60:3		violations 172:22 173:2
unrelated 117:25 118:2	uses 21:14 59:9 223:18	64:19 65:7,14 65:15 66:17	V	virtually 167:15 vis-a-vis 232:5
unsecured 74:13	USOA's 239:20	67:11 72:20 73:3,12 76:20	vaguely 199:25 variables 223:9	volume 1:8 80:22 145:18
update 21:25 22:9,12 23:3,8	usually 166:12 166:14 170:20	94:10 95:1,9 95:21,25 96:3	variety 114:18 222:19 233:12	157:11 187:16 223:13
23:17,21,25	utilities 6:2,5 8:24 11:13	96:22 98:5 108:13 109:24	various 5:19 13:17 170:17	volumes 14:3
32:17 35:10	34:15 35:13 46:2,7,12 62:8	110:22 111:15 111:16,17,18	vary 223:16 vast 26:24	volumetric 14:1 37:19 40:17,17
37:5 69:18,21	63:9 66:9,14 66:16 67:4	112:2,4,9,23 112:24 113:3	vendors 33:1 Venture 65:24	144:23 145:9 157:24 158:1
97:18,21	73:7,14 76:20 95:13,16 113:6	113:24 114:7 117:19 118:12	113:25 118:16 126:6	158:11 222:14 222:16 224:13
160:13 188:9	116:19,21 117:15 118:18	123:2,12 128:24 129:19	Ventures 65:18 65:20,21	228:9 232:6 240:22
207:23 214:2	120:11,15 126:21,24	130:17,23,24 137:9 138:24	veracity 76:17 verifiably	vote 97:4
updates 22:15 137:17,19,24 139:17	127:8 129:9 132:4,12 134:4	142:12,12 162:9 169:10	166:17 verified 183:19	W
updating 23:8 99:7	136:2,9,10 169:25 170:13	172:12 173:10 174:4,5,12,15	verify 70:21 127:16	wait 4:23 waiting 152:22
upgrades 55:14	170:16 175:19 175:21 179:5,7	174:18,20 175:2 176:22	version 77:10 149:10 185:17	walk 224:22 Walter 52:5
upheld 22:19	182:10 191:1 191:13 201:12	176:25 177:5 181:4,14	189:14 192:11 versus 39:13	want 9:18 12:7 14:20,21 34:8
upset 29:25	211:6,10 212:13	182:10,18,20 182:22 185:1	132:5 144:22 145:9,18	49:4 108:5 115:9 120:6
upside 69:16 169:1,10	utility 1:10 2:5 3:6,12,14 5:5,8	190:11 191:4 194:15 196:17	154:13 161:12 169:9 187:17	123:22 133:5 133:20 143:3
usage 69:6 70:1 70:4,9,11,17	5:13 6:2,3 7:14 7:16,22 11:12	200:8 202:5,11 203:21 211:1	240:22,23 viable 14:11	161:5,6 224:24 226:21 227:10
70:18,23 92:25	11:13 13:13,15	216:6 218:8	58:5,9	227:13 230:25 231:2 235:4
150:8 154:14				
223:16,20				
225:17,19				
226:6 227:8,17				
228:5,6 229:7				
229:9 232:24				
240:3,18				
use 9:21 34:20				

wanted 9:14 12:14 68:4 121:4 127:16 176:19 182:15	83:17 84:7 85:7,9 86:9 89:17,24 90:1 90:11 92:21,23 93:16,22,22,24 94:5,14 100:24 101:14 104:11	175:14 198:2 205:15 206:16 210:17 224:11 226:25 227:8 234:9 240:16 240:25 241:5	welcome 39:25 41:22 42:12 189:17	9:10 20:16 21:10 22:16 23:14 24:16 25:10 37:22 39:16,22 42:14 42:16 45:11 48:19 56:4 62:3 74:23 76:17,25 91:19 92:2 108:5,8 111:7 116:3,5 132:17 136:22 136:24 138:5 139:25 141:1,8 142:1,3 143:2 151:25 152:2,3 155:15 156:23 159:9 161:25 162:2 163:5,15 171:16 172:17 172:23 173:4,5 173:16 181:11 184:6,9 186:14 187:8,11 192:17,19,24 193:23 194:5,8 195:12 196:6 197:17 212:7,9 217:3,5,6 218:25 220:15 220:17 241:11 246:4,6
wanting 27:6 140:2 235:21	104:15 107:22 109:21 110:12 111:25 112:3 113:1 117:9,25 118:21 119:20 119:22 120:3,8 131:25 138:11 138:11,24 139:2,2,9 150:7,9 155:6 155:20,23 156:4,6 164:3 169:18,20,25 170:3,7,13,16 171:25 172:8 175:11,21 181:4,15 182:18 190:1 190:11,19,23 190:24 198:9 198:12 200:9 200:20,24 202:18,22 203:10 204:2 221:14,16,20 223:14,19 224:24 225:5,8 232:13,22,24 238:10	we'll 4:15,25 80:19 103:24 123:7 125:20 158:17 165:1 195:25	went 56:11,11 60:20 61:6,8 73:8 89:9 114:18 122:13 128:11,25 129:3 130:6 165:23 166:1 166:21 205:16 205:23 207:9 212:16 216:1 226:13 227:9 227:16	were 12:13 41:3 119:19 176:13
wants 60:1 74:25	we're 5:3 15:15 17:9,12,12,14 31:22 59:19 60:13 64:19 65:18 70:5 71:3 75:2 91:25 112:17 113:7,14,20 123:25 125:22 129:12 132:20 134:18,20,22 136:21 139:6 144:19 146:9 147:14 150:6 150:18,20 187:21 189:21 191:14,19 193:1,2,15 233:22 241:24	weren't 12:13 41:3 119:19 176:13	Westen 2:7 3:19 3:19 184:7,11 186:6,13 189:11,16 192:18,21 194:2,6,10 195:5,12,22 203:15,16 209:20 215:16 242:18,20,24	Westen 2:7 3:19 3:19 184:7,11 186:6,13 189:11,16 192:18,21 194:2,6,10 195:5,12,22 203:15,16 209:20 215:16 242:18,20,24
wasn't 89:18 90:7 115:12 130:8 204:18 234:20	water 1:10 3:5 5:9,16,22 7:1 7:24 8:1,11,13 8:15,25 9:1,5 10:24 12:25 14:2,3,20 19:20 20:11 21:4 26:25 27:3 29:11 30:13,18,19,20 31:12,21 34:15 35:13 38:14,18 42:1,7 45:20 45:22 46:16,21 47:16 50:18 51:10,15,17,19 51:21,24 52:8 53:20 54:18 55:11,18 56:1 58:11 60:19,22 61:18,24 62:7 63:12,17 65:24 66:11,14,16 69:6 70:17 72:3,10,11,12 79:8,13,20,25 80:3,5,7,11	we've 91:20 112:15,18,24 123:24,24 141:15 153:9 233:11,12	whatsoever 207:15	Whitney 2:7 3:17 19:17
waste 66:18	water/sewer 175:7	website 28:20	whatsoever 207:15	Whitney 2:7 3:17 19:17
wastewater 6:20 6:20 7:24 10:24 51:21 80:5 94:14 117:10	way 14:5 16:18 29:25 39:11 40:16 71:13 95:6 112:14 129:16 135:13 154:25 165:2,3 173:8 174:17	weeks 155:22 178:4	wholeheartedly 19:23	witnesses 4:15 4:17 21:9 136:21 196:3
water 1:10 3:5 5:9,16,22 7:1 7:24 8:1,11,13 8:15,25 9:1,5 10:24 12:25 14:2,3,20 19:20 20:11 21:4 26:25 27:3 29:11 30:13,18,19,20 31:12,21 34:15 35:13 38:14,18 42:1,7 45:20 45:22 46:16,21 47:16 50:18 51:10,15,17,19 51:21,24 52:8 53:20 54:18 55:11,18 56:1 58:11 60:19,22 61:18,24 62:7 63:12,17 65:24 66:11,14,16 69:6 70:17 72:3,10,11,12 79:8,13,20,25 80:3,5,7,11	weight 10:12 181:1	wholly 46:13,14 104:24 111:21 167:11	WO-2014-0340 6:15 176:11	
water/sewer 6:20 6:20 7:24 10:24 51:21 80:5 94:14 117:10	weight 40:17 76:18	wider 95:10	wife 73:23 74:16 78:12	wonder 32:23
wastewater 6:20 6:20 7:24 10:24 51:21 80:5 94:14 117:10	weighted 24:13 236:11	wish 12:13	WILLIAM 1:14	word 43:21 58:9 218:5
wastewater 6:20 6:20 7:24 10:24 51:21 80:5 94:14 117:10	weighting 155:7	wishes 8:21	winter 47:17	worded 211:14
wastewater 6:20 6:20 7:24 10:24 51:21 80:5 94:14 117:10		witness 5:17	wish 12:13	words 29:24 222:2
wastewater 6:20 6:20 7:24 10:24 51:21 80:5 94:14 117:10			wishes 8:21	work 11:17,18 11:19 17:7,8
wastewater 6:20 6:20 7:24 10:24 51:21 80:5 94:14 117:10			witness 5:17	

17:15,21,22 20:25 22:1 36:1 46:2 57:20,23 58:24 59:2 68:22 84:13 88:2 94:22 96:20 106:23 118:6 121:8 122:14 123:10 134:10 134:14,16 135:9,25 145:11,14 146:4 154:21 155:19 157:23 158:1,13,16 177:21 185:19 190:20 198:1 198:20 204:5 212:12 216:2 227:7 230:5	46:23 52:12,16 64:10 68:7,12 68:13 69:25 74:16 79:24 84:16,17 86:7 89:1 148:11 150:3 227:9 237:15 wouldn't 17:3 18:14 65:1 156:19 200:6 wound 188:17 WR-2016-0064 1:10 3:7 wrap 117:12 written 102:22 212:24 226:25 wrong 161:13 230:10 wroth 237:13	98:3,3,18 99:20,21 118:9 122:18 125:4 127:5 135:16 202:14 207:23 213:11,11,17 214:2 215:4,6 227:1,1,21 228:1,7,8,12 228:13,14,20 228:21,23 229:2,8 230:17 235:1 236:5,16 236:23 237:6,7 237:11,16,18 237:22 year's 21:23 237:12 yearly 33:25 53:7 57:14 years 7:17 11:2 13:1 16:22 25:4 53:11 77:19 78:1 124:24,25 125:9,11 127:9 135:14 176:25 187:24 233:5 Yep 191:24	006 218:18 245:10 007 48:24,25 49:20 50:14 245:11 008 75:7,10,20 76:9 77:4 245:13 009 75:7,13,21 76:9 77:4,11 245:14	221:12,14 237:6 10.13 44:20 177:12,23 10.2 102:15 10.49 35:20 36:3 199:1 205:6 206:2 207:18 207:20 208:20 209:9 210:5 10.68 236:13 10.69 236:13 100 72:21 93:15 113:19 164:18 182:4 202:3,10 203:2 100-percent 113:21 179:25 182:6 183:5 201:1 202:21 100,000 236:3 102 30:23 104 244:23 105.42 230:18 108 40:6,18 1081 1:18 10NP 244:19 11 66:7 115:15 143:22 168:24 195:6,10 244:20 11,478.63 44:22 11,639.52 44:21 11.70 92:19 11.74 228:15 111 244:25 112 228:6 12 23:2 24:6 27:18,20,24 28:1,7 39:14 43:18 44:14 99:15 123:14 124:6 151:5 152:8,10 164:24 188:2
worked 33:2 96:3 122:15 135:4 193:7,10	X	13:1 16:22 25:4 53:11 77:19 78:1 124:24,25 125:9,11 127:9 135:14 176:25 187:24 233:5	1 15:23,24 43:8 45:2,10,14 77:16 114:7 127:17 140:3,9 140:11,13 142:12 162:21 165:23 170:25 197:10,14 219:17 227:1 227:21 228:14 236:23 237:6 237:11,18 244:4,10	100,000 236:3 102 30:23 104 244:23 105.42 230:18 108 40:6,18 1081 1:18 10NP 244:19 11 66:7 115:15 143:22 168:24 195:6,10 244:20 11,478.63 44:22 11,639.52 44:21 11.70 92:19 11.74 228:15 111 244:25 112 228:6 12 23:2 24:6 27:18,20,24 28:1,7 39:14 43:18 44:14 99:15 123:14 124:6 151:5 152:8,10 164:24 188:2
working 13:17 21:24 23:11 35:22 75:2 86:24 96:21 120:23 129:23 134:7,10,19,21 135:6 208:1,13 212:22	Y	zero 230:17	1,000 92:24 123:19 1,200 52:13,17 1,224 30:24 1,682 198:15 1.2 8:1 10:23 12:24 38:19 114:7 1.4 13:11 1.5 155:8 1.8 13:16 1.84 92:24 225:18 227:12 228:5 232:10 10 61:23 78:7,8 102:8 163:21 164:10 168:25 169:14 186:8 186:12 207:20	100,000 236:3 102 30:23 104 244:23 105.42 230:18 108 40:6,18 1081 1:18 10NP 244:19 11 66:7 115:15 143:22 168:24 195:6,10 244:20 11,478.63 44:22 11,639.52 44:21 11.70 92:19 11.74 228:15 111 244:25 112 228:6 12 23:2 24:6 27:18,20,24 28:1,7 39:14 43:18 44:14 99:15 123:14 124:6 151:5 152:8,10 164:24 188:2
works 208:4,6 208:18,23 world 180:18 227:25 worse 172:11 worth 74:13 worthiness 166:10,11,13 166:19,21 worthless 167:13,14 worthy 18:15 would've 16:24	Y 1:14 yardstick 34:16 170:8 yeah 40:8 58:16 91:16 107:10 109:23 119:25 130:20 146:9 146:13 172:4 180:16 181:13 216:9 222:7 231:13 year 11:2 15:7 15:16 16:14 17:2 22:14 23:11,17,25 26:12 30:24 32:10,17 35:12 37:5 53:8 65:11 68:19 87:14 97:15,17 97:19,25 98:1	Z	0	100,000 236:3 102 30:23 104 244:23 105.42 230:18 108 40:6,18 1081 1:18 10NP 244:19 11 66:7 115:15 143:22 168:24 195:6,10 244:20 11,478.63 44:22 11,639.52 44:21 11.70 92:19 11.74 228:15 111 244:25 112 228:6 12 23:2 24:6 27:18,20,24 28:1,7 39:14 43:18 44:14 99:15 123:14 124:6 151:5 152:8,10 164:24 188:2
		0006 102:15 103:14 001 197:7 0014 111:2 001NP 245:5 002 197:7 002HC 245:5 002NP 245:7 004HC 245:7 005 218:17 245:8		

188:16,16	105:17 106:3	244:14,16	2.3 74:12 91:14	214:24,25
189:2 195:6,10	112:8 165:25	169 242:16	2:45 195:25	20160065 139:4
220:24 221:11	167:8 178:19	17 44:20 65:9	20 44:22 66:3	203 242:24
221:18 224:23	183:10 197:23	73:18 96:6	73:1 102:19	209 242:24
240:1 244:22	210:4 211:10	130:14 157:9	118:9 192:2,9	20th 80:10
12.88 12:1	14.13 12:1 44:19	167:3 168:1	192:14,20	21 44:14 108:21
177:16,22	177:16,23	177,023 230:16	193:3,5	108:22 147:10
120 242:6	14.63 92:18	18 66:13 78:17	200 2:8,12 31:19	147:13,18
126 242:6,7	140 245:1,2	151:9,17	32:11 226:20	148:1 152:19
128 242:7	141 242:10	167:19 188:16	2000 16:25	152:21 213:5,6
13 44:14,15 52:7	142 242:12	188:17 189:2	2005 124:21	21-percent
64:16 67:8	142,570 230:8	218:5 221:25	2009 125:9	213:2
68:17 87:13	143 242:12	18,723 120:25	2010 170:5	214 242:25
103:25 104:2,5	244:10,11,13	182 242:17	2011 51:22	217 243:2
104:7 144:8	144,630 148:19	184 242:18	77:23	218 245:8,8,10
164:24 165:11	149:4 159:24	186 242:19	2013 51:13,16	245:10
220:6,24 221:3	144,778 148:1	244:17,19	52:6,8 80:6	219 243:3
244:23	148 121:19	18th 86:17,20	86:12,17,20	22 44:18 147:10
130 30:21	15 44:6 86:4	19 1:6 11:22	125:9	147:25 148:1
132 244:7	97:20 125:11	65:9 66:9 67:6	2014 10:13	152:19 191:19
136 244:7	131:16,17	102:16 120:23	22:12 46:18,25	220,000 53:8
137 242:10	139:10,14	194 242:20	51:3,5,6,13	221 225:19
139 245:1,2	140:16,19,21	195 244:20,22	68:10 73:25	226:6,6
13th 6:16 89:18	159:8 165:22	196 242:23	83:17,21 84:10	2215 217:19
90:4 193:7	170:23 221:15	197 242:23	85:3,12 86:2	2230 2:13
14 9:21,22 10:4	221:19 228:4	245:5,5,7,7	87:6 88:4,18	224 243:3
10:17 11:18	245:1	1989 6:9 25:14	89:9,18,20	23 80:22 147:11
12:3,10,10	150,000 125:5	19th 3:4	90:4,7,14	147:19 150:6
18:2 47:18	236:1,17,19	1st 36:14 69:14	91:14 96:18	191:19
68:17 83:18	153 242:13	69:14,15,16	118:14 131:12	233 226:22
95:12,14,15	155,000 57:14	160:10	131:14 133:23	227:4 243:4,4
104:19 105:22	157 242:13,14		2015 6:17 8:4	234 243:5
105:25 111:4,5	15th 9:6 241:21	2	9:6 15:24 22:8	235 243:5
114:4,23	16 66:8 73:1,1	2 1:8 43:9 45:2	22:13 35:11	238 243:6
128:18 150:18	130:14 139:12	45:10,14 68:15	69:14 97:22	239 243:6
165:16,22	139:14 140:16	80:22 143:7,13	133:24 160:14	23rd 86:2
167:3,5,19	140:20,21	153:22 160:16	168:19,21	24 191:19 192:2
169:13 183:19	144:17 146:5	197:11,14	188:9,10 193:8	193:3,5
211:19,22	146:14 155:4	219:15,17	199:13,20	240 9:1 38:13
218:4 220:6	157:8 160:1	227:1 228:12	201:19	198:12
221:3,18,19	165:15 169:15	228:13 229:2,8	2016 1:6 3:4	242 9:1 198:12
244:25	245:2	237:7,22 244:5	15:23 23:25	24th 133:23
14-percent	16,197.26 87:18	244:11	36:14 69:14	241:20
20:25 21:20	162 242:15	2,972 11:7 15:4	80:10 88:3	25 43:18 116:20
23:18 50:24	163 242:16	121:1	120:25 159:20	117:5 237:22

237:23 25,000 237:18 256 36:19 25th 20:15 26 88:3 231:13 26th 46:24 85:3 89:8 27th 84:10 28 30:17 44:2 198:22 216:13 28.6 198:17 28.84 228:1,3,20 29 198:22 216:13 29.57 225:13	32 27:4 94:17 33 232:20 33-percent 105:8 165:23 33.30 228:2,3,14 228:21 341 90:11 36.97 225:13,16 360 2:9 37 68:20 37.21 228:15,21 229:3 39,000 28:21 3rd 241:20	50 17:1 117:6 226:25 227:1 237:21 50,000 32:10 236:4 237:15 237:16 500 198:5 51 46:20 52 114:20 54 228:17 55.45 225:14 573.635.7166 2:4 573.751.5558 2:14 573.751.6514 2:10 59 87:8 5NP 244:14	241:14 244:16 7,100 237:7 70 30:20 78:16 79:4 700 198:9 71 203:6 71,000 237:5 75 231:23 245:13,14 75-percent 164:19 75,135 77:21 77 245:13,14 7th 73:25	122:17 152:18 164:10 168:25 186:7,11 9,122.50 44:23 9.75 180:4 9.88 43:18 44:3 44:7 92 234:4 242:5 932 225:17 226:7 9HC 244:19 9th 168:20
3	4	6	8	
3 71:2 84:24 89:6 132:22,24 133:15 136:12 136:15 143:10 143:13 162:9 162:21 163:20 171:1 189:10 189:20 191:18 191:23,24 192:9,14 193:2 194:15 197:11 197:14 199:9 206:7 212:4 220:3 244:7,13 3,744 68:20 3.2 32:11 3.58 92:23 225:7 225:9,16 226:13 3.91 228:6,16 30 7:24 30:19 87:17 232:14 232:20 300 15:9 31st 35:11 133:24 160:14 188:10 213:15 213:16	4 71:3 92:11 153:25 155:1 157:7 163:7,12 164:23 166:7 189:22 197:12 197:14 244:14 400 30:13,14 52:15 42 242:4 45 242:4 244:4,4 244:5,5 456 2:3 465 226:9 466 227:3 48 245:11,11 48.9 180:8 482 198:17 4th 90:7,14	6 44:3 71:4 72:1 73:18,20 86:13 86:13 103:19 143:20 144:8 146:9 163:9,12 189:22 218:23 6,000 123:18 6.04 228:17 6.15 109:2 60 87:8,13 109:6 164:5,5 64 77:7,14 65102 2:9,13 65102-0456 2:4 69 78:15,17 6HC 244:16 6th 91:14	8 43:23 44:19 61:23,23 62:4 64:15 67:8 99:25 150:18 163:23 168:25 186:7,11 221:6 222:1,1 244:17 8,000 73:15 8.18 180:1,18 8.88 43:19 44:3 44:7 177:12,22 80 242:5 80,000 231:24 800,000 89:10 81 11:23 44:15 80:22 84 105:15 86 106:5 864,000 84:18 87 165:24 167:16 234:4 87-percent 167:9 89 6:10,11 44:15 8th 159:20 160:1	
	5	7	9	
	5 71:17 72:2 121:16 137:9 163:8,12 167:2 189:22 218:23 242:3 5,000 123:19 5,300 150:7 5.91 225:19 232:11	7 72:25 73:24 74:5 130:11 147:7,19 150:5 163:9,13,21 167:18 221:15	9 43:21,22 65:8 66:2 92:13	